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MUNITIONS INDUSTRY

HEARINGS

BEFORE THE

SPECIAL COMMITTEE
INVESTIGATING THE MUNITIONS INDUSTRY
UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

PURSUANT TO

S. Res. 206

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS
CONCERNING THE MANUFACTURE AND SALE
OF ARMS AND OTHER WAR MUNITIONS

PART 15 — 19

DECEMBER 17 AND 18, 1934

OLD HICKORY CONTRACT (CONTINUED)
AND
INDUSTRIAL ORGANIZATION IN WAR

(EXAMPLES IN WORLD WAR AND PLANS FOR NEXT WAR)

Printed for the use of the
Special Committee Investigating the Munitions Industry

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1935

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U.S. Congress. Senate.

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STEPHEN RAUSHENBUSH, *Secretary*
ALGER HISS, *Legal Assistant*

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[1] In cases of exhibits comprised of excerpts from the minutes of certain war-time civilian boards only such parts as were actually entered into in the hearings have been published in the appendix. At a later date the committee ordered to be printed separately as committee prints, the minutes of the following war-time agencies: War Industries Board, Price Fixing Committee of the War Industries Board, Council of National Defense, Advisory Commission of the Council of National Defense, Munitions Standards Board, General Munitions Board.

INVESTIGATION OF MUNITIONS INDUSTRY

MONDAY, DECEMBER 17, 1934

United States Senate,
Special Committee to
Investigate the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a.m., in the Finance Committee room, Senate Office Building, pursuant to the taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Pope, Vandenberg, and Barbour.

Present also: Alger Hiss, legal assistant to the committee.

At this point the committee concluded that part of the testimony which is incorporated in Part XIV, of these hearings, "Old Hickory Contract (continued)".

The Chairman. The committee will be in order.

Mr. Pierre du Pont. Mr. Chairman, before we start, might I offer for the record two documents, one the original request from Colonel Hoffer asking for a bid on a plant the size of Old Hickory; and second, the proposition submitted by the du Pont Co. the following day, which was the basis of this construction work.

The Chairman. That will be accepted.

Mr. Pierre du Pont. May I have them listed as exhibits?

The Chairman. They will be placed in the record.

(The letters referred to were marked "Exhibit No. 1197", and "Exhibit No. 1198", respectively, and are included in the appendix on p. 3719.)

Mr. Gregg. May it please the committee, I should like to offer as an exhibit a statement by du Pont Engineering Co. of the facts concerning the audit of expenditures under the du Pont Engineering Co. contracts. In other words, this is our position as to the audit by the Government during construction and operation, and the reaudit by the Government after the signing of the armistice.

The Chairman. Is this a statement just prepared, or is it a statement of long standing?

Mr. Gregg. I might say this, Mr. Chairman, that this is a statement of long standing, with the exception that I eliminated from the statement certain references to Government employees. It, in effect, with those eliminations, is the same as it was prepared several years ago, probably back as far as 1923.

The Chairman. You wish that to be received?

Mr. Gregg. I would like to introduce that as an exhibit, please.

The Chairman. Very well.

(The statement referred to was marked "Exhibit No. 1199", and is included in the appendix on p. 3721.)

Senator Clark. Mr. Chairman, I ask to have made a committee exhibit an analysis of the war profits of the du Pont Co. This is an analysis of testimony heretofore given, prepared by John T. Flynn, recently published in the New Republic.

The Chairman. Do you wish to have it incorporated into the record, Senator Clark?

Senator Clark. Yes.

The Chairman. That is ordered.

(The article referred to was marked "Exhibit No. 1200", and is included in the appendix on p. 3727.)

Mr. Pierre du Pont. Might we have a copy of that record that has been presented?

Senator Clark. I have it over in my office.

The Chairman. Senator Clark is offering it for the record. He has it at his office and will introduce it later. He will bring it here, and you will have a chance to see it.

I might say that that appeared in the New Republic, the issue of October 3.

Mr. Pierre du Pont. All right. Of this year?

The Chairman. Yes.

Mr. Pierre du Pont. Thank you.

TESTIMONY OF LT. COL. C. T. HARRIS AND LT. E. M. BRANNON—(Resumed)

(The witnesses were previously duly sworn by the chairman.)

Mr. Hiss. Colonel Harris, did you bring with you some material as requested from the files of the War Department?

Lieutenant Colonel Harris. I did.

Mr. Hiss. Will you please submit the material, Colonel Harris, that was requested last week, namely, the audit material prepared by the War Department on Old Hickory?

Lieutenant Colonel Harris. I should like to present this verbally, as it was done so hurriedly it is not in proper form to present in writing.

The papers pertaining to the audit of the Old Hickory powder plant were taken by the Department of Justice some time ago. These papers were receipted for by Mr. Fortune, and photostatic copies of the list of papers taken and receipted for by Mr. Fortune have been furnished to the Nye committee.

Mr. Hiss. May I ask you if you can identify these as the documents so furnished?

Lieutenant Colonel Harris. I am not familiar with them.

Mr. Hiss. This is a letter signed by George H. Dern, Secretary of War. I will just read that letter into the record, if you are not familiar with it.

Lieutenant Colonel Harris. I think it would be better.

Mr. Hiss. This is under date of December 10, 1934. The Secretary of War wrote a letter to the chairman of the committee:

> Reference your letter dated November 30, 1934.
> * * * there are enclosed herewith two photostatic copies of records of this office indicating the experience of George R. Foulke, Jr., prior to his commission in the Ordnance Department.

That has already been introduced in evidence as "Exhibit No. 1188."[1]

> Copy of letter from Major Booton to Arthur Carnduff, dated June 15, is enclosed herewith.

That has also been introduced in evidence as "Exhibit No. 1177".[2]

And the last paragraph:

> In accordance with telephonic request from Mr. Higgins there is also enclosed 20 photostatic sheets from the records at Frankford Arsenal, indicating the papers withdrawn from the files stored there pertaining to the du Pont Engineering Co. and turned over to James H. Fortune, accountant of the Department of Justice, in connection with an investigation being made approximately 10 years ago.

I will offer that letter and the attached sheets for the record.

(The letter and attached sheets referred to were marked "Exhibit No. 1201", and are included in the appendix on p. 3728.)

Mr. HISS. None of the attached sheets constitutes any statement of the examination of underlying records or vouchers, nor can it in any sense be considered an audit.

Mr. PIERRE DU PONT. Have you copies of those letters?

Mr. HISS. That is the only set we have. I will be glad to let you examine this.

Colonel Harris, did you find any other audit material?

Lieutenant Colonel HARRIS. The records do not disclose any other audit material.

Mr. HISS. Colonel Harris, you will remember the statement of Colonel O'Shaughnessy and his telegram which was put in evidence as "Exhibit No. 1172"[3] some time ago, that no original audit had been made, and the evidence that has been disclosed as to whether a reaudit was made. I would like to ask you this question:

According to "Exhibit No. 1167"[4], the recapitulation of the Old Hickory and other Government contracts held by the du Pont Engineering Co., a total of some $37,000,000 was advanced by the United States in connection with both construction and operation of Old Hickory, and a total of some $72,000,000 was reimbursed by the United States. In other words, the United States advanced sums to the du Pont Engineering Co., and the United States further reimbursed expenditures by the du Pont Co., and yet no audit was made of the expenditures by the du Pont Co. in the true sense of an audit. In other words, the burden of proof was put completely on the United States as to whether or not there had been improper payments.

The question, Colonel Harris, is this:

Is it not customary in the War Department to put the burden of proof the other way—namely, the contractor must prove a right to reimbursement before he is reimbursed?

Lieutenant Colonel HARRIS. I think that is true.

Mr. HISS. Colonel Harris, I also requested information as to which Assistant Secretary of War was referred to when Secretary Baker wrote that he had turned the matter over to The Assistant Secretary.[5]

Lieutenant Colonel HARRIS. The records show that Mr. Stettinius was appointed Second Assistant Secretary on April 11, 1918, and resigned on November 13, 1918. I am of the opinion, however, that Mr. Stettinius was on duty in the office before that date.

---

[1] Hearings, Part XIV, p. 3248.
[2] Ibid., p. 3239.
[3] Ibid., p. 3236.
[4] Ibid., p. 3220.
[5] Ibid., p. 3213.

Mr. Crowell was the Assistant Secretary of War up to that time. Under date of May 7, 1918, a division of duties between the various assistant secretaries was published as follows:

> Hon. Benedict Crowell, The Assistant Secretary, will have charge of War Department administration.
>
> Hon. Edward R. Stettinius, Second Assistant Secretary, will have charge of all questions of purchase and supply for all bureaus of the Department.
>
> Hon. Frederick P. Keppel, Third Assistant Secretary, will have charge of all matters affecting the nonmilitary life of the soldier, including the relations of the Army with the Y. M. C. A., Red Cross; questions affecting chaplains and personal discipline.

Other than this, I cannot answer your question.

Mr. HISS. I offer for the record, if it has not already been introduced, a letter of April 27, 1918, a copy of which has been furnished under the seal of the Department of War, signed Samuel McRoberts, Colonel, Ordnance, by Lt. Col. Charles N. Black.

Can you identify Samuel McRoberts?

Lieutenant Colonel HARRIS. He was officer on duty in the Ordnance Department in charge of the Procurement Division.

(The letter referred to was marked "Exhibit No. 1202", and is included in the appendix on p. 3736.)

Mr. HISS. This letter or memorandum was addressed to the Hon. Edward R. Stettinius, Second Assistant Secretary of War, from the Procurement Division, Ordnance Department. [Reading:]

> I am handing you herewith printer's proof of contract with the Du Pont Engineering Co. for the construction and operation of the Nashville powder plant. I find that corrected copies have not yet been returned from the printer's office. As soon as we receive these, which will probably be later today or Monday morning, I will send you a clean copy. I am advised, however, that the copy herewith enclosed is correct, and I trust it will answer your purpose for the time being.

Mr. PIERRE DU PONT. What is the date of that letter, please?

Mr. HISS. April 27, 1918.

Does that not constitute additional confirmation, in your opinion, of your impression that this contract was under the supervision of Assistant Secretary Stettinius?

Lieutenant Colonel HARRIS. It does.

Mr. HISS. That is all on Old Hickory, unless the du Ponts have something more to offer.

The CHAIRMAN. The Chair offers for the record a letter dated December 14, 1934, addressed to it by Ogden L. Mills, which he asks to have made an exhibit.

(The letter referred to was marked "Exhibit No. 1203", and is included in the appendix on p. 3736.)

The CHAIRMAN. The Chair suggests to the witnesses that unless they have something they wish to say upon that, the committee has completed, for the moment at least, the consideration of the Old Hickory matter.

Mr. PIERRE DU PONT. Mr. Chairman, we have some charts in preparation which we would like to present later, if we may, and also a summary of this Old Hickory history; but with your permission we will defer that until later.

The CHAIRMAN. All right.

Mr. Gregg. Mr. Chairman, there was introduced on Friday a copy of a report by Mr. Storck to the Department of Justice. It is in as an exhibit. I assumed that that was the report that Mr. Storck said he saw in my possession on December 5, 1923, at the hearing of the joint board. I testified on Friday that I did not have Mr. Storck's report at that time, that I never saw his report nor had ever seen a copy of it or any extracts from it, and I would like to see the exhibit that was introduced on Friday.

The Chairman. Is that what you are offering now, Mr. Hiss?

Mr. Hiss. Yes.

Mr. Irénée du Pont. Mr. Chairman, might I just call attention to this exhibit you put in, the New Republic article of October 3, 1934? That was printed before a great deal of this testimony, especially on Old Hickory, was put in.

I would like to point out in that, that it compares the total amount paid 200,000 men in the trenches for a full year with the profits which we made from the foreign countries in the war before the United States got into the war. It does not seem to me that they are very germane to each other. I just wanted to remark on that, because although this is hardly testimony, I suppose in the eyes of the Senators at the same time it is rather misleading.

Senator Clark. It is not testimony. It is put in in the way in which we permitted the du Pont Co. repeatedly to put in statements from time to time.

Mr. Irénée du Pont. Then we have permission to put in some newspaper articles which have appeared since this hearing in other papers, a little later in the hearing, similar to this?

Senator Clark. If they are analyses of testimony before the committee, I think they would be pertinent. If it is simply a matter of editorial comment or reporters' opinion, I do not think so. Mr. Flynn is a member of the advisory committee to this committee.

The Chairman. Mr. du Pont, there will be no occasion for you and your associates to be here before 2 o'clock this afternoon, if you wish that information to comply with any plans you might have.

TESTIMONY OF LT. RICHARD MALCOLM CUTTS

RELATIONSHIP BETWEEN WAR AND NAVY DEPARTMENTS AND AMERICAN INVENTORS

(The witness was duly sworn by the chairman.)

Senator Clark. Give to the committee, Lieutenant, your full name.

Lieutenant Cutts. Richard Malcolm Cutts.

Senator Clark. You are a lieutenant in the Marine Corps?

Lieutenant Cutts. Yes.

Senator Clark. At present on the active list?

Lieutenant Cutts. I am, sir.

Senator Clark. Mr. Chairman, the committee desires very briefly this morning, simply as an interlude between the present major hearings of this investigation, to give a preliminary examination to a question which the committee may later decide to go into in some detail. It has to do with the relationship between the military arms of the Government, that is the War Department and the Navy Department, and American inventors, more particularly inventors in the military and naval service of the United States.

Lieutenant, in its work, this committee has learned of considerable correspondence between yourself and several arms firms. The committee understands that you with your late father, Colonel Cutts, who was also an officer in the Marine Corps, was he not——

Lieutenant Cutts. That is right.

Senator Clark. When did he retire?

Lieutenant Cutts. He died November 24.

Senator Clark. Was he on the active list at the time of his death?

Lieutenant Cutts. He died 1 week before he retired, sir.

Senator Clark. The committee understands that you in connection with your father were the inventors of the Cutts compensator, a device for reducing recoil in Thompson submachine guns and other weapons. I will ask you first, Lieutenant, in order to clear the matter up as we go, what weapons were these compensators applicable to?

Lieutenant Cutts. They are applicable to all weapons, but our largest interest is the shotgun, sporting field.

Senator Clark. For the purpose of taking what we call the " kick " out of it?

Lieutenant Cutts. They have other purposes also. In the shotgun it is most revolutionary. We eliminate the old choke. We have changeable choke features, with new types of patterns, and it has a combination of seven guns in one by changing these chokes. The recoil reduction is thrown in extra. The main part is the improvement of the patterns. We are now spending practically all our energies on that development.

Senator Clark. It was also adaptable peculiarly to the Thompson submachine gun?

Lieutenant Cutts. It is adaptable to the Thompson submachine gun.

Senator Clark. And a great deal of your energies in the past were devoted to its exploitation in connection with the submachine gun?

Lieutenant Cutts. Yes.

Senator Clark. It is also applicable to the ordinary army service rifle?

Lieutenant Cutts. Yes.

Senator Clark. Such as the Springfield, Enfield, or Krag?

Lieutenant Cutts. Yes, sir.

Senator Clark. It would seem to me, recognizing the ability of Lieutenant Cutts as an inventor, that his activities in relation to various arms firms while he remained on the active list of the United States Marine Corps, are of particular interest to this committee.

Lieutenant Cutts. I beg your pardon?

Senator Clark. It would seem that the activities which are disclosed in this correspondence, as to your activities and correspondence with various arms companies while a lieutenant on the active list of the United States Marine Corps, are of particular interest to this committee in its investigation. Lieutenant, am I correct in the information that when this device was first perfected some 7 or 8 years ago, it was offered to the Secretary of the Navy?

Lieutenant CUTTS. You are correct, sir.

Senator CLARK. Under what terms was it offered to the Secretary of the Navy?

Lieutenant CUTTS. With no strings attached. The story is as follows:

We felt that we had something new, at the point that our investigations had carried us so far. We also knew to carry it through to a logical conclusion it would cost a great deal of money and would probably be of interest to the Government. Whereupon we offered it to the Government and asked them if they had a fund to help us develop this device. They informed us that they were sorry, but there was no such fund available.

Then we asked if we could have the facilities of the Naval Gun Factory, where they have the equipment which we desired, and were informed that unfortunately it meant punching the time clock and the labor involved would have to be paid for, which amounted to money in the end. Accordingly, after we had gotten to this point, we then filed our patents ourselves and developed it on our own time and at our own expense. Then, before the patent issued, we notified the Navy Department and asked them if they wished it placed in the secret archives, figuring that once a patent comes out it becomes public knowledge. We were informed that they did not so desire. That was due to no fault of anyone in the Department that I can conceive. It was a new thing. It had been tried many times before and failed, and until the proof of the pudding had come out, they had no way of really knowing of its value.

Senator CLARK. Let me ask you, Lieutenant, did your proposi tion to the Secretary of the Navy include any specific proposition as to compensation?

Lieutenant CUTTS. No, sir.

Senator CLARK. Did your proposition for placing the patent in the secret archives and not having it published contain any proposition as to compensation?

Lieutenant CUTTS. No, sir.

Senator BARBOUR. During that development period which you were discussing with the Department, had the Department interested themselves in this invention, in that event the patent would belong to the Government?

Lieutenant CUTTS. As I understand the regulations of the law, so to speak, they are as follows: The position of the Government to its employees is exactly similar to that of an employer on the outside with his employees. In other words, a man who is hired by a civilian employer to develop certain devices or, in certain laboratories; naturally, his developments belong to his employer, for that is what he is being paid for. The same thing obtains in the service. But, however, the employee may keep his commercial rights, providing the Government does not wish to keep it secret.

Senator CLARK. As a matter of fact, the Thompson submachine gun was invented and developed by a man who was Assistant Chief of Ordnance at the time he developed it, was it not?

Lieutenant CUTTS. I cannot state that, sir.

Senator CLARK. Assistant Chief of Ordnance of the United States Army?

Lieutenant CUTTS. I cannot tell you sir. That was before my time.

Senator CLARK. He was a high ranking officer of the Ordnance Department, I know. I cannot state just what. I cannot say whether he was Assistant Chief at the time, or had resigned, or not. When was this negotiation with the Secretary of Navy, Lieutenant?

Lieutenant CUTTS. About November 1925.

Senator CLARK. Who was Secretary of the Navy?

Lieutenant CUTTS. Curtis D. Wilbur, sir.

Senator CLARK. If the invention really were that, Lieutenant, assuming it is successful, it would be of the very greatest importance to the United States Navy and United States Army, wouldn't it?

Lieutenant CUTTS. I feel that it would be, sir.

Senator BARBOUR. It is your observation that green troops, particularly, almost invariably flinch the first time they go on a range, and endeavor to use high-power Army rifles?

Lieutenant CUTTS. Yes, sir.

Senator CLARK. That interferes, of course, with the accuracy of their marksmanship?

Lieutenant CUTTS. Yes, sir.

Senator CLARK. Even in the Camp Perry matches, the old timers usually employ shoulder pads when firing guns?

Lieutenant CUTTS. Yes, sir.

Senator CLARK. And it is more noticeable even as to flinching and marksmanship in regard to the Thompson submachine gun?

Lieutenant CUTTS. Yes, sir. In the Thompson submachine gun it is not so much the recoil as the climb of the weapon.

Senator CLARK. The recoil reduction of the compensator or stabilizer?

LIEUTENANT CUTTS. Compensator.

Senator CLARK. That interferes with the marksmanship and so does the rapidity of firing?

Lieutenant CUTTS. And it is dangerous to bystanders. It is very important that the gun shoot where it is aimed.

Senator CLARK. Now, Lieutenant, after you took out the patent on this device you sold certain rights in the letters patent to the Lyman's Gun Sight people?

Lieutenant CUTTS. Lyman?

Senator CLARK. Lyman; yes.

Lieutenant CUTTS. No, sir. All we do is license to manufacture for a period of time under a royalty agreement.

Senator CLARK. And also to the Auto Ordnance Corporation?

Lieutenant CUTTS. Under the same type of agreement, sir.

Senator CLARK. In other words, simply a license. You do not mean the ownership of the patents?

Lieutenant CUTTS. I do not mean the ownership of the patents; no, sir.

Senator CLARK. The Lyman Co. has manufactured this compensator?

Lieutenant CUTTS. Yes, sir; they have, sir.

Senator CLARK. On the submachine guns sold by the Auto Ordnance or the Federal Laboratories you received a royalty on your compensator?

Lieutenant CUTTS. Yes, sir.

Senator CLARK. Have you received any commissions for the sale of that compensator or for the sale of ordnance other than your royalty on the patent?

Lieutenant CUTTS. I may clarify the situation by stating we have never sold any gun of any type whatsoever, nor have we ever accepted any form of gratuity, other than that to which we are justly entitled, in the form of royalties.

Senator CLARK. You have not attempted to obtain commissions?

Lieutenant CUTTS. No, sir; we have not.

Senator CLARK. I call your attention to a letter dated November 17, 1932, signed by you, addressed to Mr. Walter B. Ryan, Jr., which I will ask to have marked with the appropriate exhibit number.

(The letter referred to was marked "Exhibit No. 1204" and is included in the appendix on p. 3737.)

Senator CLARK. Mr. Ryan's address is 20 Pine Street, New York City. Who is Mr. Ryan?

Lieutenant CUTTS. Mr. Ryan is president of the Auto Ordnance Corporation.

Senator CLARK. This letter is headed, "Marine Barracks."

Lieutenant CUTTS. That happened to be my address at that time.

Senator CLARK. "Navy Yard, Philadelphia, Pa., November 17, 1932."

Lieutenant CUTTS. Yes, sir.

Senator CLARK (reading):

> Dear Mr. RYAN. I got in touch with Captain Edson in regard to the Nicaraguan order for 61 guns.

Who is Captain Edson?

Lieutenant CUTTS. He is a captain of the Marine Corps.

Senator CLARK. Was he at that time stationed in Nicaragua?

Lieutenant CUTTS. In Nicaragua; yes.

Senator CLARK. At that time the marines were occupying Nicaragua?

Lieutenant CUTTS. When the marines were occupying Nicaragua; yes.

Senator CLARK (reading):

> I got in touch with Captain Edson in regard to the Nicaraguan order for 61 guns. He informed me that he considered that the new style compensators would be preferable on this order. I did not wire you for he said that he was getting in touch with you by telephone.
>
> Will you kindly send me 1 dozen of the new catalogs when they come out? Also send a few copies to the colonel—

That was your father, was it?

Lieutenant CUTTS. Yes, sir.

Senator CLARK (continuing reading):

> For he will be able to place them at the War College.

Lieutenant CUTTS. That was in regard to the advance landing base. The marines were equipped with guns and they were making a study at the War College.

Senator CLARK (reading):

> I have been thinking over the foreign sales proposition and I have a proposal to make. I would appreciate it if you could see your way clear to extend the same discounts to me on foreign sales that you extend to Federal Laboratories.

Federal Laboratories was the foreign sales agent for the Auto Ordnance Corporation?

Lieutenant CUTTS. That is correct, sir.

Senator CLARK (reading):

> It is not our intention to compete with them. However, we also have many contacts and orders are apt to come through us at any time.

Lieutenant CUTTS. Yes, sir.

Senator CLARK (continuing reading):

> In all probability these orders will come from different sources than those available to Federal Laboratories. I am not saying that our contacts are better than theirs, but in some cases it is only natural that this should be so.

It would be particularly true in Nicaragua, where the marines were occupying the country, and both you and your father were officers of the Marine Corps, wouldn't it?

Lieutenant CUTTS. That would not apply, sir. I beg your pardon, sir.

Senator CLARK (reading):

> But, in any case, the proposition of commissions is the important point. You are familiar with the fact that these have to be passed around on all foreign sales. Naturally, if Federal Laboratories should figure in on a sale in which they have had no part, there are going to be objections. This is all the more true, for in every sale that we make there are going to be more people figuring in on the deal than would be the case if Federal Laboratories were to make the sale direct.

Why would that be true, Lieutenant?

Lieutenant CUTTS. They generally have an agency.

Senator CLARK. Why would more people be figuring in on a deal made through you and your father than through the ordinary sales agency of the Federal Laboratories?

Lieutenant CUTTS. That is because it is the usual thing. If a man approaches you in making a sale, he generally has associates in his own country. There is a purchasing agent and you turn it over to me and he demands his share.

Senator CLARK. What way did you proceed?

Lieutenant CUTTS. We did not proceed.

Senator CLARK. How did you intend to proceed when you were making this proposition?

Lieutenant CUTTS. I do not recall, sir; because it was never carried through.

Senator CLARK (reading):

> This is due to the fact that we have had to first establish our contacts over here and it will be necessary to take care of these contacts.

Lieutenant CUTTS. That answers that.

Senator CLARK. Who were those contacts?

Lieutenant CUTTS. It depends on separate deals.

Senator CLARK. You already having established contacts, who were some of the contacts?

Lieutenant CUTTS. We had one concern in Germany, our own representative there.

Senator CLARK. I will read you this sentence again.

Lieutenant CUTTS. Yes, sir.

Senator CLARK (reading):

> This is due to the fact that we have had to first establish our contacts over here, and it will be necessary to take care of these contacts.

Lieutenant Cutts. That is correct.

Senator Clark. There is nothing said about a firm in Germany here.

Lieutenant Cutts. We had a German contact through a man in this country, who goes over there.

Senator Clark. Who was that?

Lieutenant Cutts. Mr. Besler.

Senator Clark. Who?

Lieutenant Cutts. Besler. He is not in the gun game.

Senator Clark. What is his business?

Lieutenant Cutts. His business is railroad equipment.

Senator Clark. Now, Lieutenant, the paragraph I have just read clearly shows that at that time you were proposing to enter into the sale of Thompson submachine guns abroad, weren't you?

Lieutenant Cutts. We were thinking of it abroad.

Senator Clark. Provided the commission was satisfactory to you?

Lieutenant Cutts. Our agents over there were going to handle them for police guns. We wanted to know what arrangements they could make.

Senator Clark (reading):

> Fortunately, or unfortunately, our contacts are all big ones and they just won't be bothered unless the financial return is commensurate. They are not interested in small stuff.

Who are the big ones?

Lieutenant Cutts. The big one is Neuhaus, Dr. Neuhaus.

Senator Clark. Who is he?

Lieutenant Cutts. Of Germany. He was the chief engineer of A. Borsig & Co.

Senator Clark. So, Lieutenant, your answer was not strictly accurate awhile ago when you said you never proposed to engage in a sale of Thompson submachine guns if the commission was satisfactory?

Lieutenant Cutts. No; I beg your pardon. As I stated earlier, we never sold any guns. After this letter was written, within a week, I reversed my decision and decided not to enter into it in any way, because it might put me in a false position, and since then we have stuck entirely to compensators, and I think the records of any company in this country will bear me out.

Senator Clark (reading):

> You are out to move guns, and I feel confident that we can help you move them just as well as Federal Laboratories—that is, if we can make it worth our agents' while.

Lieutenant Cutts. That is the point.

Senator Clark. In other words, it was a question of commissions.

Lieutenant Cutts. It was a question of the agent.

Senator Clark. The commission being satisfactory, you were willing to engage in the business of moving these guns, weren't you?

Lieutenant Cutts. Well, this was not consummated, sir. It was considered, but it was not carried through.

Senator Clark. I understand it was not consummated. I am getting at your attitude.

> I do not see where Mr. Young will have an objection for he has granted us discounts on all of his equipment and gas that we may sell.

Lieutenant Cutts. Yes, sir; that was never carried out.

Senator Clark. That apparently refers to a previous arrangement with Mr. Young. What was the discount he granted you?

Lieutenant Cutts. I do not recall, sir. It was just an oral statement, that is all.

Senator Clark (reading):

> If an order comes in for guns there will be an order for gas, etc., to go along with it. In other words, he also stands to profit—so it is reciprocal all along the line including compensators.

Lieutenant Cutts. That is our interest, in the compensators.

Senator Clark (reading):

> Next, in regard to Nicaragua. This is a foreign sale and does not come under Federal Laboratories existing agreement for domestic sales. If you know the history of the T. S. M. G.—

What is that?

Lieutenant Cutts. Thompson submachine guns.

Senator Clark. Oh, yes; Thompson submachine gun. [Continues reading:]

> in Nicaragua, you will know that at the beginning the powers that be were against the gun, speaking of the marines. They did not even wish to give the gun a trial on the trails. Fortunately, we had an active agent who gave many demonstrations and after intensive effort on his part he finally brought the necessary high-ranking officers around to his point of view. Then the playing up of the gun in the reports was not accidental. True, the gun did its stuff—but so did the other weapons. Next, our friend was made ordnance officer of the Nicaraguan Government and the initial orders for T. S. M. G.'s for the Nicaraguan Government came through. All the above occurred in Nicaragua.

Who was the officer who was made ordnance officer of Nicaragua?

Lieutenant Cutts. Mr. Bleasdale.

Senator Clark. Who is he?

Lieutenant Cutts. He is an officer in the Marine Corps. I might clarify that, sir, that demonstration at that time. You see, the marines already had these guns. They were bought back in 1926 for the mail guard. There was a question at that point of meeting the bandits with the gun. So the marines took the gun and compensated it and had a superior weapon and used it. Then when Nicaragua broke, the marines went to Nicaragua and took these guns with them. The gun was a fast gun, firing at the rate of 1,200 a minute, and was not at all suitable for military purposes; first, on account of the waste of ammunition; second, due to the lack of accuracy with that high rate of fire.

So we took the gun, and with Auto Ordnance changed the mechanism inside and developed the gun into its present military model, which is a slowed-down gun, firing at the rate of 500 to 600 shots per minute.

Then the Auto Ordnance took the new parts and replaced them for the Government for the old parts. That was what this demonstration referred to, the putting over of the new type of gun, which gave the marines a very valuable weapon on the trails, which they did not have before.

Senator Clark. I will read this again:

> If you know the history of the T. S. M. G. in Nicaragua, you will know that at the beginning the powers that be were against the gun, speaking of the marines. They did not even wish to give the gun a trial on the trails.

Lieutenant Cutts. That was the fast gun.

Senator CLARK (reading):

> Fortunately, we had an active agent who gave many demonstrations and after intensive effort on his part he finally brought the necessary high-ranking officers around to his point of view.

Who was your active agent?

Lieutenant CUTTS. That was Bleasdale.

Senator CLARK. Was he in the Marine Corps at the time?

Lieutenant CUTTS. Yes, sir; he was a compensator man.

Senator CLARK. I say, was he in the Marine Corps at the time?

Lieutenant CUTTS. Yes, sir.

Senator CLARK. So he was occupying a dual position, being an officer in the Marine Corps which was at that time occupying Nicaragua, and at the same time being your active agent for the purpose of getting high-ranking officers, marine officers, to reverse their opinion in regard to the gun.

Lieutenant CUTTS. No, sir; I object to that, sir.

Senator CLARK. All right, I will read the sentence again:

> They did not even wish to give the gun a trial on the trails. Fortunately, we had an active agent—

Who you now say was on the active list of the Marine Corps—

> who gave many demonstrations, and after intensive effort on his part he finally brought the necessary high-ranking officers around to his point of view. Then the playing up of the gun in the reports was not accidental.

Naturally, if your own agent was writing the reports.

Lieutenant CUTTS. He did not write the reports.

Senator CLARK (reading):

> True, the gun did its stuff—but so did the other weapons. Next, our friend was made ordnance officer—

That was your own agent that was made ordnance agent of Nicaragua?

Lieutenant CUTTS. In Nicaragua; yes.

Senator CLARK. At the same time he was on the active list in the Marine Corps?

Lieutenant CUTTS. Yes, sir.

Senator CLARK (reading):

> Next, our friend was made ordnance officer of the Nicaraguan Government and the initial orders for the T. S. M. G.'s for the Nicaraguan Government came through. All of the above occurred in Nicaragua.
>
> You are now getting what will probably be the final order before the Marines pull out. A new government, the Sacasa Government has come into power—a new deal all around.

Does that mean your agent was going out as ordnance officer for the Nicaraguan Government?

Lieutenant CUTTS. I beg your pardon?

Senator CLARK. I say, does this mean that your agent, this officer you mentioned, was going out as ordnance officer for the Nicaraguan Government?

Lieutenant CUTTS. That is correct.

Senator CLARK. And you thought that was something that Mr. Ryan better be advised about?

> A new government, the Sacasa Government, has come into power—a new deal all around. I have asked for commissions on foreign sales in general

which we are able to make. But here is what I plan doing specifically. I want Nicaragua. If you can grant this, I will have our friend make the necessary contacts, probably the Minister of War. We will have the commission on this sale of 61 guns to pave the way and it ought to make a nice incentive for sales to follow.

What does that mean, Lieutenant?

Lieutenant Cutts. It means——

Senator Clark (reading):

> If you can grant this, I will have our friend make the necessary contacts, probably the Minister of War. We will have the commission on this sale of 61 guns to pave the way.

Lieutenant Cutts. Yes.

Senator Clark. How did the commission on the sale of 61 guns pave the way with the Minister of War in Nicaragua for further sales?

Lieutenant Cutts. It paved the way for an active agent down there.

Senator Clark. Was the Minister of War getting any cut out of this commission on the 61 guns?

Lieutenant Cutts. No, sir.

Senator Clark. Paving the way is another technical term we are encountering here. We have had a good many technical terms in the course of this investigation.

> Then, when the marines pull out, the good work will continue. If this is not done—this order will probably be the last except for replacements. On the other hand, if we have the right party down there working for us and receiving a commission—the situation presents an entirely different picture.

Who is the right party to whom you refer?

Lieutenant Cutts. We had none. The point was, it was a suggestion to them to find the right representative there to handle the guns, only to sell to governments. They do not sell to both sides. That is directly to the government on government sales. But this was never done. We decided against it.

Senator Clark (reading):

> Would you kindly draw up the necessary papers similar to the ones you are making up for Young? You see, I really have to have some credentials before I am in a position to go ahead. In this agreement will you kindly include Nicaragua specifically.
>
> Next, if you see what I am working for, and I believe you will, will you kindly let me know what the commission will be on this Nicaraguan order, so that I may go ahead and make my plans?

That was the order that had already been made for 61 guns, was it not, to which those refer? You wanted him to let you know what the commission on the 61-gun order would be.

Lieutenant Cutts. Yes, sir.

Senator Clark (reading):

> The commission should be the same as for other foreign sales.
>
> The time is short before the marines pull out, and there is much to be done by air mail, so the favor of an early reply is requested.
>
> I am looking into the future on this stuff, and I am out to help you sell guns. As you know, our record to date has not been bad, and I am certain that my plan is going to work.

> I forgot to mention, but will you kindly let me know what the commission is on spare parts? The best thing, if possible, would be to send me the dope on commissions on everything that you handle.
>
> With best wishes, I am cordially yours,
>
> R. M. Cutts, Jr.,
> *Cutts Compensator.*
>
> P. S.—I do not know the price of the last guns that you sold to Nicaragua. If they were $147.50, they were at the United States Government price, and they never should have gone out at this price. It cannot be continued after we withdraw—

that is, after the marines withdraw from Nicaragua?

Lieutenant Cutts. Yes.

Senator Clark (reading):

> and the time to make the break is now. I feel that this can be done and save face with the new model compensators providing you stamp the guns as per the Army specifications. The new gun could then be called a new model and the price of $225 could be charged. If the Marine Corps sold the guns to Nicaragua at the United States Government price, I feel that they had no business doing it. At any rate we must let that pass and build for the future. Please let me know the price you are quoting on these guns and the price quoted on the old guns as soon as possible and I shall see if I cannot arrange things on this end. It may be possible to do so without killing the deal. Of course, I shan't do that.

What did you mean by "arrange things on this end", you being in the Marine Corps?

Lieutenant Cutts. The point is this—I might explain that whole paragraph, to clarify it.

Senator Clark. Be very glad to have you do it.

Lieutenant Cutts. You see, there was no commission on the 61 guns. Those are sold through the Marine Corps at the Government price, and the Auto Ordnance, knowing that was no business of the marines, inquired, wanting to know what they could do about it, because they could not afford to sell at that price, or other parts; there was no profit in it. The cost of changing over from the old model to the new absorbed every bit of profit there was. That is why they came and asked me what to do in the matter, and I told them the best procedure would be to sell the new model at the $225 price. This whole thing was for them to get an agent down there to represent them.

Senator Clark. You say the marines had no business doing this?

Lieutenant Cutts. I mean from the Auto Ordnance point of view.

Senator Clark. You say you would undertake to arrange things on this end. Did you take the matter up with your superiors?

Lieutenant Cutts. No, sir; I did not.

Senator Clark. How did you go about arranging things on this end?

Lieutenant Cutts. As a matter of fact, I did not at this time. The Marines left, and I do not know what their final disposition was of the case.

Senator Clark. So that this letter conclusively indicates, Lieutenant, that you had not only an arrangement for receiving commissions on the sale of Thompson submachine guns and the rest of Mr. Ryan's line, but you were undertaking to make a new and specific arrangement, specifically mentioning Nicaragua, for which you were to have the agency?

Lieutenant Cutts. No; we did not carry that through.

Senator Clark. I understand it was not carried through.

Lieutenant Cutts. Yes.

Senator Clark. But at the time you wrote this letter, that is what you were requesting of Mr. Ryan?

Lieutenant Cutts. We considered it was not ethical, and we did not carry it through. Our main interest was with the compensators, and naturally we were interested in seeing the guns move with the compensators. But there is one other point we were very much interested in, and that was to see the guns only go to the Government and not to wrong hands. It would be very foolish to go down there again, as I would probably have to in the service, with many of my friends, and face compensators in the wrong hands.

Senator Clark. So your only interest was in the capacity of an officer of the Marines and as proprietor of this compensator?

Lieutenant Cutts. I can point out that we held out some stuff on foreign governments. We did not want to sell them.

Senator Clark. Lieutenant Cutts, how much knowledge did your commanding officer or superior in the Marine Corps have at that time of your activities?

Lieutenant Cutts. I cannot state that, sir. They knew of the compensator. They knew of our arrangements. There was nothing unfair about it.

Senator Clark. Did they know that Mr. Bleasdale was acting as the agent for the Cutts compensator at the same time he was an officer on the active list of the Marine Corps and at the same time was the ordnance officer for Nicaragua?

Lieutenant Cutts. Bleasdale is a partner. He is not really an agent.

Senator Clark. You refer to him as an agent.

Lieutenant Cutts. I may have; but he is a partner.

Senator Clark. You identified him as an agent when I asked you who he was.

Lieutenant Cutts. He is a partner, that is what he is.

Senator Clark. "Fortunately, we had an active agent." What is fortunate about it? He was engaged actively to sell compensators to the Marine Corps and was interested in the submachine guns.

Lieutenant Cutts. The Marine Corps had the submachine gun. It was a change to a new model.

Senator Clark. I did not say to sell guns, but to overcome the Marine Corps prejudice against it, to move the guns, to overcome their prejudice against the gun. He was active in pushing it.

Lieutenant Cutts. Yes.

Senator Clark. At the same time he was also active in the Marine Corps.

Lieutenant Cutts. Yes. He carried out his duty as he saw fit.

Senator Clark. And at the same time was ordnance officer for Nicaragua.

Lieutenant Cutts. That is correct. This gun was a gun that we believed in from the first and it subsequently proved itself. If we had not believed in it, it would have been another story. It proved itself in Nicaragua and turned out to be one of the most valuable weapons we had down there.

Senator Clark. There evidently is some connection between his being an ordnance officer and the sale of guns.

Lieutenant Cutts. As a matter of fact, I did not conduct any of that.

Senator Clark. I understand that. After saying that fortunately you had an active agent on the ground who obtained these tests and brought the necessary high ranking officers around to his point of view, you called attention to the fact that other weapons showed up very good, too.

Lieutenant Cutts. We did.

Senator Clark. And you say:

> Next, our friend was made ordnance officer of the Nicaraguan Government and the initial order for the T. S. M. G.'s for the Nicaraguan Government came through.

You evidently saw a direct relationship between cause and effect there, between his being made ordnance officer for Nicaragua and the initial order coming through; and then you ask for the amount of commission you are to be given.

Lieutenant Cutts. Possibly, Senator, you have heard about sales letters before?

Senator Clark. We have heard a great deal about sales letters here.

Lieutenant Cutts. That is a sales letter, selling myself to the Auto Ordnance Corporation. As a matter of fact, the Marines equipped the Nicaraguan Army and these sales would have come through in any event.

Senator Clark. You do not mean to say as an officer of the Government you would tell Mr. Ryan something that was not true, in order to sell these things?

Lieutenant Cutts. No; that would have come through anyway, because the Marine Corps would equip them as they equipped themselves, even as to uniforms and everything else.

Senator Clark. Did your superiors have information that you were writing around, dating your letters at the marine barracks and entering into sales arrangements for munitions?

Lieutenant Cutts. The marine barracks, sir, happened to be where I was living. It happened to be my address, just like any other man's address, and every one to whom I have written knows that I was in the marines.

Senator Clark. Did your superiors know of this practice of yours writing from the marine barracks, dating your letters at the marine barracks, in connection with the sale of munitions for your private profit?

Lieutenant Cutts. I cannot say that they did, but I imagine they would, because that is where I was living.

Senator Clark. Who was your superior officer at that time?

Lieutenant Cutts. I beg your pardon?

Senator Clark. On November 17, 1932, when you wrote the letter I just read.

Lieutenant Cutts. I was there definitely. I was stationed there. I lived there.

Senator Clark. I say, Who was your commanding officer?

Lieutenant Cutts. Captain Steel—just a minute, sir. I will think of it. Come back to that later, please. I will think of it later.

Senator Clark. And who was your post commander or station commander?

Lieutenant CUTTS. The commanding officer?

Senator CLARK. Yes.

Lieutenant CUTTS. I was directly under the commanding officer. It was Colonel Evans.

Senator CLARK. I now call your attention to a letter dated, "Marine Barracks, Navy Yard, Philadelphia, Pa., December 7, 1932", addressed by you to Mr. Walter B. Ryan, Jr., which I will offer for appropriate marking.

(The letter referred to was marked "Exhibit No. 1205", and appears in full in the text.)

Senator CLARK. This is about 3 weeks after the other letter that I just read.

Mr. WALTER B. RYAN, Jr.,
New York City.

DEAR MR. RYAN: I have delayed in answering your letter of November 23 for I hoped to be able to tell you definitely when I would be in New York. I as yet do not know just when I shall be able to get away, but I am trying to arrange it for the near future.

The reason I got in touch with you in regard to the foreign-sales proposition was because I did not want you to tie up with Young hand and foot. I have brought up the fact that as far as selling is concerned, the more representatives the merrier.

That would not indicate that you had a week after the previous letter withdrawn your offer?

Lieutenant CUTTS. I don't know the time, but within a very short period after that I decided not to carry it on.

Senator CLARK (reading):

There is a company known as the "Government Service Co." in which I am interested, and I hope they will be able to handle foreign sales of your products. I can't guarantee just what they will be able to do, but in many ways their prospects are just as good as Young's, and in some ways they are better. I shall run over the situation when I see you.

I also have some ammunition lined up for you at a discount. Of course it will be subject to test.

When do you expect your new pamphlets off the press? I have run out of them and am in urgent need of about 2 dozen. These are to go out to about 10 or more countries, and I hope that you will be able to send me new ones. Our contacts are widening constantly, and something ought to pop soon.

Now, what was the Governmental Service Co.?

Lieutenant CUTTS. The Governmental Service Co. is now nonexistent, except as an operating company for compensators. It handles nothing but compensators.

Senator CLARK. What was it at this time?

Lieutenant CUTTS. It was conceived to be able to handle other things besides compensators, anything that was desired, but it was decided, as I informed you, Senator, not to carry it through, so we relegated the whole thing to the discard and handled nothing but compensators and have done so, and the Government Service Co. has never done any business of any sort in anything else.

Senator CLARK. Who owned the stock of the Governmental Service Co.? Was it incorporated?

Lieutenant CUTTS. No; it was not incorporated, sir.

Senator CLARK. Who were the formers?

Lieutenant CUTTS. Mr. Barron in New York, an attorney in New York. He operated in his office, and we used that for the compensator.

Senator CLARK. Were you a partner in the firm?

Lieutenant CUTTS. No; I am not, sir.

Senator CLARK. Were you at the time?

Lieutenant CUTTS. No, sir; I have no active interests outside of the compensators, sir.

Senator CLARK. What was your interest? You say there is a company known as the "Governmental Sales Co.", to which I made reference.

Lieutenant CUTTS. That is correct.

Senator CLARK. And he says they will be able to handle foreign sales for your products?

Lieutenant CUTTS. Correct.

Senator CLARK. How were you interested?

Lieutenant CUTTS. That was the company that Mr. Barron and myself formed but did not operate for the reasons I have given before.

Senator CLARK. But you were a partner in it at the time it was formed?

Lieutenant CUTTS. No; it is now a compensator company.

Senator CLARK. On December 16, 1932, there was a letter from Auto-Ordnance Corporation to Lt. R. M. Cutts, Jr., which I offer for appropriate number.

(The letter referred to was marked "Exhibit No. 1206" and appears in full in the text.)

Senator CLARK. Mr. Ryan wrote you as follows under date of December 16, 1932:

Lt. R. X. CUTTS, Jr.,
Marine Barracks, Navy Yard, Philadelphia, Pa.

DEAR LIEUTENANT CUTTS: Pursuant to our telephone conversation of last night, I hand you herewith our regular export price list of the Thompson submachine gun, spare parts, and equipment. The dealers prices listed thereon are all net to us, f.o.b. Hartford, Conn., and we make shipment only against cash or the equivalent thereof, such as a letter of credit established in our favor in a New York bank. Furthermore, we reserve the right to submit any order prior to its acceptance by us to the State Department at Washington, and reserve the right to refuse to fill any order for any reason whatsoever.

We quote you these prices on a nonexclusive basis for export to some European country other than the following, in which countries we have already exclusive sales arrangements: British Empire, Poland, Esthonia, Latvia, Lithuania, Bulgaria, Turkey, Norway, Sweden, Denmark.

Should the country to which you desire to have shipment made by one of the above mentioned, it is possible that we could make arrangements to be released from our present exclusive agencies. In addition, if the order which you contemplate receiving is a large one, the prices we have quoted you on the enclosed list may possibly be modified to some extent, depending upon the size of the order and special circumstances connected therewith.

Trusting that business will eventuate, and assuring you of our desire to cooperate with you in every way, we are

Yours faithfully,

AUTO-ORDNANCE CORPORATION.

Initialed by Mr. Ryan.

That, Lieutenant, referring to telephone conversation of the night before, and giving you nonexclusive territory in Europe, was dated on December 16, 1932, just a month after the first letter which I read.

Lieutenant CUTTS. Correct.

Senator CLARK. So that apparently up to that time you had not yet concluded it was unethical for an officer on the active list to do this.

Lieutenant Cutts. Mr. Senator, that decision was made before we did any business. I cannot remember exactly the dates. I said it was about—maybe it was about 2 months—but no business was ever consummated, for the reasons I gave.

Senator Clark. But it was a definite sales arrangement——

Lieutenant Cutts. It was a definite sales arrangement.

Senator Clark. Wait until I finish my question.

But it was a definite sales arrangement made by you in a telephonic conversation, confirmed by letter from Mr. Ryan, of New York, to you at the Marine Barracks at Philadelphia, for the sale of Thompson submachine guns.

Lieutenant Cutts. That is correct.

Senator Clark. Did any commission ever result under that?

Lieutenant Cutts. No guns have ever been sold.

Senator Clark. Did you ever get any commission on the guns for Nicaragua?

Lieutenant Cutts. No; we did not want the commission. It was for an agent, and was never done. These guns were sold at the United States Government price.

Senator Clark. You were going to pay an agent and give him a commission on a sale already made, were you?

Lieutenant Cutts. Absolutely, because we had only the compensator and took the royalty on the compensator. When a gun is sold, that means a compensator royalty. We cannot play both ends against the middle.

Senator Clark. The guns had been sold through Mr. Bleasdale—what is his rank?

Lieutenant Cutts. Captain.

Senator Clark (continuing). Through Captain Bleasdale at the time he was agent in Nicaragua. Why give him a new commission on a sale already made?

Lieutenant Cutts. There was no commission.

Senator Clark. You asked for a commission.

Lieutenant Cutts. I suggested we do pay a commission on that in order to establish some sales later down there.

Senator Clark. To whom did you intend to pay a commission on the 61 guns?

Lieutenant Cutts. That commission was never paid, and we were looking around to find out who in the new Sacasa government would be the most reputable man to handle them in that territory.

Senator Clark. You say you were looking for a man in the new Sacasa government?

Lieutenant Cutts. A man with connection with the government.

Senator Clark. Let me see if I understand you correctly.

Lieutenant Cutts. Yes, sir.

Senator Clark. You were going to get a new agent down there and pay him a commission on a sale which had already been made, with which he had nothing to do, in order to straighten him up for future business? Is that correct?

Lieutenant Cutts. I was suggesting that they do that. We had no agent.

Mr. Senator, one of the difficulties in these situations which develop with respect to the Thompson gun is well known, and when the marines come out of a country, every person who thinks he can get it, wants to get the agency for those guns. The same thing occurred in Haiti, and they wrote me and asked me, " How about this gentleman who was down there at the time? " And I said, " No; I thought if they were to do that, they should deal direct with the Haitian Government."

Senator CLARK. What about the commission to the man on the 61-gun order, which had already been made with the Nicaraguan Government through Captain Bleasdale? You asked for a commission on that order. What was to go with that commission? What was to be done with that commission, if it was given?

Lieutenant CUTTS. I believe I answered that in the letter, sir.

Senator CLARK. What was Captain Bleasdale's first name?

Lieutenant CUTTS. Victor.

Senator CLARK. Is he still on the active list of the Marine Corps?

Lieutenant CUTTS. Yes, sir. He has never received any commission on any sales, either.

Senator CLARK. Apparently none of you received a commission.

Lieutenant CUTTS. No.

Senator CLARK. I am trying to find out what you intended to do with the commission if Auto-Ordnance had come through with it, when you had asked for it.

Lieutenant CUTTS. I told them, on page 2 of the letter dated November 17, 1932, Mr. Senator, the second paragraph. I stated that we would have the commission to pave the way for future sales and that would make further contact.

Senator CLARK. That is what I am trying to find out, how paying a man a commission on a sale which had already been made, with which he had nothing to do, is going to pave the way for a future sale. That is connected up with the Nicaraguan Minister of War. I want to know how the paying of a commission on a sale which had already been made, with which he had nothing to do, is going to pave the way for future sales.

Lieutenant CUTTS. Nobody got the commission, and it only amounted to a retainer to awaken the interest of whoever was to be the representative.

Senator CLARK. How much royalty did you get on these various sales?

Lieutenant CUTTS. I do not recall that. They vary.

Senator CLARK. What was the basis of it, if you recollect?

Lieutenant CUTTS. It generally works on a percentage basis.

Senator CLARK. A percentage on the sales price of the gun?

Lieutenant CUTTS. Yes, sir.

Senator CLARK. Captain Bleasdale shares in the royalty?

Lieutenant CUTTS. He shares in our royalty.

Senator CLARK. And did share in the royalty at the time he was ordnance officer for Nicaragua?

Lieutenant CUTTS. Yes, sir; but he did not sell those guns because the Marine Corps was equipped with them, the same as we equipped the first guns they already had. They had already been purchased.

Senator CLARK. I will read to you a letter dated November 8, 1933, from Auto-Ordnance Corporation to you, which I offer for appropriate number.

(The letter referred to was marked " Exhibit No. 1207 " and appears in full in the text.)

Senator CLARK (reading):

Lt. R. M. CUTTS, JR.,
Marine Corps Headquarters, New Navy Building, Washington, D. C.

DEAR LIEUTENANT CUTTS:—

This is at the time you were still in Washington, is it Lieutenant?

Lieutenant CUTTS. Yes, sir.

Senator CLARK. Was that during the period that you were an aide at the White House?

Lieutenant CUTTS. No, sir.

Senator CLARK. You were going right onto this business at the time you were an aide at the White House, were you, Lieutenant?

Lieutenant CUTTS. On the compensator, yes, sir; but the White House has nothing to do with it.

Senator CLARK. I understand that.

Lieutenant CUTTS. Our duties at the White House were social duties only.

Senator CLARK. But you were engaged in this business at the same time you were a White House aide?

Lieutenant CUTTS. I have been engaged in it since we developed the compensator business.

Senator CLARK. That letter reads [reading "Exhibit No. 1207"]:

Lt. R. M. CUTTS, JR.,
Marine Corps Headquarters, New Navy Building, Washington, D. C.

DEAR LIEUTENANT CUTTS: I would appreciate your letting me know at once exactly what steps you have taken in your negotiations for a sale of our guns to Russia. I would also like to know through whom you are attempting to work this and what further steps you contemplate taking in the near future, in view of recent developments between this country and Russia.

I am anxious to have this information with all possible speed, inasmuch as I do not wish to run afoul of your negotiations in certain matters that I am planning to act myself very shortly. Needless to say, what you tell me will be kept in strictest confidence, if you so desire it.

What steps had you taken to initiate negotiations for the sale of Thompson submachine guns in Russia?

Lieutenant CUTTS. Nothing. He was interested in that point because he knew we were thinking of and contemplating selling compensators, and when we sell a compensator, that means the guns they are on, naturally. You show the Thompson machine gun and other types in the catalog, and what the status is in this country. We had made no steps on sales to Russia. He was inquiring.

Senator CLARK. Evidently Ryan got the idea yo uhad negotiations on sales for Russia, and he might run afoul of you unless you acted in agreement. Had you ever told him anything to that effect?

Lieutenant CUTTS. He knew we were looking over the compensator situation with regard to compensator sales, and which needed a different kind of compensator. Our agreement with Ryan figured on a percentage of sales price. If he sold an uncompensated gun or a compensated gun, the sales price would have to be different to take care of it.

Senator CLARK. How would he run afoul of your negotiations by selling submachine guns, unless you were also engaged in selling submachine guns?

Lieutenant CUTTS. I cannot say. He was inquiring in that regard if we were, which we were not. He was requesting information.

Senator CLARK. Coming back to this exhibit, Lieutenant; that date is November 8, 1933?

Lieutenant CUTTS. That is correct.

Senator CLARK. You were a White House aide at that time. You were there, roughly, from March 1933 to September 1934?

Lieutenant CUTTS. Correct. March 1933; I went in at the time the President did, shortly after.

Senator CLARK. What were the matters concerning which Mr. Ryan writes, which you had pending in Russia, that he had to be certain not to interfere with?

Lieutenant CUTTS. He says, "in certain matters that I am planning to act myself very shortly."

Senator CLARK. He says he does not wish to run afoul of your negotiations.

Lieutenant CUTTS. He has used the word "negotiations." I had no negotiations. I was merely investigating the situation.

Senator CLARK. Do you have an agent in Russia?

Lieutenant CUTTS. No, sir.

Senator CLARK. Did you ever have an agent in Russia?

Lieutenant CUTTS. No, sir.

Senator CLARK. What countries did you have representatives in?

Lieutenant CUTTS. A representative in France.

Senator CLARK. Who was that?

Lieutenant CUTTS. Carnot. And a representative in Germany.

Senator CLARK. Who was that?

Lieutenant CUTTS. Dr. Neuhaus. They were our foreign representatives at that time.

Senator CLARK. Now I call your attention to a letter dated November 9, 1933, addressed to Mr. Ryan, headed "Headquarters U. S. Marine Corps, Washington", which I ask be appropriately numbered.

(The letter referred to was marked "Exhibit No. 1208" and appears in full in the text.)

Senator CLARK. That letter reads:

Mr. WALTER B. RYAN,
31 Nassau Street, New York City.

DEAR MR. RYAN: I am enclosing a letter from Dr. Neuhaus, my German representative, in regard to the Schmeisser M. P. for your information, comment, and return.

What is the Schmeisser M. P.?

Lieutenant CUTTS. It is a police pistol similar to the Thompson, shooting a 9 millimeter.

Senator CLARK (continuing reading):

Now in regard to Russia, I interviewed a Mr. D. A. Uger, chief inspector of the Aviation-Automotive Department.

Was that Mr. Uger, the chief inspector of the Aviation-Automotive Corporation?

Lieutenant CUTTS. No; that is Amtorg.

Senator CLARK. That is the purchasing corporation?

Lieutenant CUTTS. That is the purchasing corporation for Russia; yes, sir.

Senator CLARK (continuing reading "Exhibit No. 1208"):

They had no military men over here. Mr. Uger requested that I furnish him with complete information and he would forward it to Russia. He assured

> me that there would probably be no difficulty in having a commission sent over here. This would seem all fine on the surface but there are two important catches.
>
> The first catch is the question of payment and this includes contracts. Their contracts are so drawn that they can generally find a loophole. The second catch is in regard to patents. Russia really recognizes no patents and this means that they will only buy a few. These few will be used as models so they can duplicate. This duplication may take place in Russia or they may have them made in some other country at a very low price.

What was this information that Mr. Uger requested? Was it with respect to compensators or submachine guns as well as compensators?

Lieutenant CUTTS. Compensators.

Senator CLARK. Your talk with Mr. Uger was solely relative to compensators?

Lieutenant CUTTS. As I remember it, that was all.

Senator CLARK. Do you remember having any discussion in that conversation of Thompson machine guns?

Lieutenant CUTTS. No, sir.

Senator CLARK (continuing reading):

> In connection with the above I wish to remind you that the Chinese arsenal at Mukden used to make Thompson guns, complete in every detail. Their only difficulty lay in the fact that they did not have good steel. However, the fact remains that they did cut your Chinese market. The present case is somewhat different inasmuch as Russia can easily obtain Swedish or German steel.
>
> I am taking this matter of patents up with the administration for I feel that it should be incorporated in any treaty arrangements made with Russia.

How did you take it up with the administration?

Lieutenant CUTTS. It was not taken up.

Senator CLARK. What did you mean by saying [reading]:

> I am taking this matter of patents up with the administration for I feel that it should be incorporated in any treaty arrangements made with Russia?

Lieutenant CUTTS. At that time, if you will remember, sir, it was before the recognition of Russia, and it was generally conceded that anything that was developed or sold in this country to Russia, it would be only a matter of time until they would copy everything without making any arrangement with patentees. I thought this, and, in fact, I had made a search of the matter, and I said I was going to take it up, and I intended to, but I did not.

Senator CLARK. You said you intended to take it up with the administration. With whom did you intend to take it up? How were you going to have written insertions in the treaty?

Lieutenant CUTTS. That can be done in the usual manner. There are different ways it could be taken up, but I did not take it up, sir.

Senator CLARK (continuing reading):

> In view of the above, I feel that it might be a good plan if we worked on the Russian situation together. Consequently, it might be well to let me know of your progress to date and your future plans. The situation at best is an extremely ticklish one and will require utmost caution.

What did you mean by that?

Lieutenant CUTTS. Exactly what I said, sir. He was interested in selling guns and I was interested in selling compensators and an exchange of mutual information would probably prove valuable.

Senator CLARK. Why was it "an extremely ticklish" situation?

Lieutenant CUTTS. On account of the patent situation, sir; and, as I mentioned before, it was a question of steels. We do not like to give out what types of steel we are using. Steels are difficult to duplicate.

Senator CLARK (continuing reading "Exhibit No. 1208"):

> If you do not consider it best under the circumstances to work with me, please do not hesitate to let me know. In any case kindly let me hear from you at your earliest convenience.
>
> With best wishes, I am,
> Cordially yours,
>
> (Signed) R. M. CUTTS, Jr.

Lieutenant, how was it possible for an active officer in the Marine Corps to conduct a commercial business venture of this sort?

Lieutenant CUTTS. The law on that, sir, allows an active officer to conduct a commercial business, providing he does not allow it to interfere with his own duties. Of course, naturally, if it interferes with his own duties, his efficiency reports would be marked down accordingly, and he might eventually be cashiered, if he did not do his duty properly, but we are not allowed to represent firms in negotiations with the United States Government.

Senator CLARK. I understand that.

Lieutenant CUTTS. That is correct.

Senator CLARK. What I think is important to this committee, Lieutenant, and what I am asking you, is whether or not there is any regulation of the Marine Corps of any sort that prevents such activities on the part of marine officers, or prevents using marine stationery in conducting commercial negotiations.

Lieutenant CUTTS. We have the rights to these patents, in accordance with the decision of the Navy Department itself, sir.

Senator CLARK. I am not questioning your right to patents at all, but I am trying to find out whether there is any regulation that prevents an officer on the active list from engaging in such commercial transactions and from using the stationery of the Marine Corps in conducting them.

Lieutenant CUTTS. That is a double-barreled question, sir. I will try to answer the first one first.

Senator CLARK. All right.

Lieutenant CUTTS. The first one, with regard to the regulations: As I understand it—and I think I am correct—we cannot represent a firm doing business with the Government. That is the first. The second one is that men in the service, such as musicians, and so forth, cannot play in outside orchestras, thereby putting other people out of a livelihood. Those are the regulations that I know of.

Senator CLARK. Apparently from your first letter, your partner, Captain Bleasdale, was representing a commercial venture in negotiations with the Government, in that you say he was your active agent on the ground, and induced the high-ranking officers of the Marine Corps to reverse the previous judgment on the Thompson submachine gun.

Lieutenant CUTTS. That can be explained more fully. He is our partner. He is not an agent of Thompson. He is a compensator agent.

Senator CLARK. He got a royalty from Thompson on every gun he sold, did he not?

Lieutenant CUTTS. A royalty on every compensator sold.

Senator CLARK. That is what I say; he got a royalty for the Thompson submachine gun on every gun sold to the Government, did he not?

Lieutenant CUTTS. No, sir; he did not, sir. He received a royalty from the compensator. There is a difference there.

Senator CLARK. The compensator was one additional step. The compensator company received the royalty from the Auto-Ordnance Company?

Lieutenant CUTTS. That is correct, sir.

Senator CLARK. Which they, in turn, turned over to the partners of the compensator company?

Lieutenant CUTTS. That is correct, sir.

Senator CLARK. So that it is simply an additional step, but he gets part of the money that the Government pays for furnishing Thompson submachine guns with these compensators on them, does he not?

Lieutenant CUTTS. Correct, sir.

Senator VANDENBERG. Is not that in violation of the regulations?

Lieutenant CUTTS. No, sir.

Senator CLARK. That is what I am trying to get at. That is the important part of this case, from the standpoint of the Government.

Lieutenant CUTTS. We have the right to these patents, and the way it is worded it says that the United States Government can treat with us in regard to purchases of the compensator. In other words, we are at liberty to do business with our own Government on compensators, because we have fulfilled our end of the contract, and so far as that business is concerned, we are the same as any outside corporation.

Senator CLARK. But apparently Captain Bleasdale, Lieutenant, was using his position as an officer in the Marines, and later as an ordnance officer for the Nicaraguan Government, for which the Cutts compensator had a contract. That is your own statement and not mine.

Lieutenant CUTTS. That was, as I said before, the old model gun against the new. The marines had the old model and had improvements put on it. They took the gun there and made it what it is today.

Senator CLARK. Lieutenant, I do not want to take the trouble to read this letter to you again, because I have read it two or three times, but I do not believe any man who understands the English language will understand anything except you are telling Captain Ryan that the high-ranking officers of the Marine Corps were caused to reverse their decision, and that the action in that regard was on the basis that business would be done with the Niacaraguan Government.

Lieutenant CUTTS. That is correct. It is difficult to explain, sir.

Senator CLARK. I think it is.

Lieutenant CUTTS. They had the old-model gun and the old-model gun was ineffective and there was a situation where it could not be used down there. The practice was to turn over the new model to the Government, and all the officers had known of the old model, and there was a difference between the old and new models, and that is what was done, and that gun proved satisfactory to Nicaragua.

Senator CLARK. And at the same time Bleasdale was acting on that, he was also acting in the capacity of an active officer in the marines?

Lieutenant CUTTS. I would not say that, sir.

Senator CLARK. Where is Captain Bleasdale stationed now, sir?

Lieutenant CUTTS. I think he is at sea, sir. As I explained, Mr. Senator, that letter was a sales letter originally.

Senator CLARK. Now, I would call your attention to a letter dated November 17, 1933, just 1 year after the first one, which I read, also written on the letterhead of "Headquarters, United States Marine Corps, Washington", which I offer for appropriate number.

(The letter referred to was marked "Exhibit No. 1209", and appears in full in the text.)

Senator CLARK. That letter reads:

> In replying address: The Major General Commandant and refer to No.
>
> Mr. WALTER B. RYAN, Jr.,
> *31 Nassau Street, New York City, N. Y.*
>
> DEAR MR. RYAN: I wish to thank you for your letter of November 15 in regard to Russia and I wish to reiterate that I would be only too happy to give you a hand, if necessary. In any case I would appreciate being kept informed of your situation as it would be of value to you. You may rest assured that any information you may feel free to give me will be considered as confidential.
>
> When I originally spoke to you in regard to Paraguay and Argentina, I did not know that you had entered into an exclusive license with Federal Laboratories with respect to foreign sales. When you so informed me, I then asked if you could withdraw these two countries in question from the agreement. This request on my part was due to a peculiar situation which seems to exist down there. However, I have seen John Young since our last conference and I decided that the best way would be to take the entire matter up with him as I have never believed in playing both ends against the middle. In view of this, I believe that Young and I will be able to work the problem out together and you may consider my request in regard to these two countries as canceled pending any further advices from me.

This letter was written at the time when Paraguay was engaged in war, was it not?

Lieutenant CUTTS. Yes, sir.

Senator CLARK. And what was the reason which you had in mind for Mr. Ryan granting you a sales contract in Paraguay and Argentina, if he could withdraw them from Federal's exclusive sales contract?

Lieutenant CUTTS. That was in regard to what I informed the Senator before, that we decided not to enter into the business, and Young represented us on compensators.

Senator CLARK. Yes; but your first letter was dated November 17, 1932.

Lieutenant CUTTS. Yes, sir.

Senator CLARK. You said that a week later you concluded that to be unethical as a marine officer to engage in that business.

Lieutenant CUTTS. I did not state that——

Senator CLARK. And yet 1 year later you said:

> When I originally spoke to you in regard to Paraguay and Argentina, I did not know that you had entered into an exclusive license with Federal Laboratories with respect to foreign sales.

This was when Paraguay was engaged in war?

Lieutenant CUTTS. Correct.

Senator CLARK (reading):

> When you so informed me, I then asked if you could withdraw these two countries in question from the agreement.

That was for the purpose of withdrawing it from Federal's agency and giving it to you, was it not?

Lieutenant CUTTS. Yes; but that was a long time prior to this letter.

Senator CLARK (continuing reading):

> This request on my part was due to a peculiar situation which seems to exist down there.

The peculiar situation was a state of war, was it not?

Lieutenant CUTTS. No, sir.

Senator CLARK. That was one peculiar situation?

Lieutenant CUTTS. That was very peculiar; yes, sir; but there is another one.

Senator CLARK (continuing reading):

> However, I have seen John Young since our last conference and I decided that the best way would be to take the entire matter up with him as I have never believed in playing both ends against the middle.

What did you do with this?

Lieutenant CUTTS. I do not exactly recall, but Young represented him down there on Thompson machine guns and with no interest in the compensator end. We at one time contemplated the possibility of compensating guns in that territory, and then we decided against it. In fact, Mr. Senator, all of this which has been brought up before the committee has never occurred, sir. You have all the books of every corporation, I believe, at your disposal, and you will never find that we have accepted a commission on anything but our royalties.

Senator CLARK. Were you ever tendered a commission? I am trying to say that the records which we have before us do not show you have accepted a commission, but they do not show you have ever had a chance to accept a commission, but they have asked for arrangements as to commission. That is a fair statement?

Lieutenant CUTTS. That is a fair statement, before it was changed. We never took it.

Senator CLARK. You had not changed your mind up to November 17, 1933, 1 year after the first letter I read?

Lieutenant CUTTS. It is rather difficult to think back 3 or 4 years.

Senator CLARK. You have the letter right before you.

Lieutenant CUTTS. I have the letter right before me.

Senator CLARK. It is rather conclusive, it seems to me, on that point.

Lieutenant CUTTS. What I was coming to is this: The original agreement I asked about was 'way back.

Senator CLARK. I understand that, but you say here on November 17, 1933, that you would take it up to see if you could get Argentina and Paraguay removed from their exclusive agency.

Lieutenant CUTTS (reading):

> When I originally spoke to you—

that was some time prior, and I do not remember.

Senator CLARK (reading):

> However, I have seen John Young since our last conference, and I decided that the best way would be to take the entire matter up with him, as I have never believed in playing both ends against the middle.

Lieutenant CUTTS. That is correct.

Senator CLARK (continuing reading):

> In view of this, I believe that Young and I will be able to work the problem out together, and you may consider my request in regard to these two countries as canceled pending any further advices from me.

By the "problem" you were talking about the withdrawal of Argentina and Paraguay from the original sales agreement?

Lieutenant CUTTS. I did not say that.

Senator CLARK. If you read the paragraph together, that is the only construction which can be put on it.

Lieutenant CUTTS (reading):

> When I originally spoke to you in regard to Paraguay and Argentina, I did not know that you had entered into an exclusive license with Federal Laboratories with respect to foreign sales.

Senator CLARK (reading):

> I then asked if you would withdraw these two countries—

Argentina and Paraguay, from that exclusive sales agreement.

Lieutenant CUTTS. Yes.

Senator CLARK (reading):

> When you so informed, I then asked if you could withdraw these two countries in question from the agreement—

and then you go ahead and say you would take up this with Young, and do not want to be in a position of playing both ends against the middle.

Lieutenant CUTTS. That was an oral conversation of over a year ago and, as I remember it, the point in question at that time was the selling of Thompson machine guns with compensators, and then the selling of compensators without guns. If there were appointed an agent down there, the agent would be entitled to all sales in that territory. That is natural.

If Thompson sold guns with compensators on, Young would be entitled to the commission, the selling commission on the compensated gun. In effect, the agent would also be entitled to it, and it would bring up a very peculiar situation, and that was with regard to the thing which I mentioned at the time. Young had the agreement to sell compensated guns. I was trying to prevent any conflict in that situation, should we decide to enter into that field.

As I remember it, that was over a year ago, in oral conversation.

Senator CLARK. I call your attention to a telegram signed by yourself, dated Washington, May 16, 1934, addressed to Walter B. Ryan, Jr.

(The telegram referred to was marked "Exhibit No. 1210", and appears in full in the text.)

Senator CLARK (reading):

> Our European agent sails from New York first of next week; all letters must be photostated, bound, and forwarded to be of use. Stop. Your cooperation appreciated by special delivery. Stop. Thought contract finished business along lines discussed; telephoned Colonel the result; he seemed satisfied. Please help. Best regards.

What does that mean? What was the contract you thought was finished?

Lieutenant Cutts. I would like to have a copy of that, if I may. 1934, May. That was our man leaving for Germany, sir.

Senator Clark. Who was that?

Lieutenant Cutts. Von Zastrow.

Senator Clark. Who was he? What was his first name?

Lieutenant Cutts. Fritz von Zastrow.

Senator Clark. Who was he?

Lieutenant Cutts. He was acting as intermediary between me and my agent over there, Dr. Neuhaus.

Senator Clark. Where does he live? Is he a German?

Lieutenant Cutts. Neuhaus? He is German; lives in Berlin.

Senator Clark. No; I mean von Zastrow.

Lieutenant Cutts. Von Zastrow is a German, also, I believe.

Senator Clark. He lives in Germany?

Lieutenant Cutts. No; he lives in this country. He goes back and forth a good deal.

Senator Clark. He was acting as intermediary?

Lieutenant Cutts. Yes, sir; an intermediary.

Senator Clark. To your own agent?

Lieutenant Cutts. Yes.

Senator Clark. For what purpose?

Lieutenant Cutts. I wished to find out what the situation was in Germany in regard to patents and with regard to developments over there, and instead of sending a whole lot of our new literature and things and papers by mail, I was having him take them with him.

Senator Clark. I do not believe you answered my question a moment ago, when I said you had said that you never accepted a commission. It is a fact you never had a chance to accept a commission, although you suggested commissions on several occasions, did you not? You have never been tendered a commission, in other words?

Lieutenant Cutts. That question is not quite—it is a little difficult to answer, the way you have put it.

Senator Clark. You said you never had accepted a commission. I asked you if you had a chance to accept a commission.

Lieutenant Cutts. We could have sold guns had we decided to do so, there is no question about it; but we decided not to do so.

Senator Clark. You apparently had not decided up to November 17, 1933. Were any of these suggestions of yours for commissions ever acted upon favorably by the Federal——

Lieutenant Cutts. That I cannot say.

Senator Clark. In other words, you were never tendered a commission, and therefore did not have a chance to accept the commission?

Lieutenant Cutts. That is like trying to say whether a person is honest. They are not dishonest because they never had a chance to be.

Senator Clark. You say you never accepted one. You were never offered one, were you, just to put it bluntly?

Lieutenant Cutts. No, because——

Senator Clark. You say you never got a commission; I will agree with that, because that is what this correspondence shows.

Lieutenant CUTTS. Yes; that is right. Of course, we never went into the business of selling guns. Had we done so, we would have made commissions—then we would have accepted them.

Senator CLARK. Did you ever have a contract to get a commission on the sale of guns? That is what I am trying to get at.

Lieutenant CUTTS. No, sir.

Senator CLARK. They never acceded to any of your several requests for making that sort of an arrangement?

Lieutenant CUTTS. Yes, sir. They gave us a contract here which the Senator read, dated December 16, 1932, in which we could have sold guns and accepted a commission had we so desired, but we did not sell any guns.

Senator CLARK. That was in their nonexclusive territory?

Lieutenant CUTTS. Yes; in nonexclusive territory.

Senator CLARK. Did you accept that letter as stating a contract?

Lieutenant CUTTS. That amounts to a contract; yes, sir; signed by the president.

Senator CLARK. A contract is an offer that is accepted; an accepted offer?

Lieutenant CUTTS. Yes, sir.

Senator CLARK. An offer to make a contract is not a contract unless it is accepted. Did you ever accept this contract?

Lieutenant CUTTS. If I remember correctly, it was accepted; but we never sold any guns.

Senator CLARK. But you never sold any guns, and therefore were not in any position either to accept or refuse a commission?

Lieutenant CUTTS. But we could have been, because we could have sold if we so desired.

Senator CLARK. I now call your attention to a letter dated Paris, July 19, 1934, signed "George."

(The letter referred to was marked "Exhibit No. 1211" and is included in the appendix on p. 3739.)

Senator CLARK. Who is George?

Lieutenant CUTTS. That is Mr. Besler, I believe.

Senator CLARK. Who is he?

Lieutenant CUTTS. I explained before, sir; he is a railroad man.

Senator CLARK. He was your agent?

Lieutenant CUTTS. No. He is not really an agent. He was a personal friend. He has been interested in the compensator since its inception. He went between us and France.

Senator CLARK. He is not your European representative?

Lieutenant CUTTS. No, sir; he was not. He turned all his interest that he had at first over to Carnot & Neuhaus.

Senator CLARK. It is addressed "Lieutenant R. M. Cutts, Headquarters U. S. Marine Corps, Washington."

> DEAR DICK: The clipping from the Washington Post duly received and most hearty congratulations. When will the big event take place?
>
> Your telegram as follows:
>
> "Conferring Russian next week will 'Carnot result'"—

Lieutenant CUTTS. That is garbled. That message was garbled.

Senator CLARK (reading):

> "'Bigard has six rifle compensators his contract now up for renewal writing Hotchkiss contact Neuhausson compensated Schmeisser thanks.'"

What was that? You say it is garbled. I certainly cannot make any sense of it. What was that, Lieutenant?

Lieutenant CUTTS. He says there he was conferring with the Russians next week.

Senator CLARK. Was this from him to you or from you to him?

Lieutenant CUTTS. This is from him.

Senator CLARK. He says "Your telegram as follows."

Lieutenant CUTTS. Oh, no; that is an answer to him. That is my telegram that was garbled. He cabled me in regard to the situation there, that Bigard's contract had run out and Carnot kept the contract. He continued as our agent.

Senator CLARK (reading):

> The French army is very interested in the application of compensators to submachine guns which they find are practically valueless because of the jump. They are not interested in rifles because of the bayonet nor are they interested in the larger machine guns because they have very firm basis and the compensator would interfere with the flash preventer which they use at night time and which, they feel, is more valuable than the compensator.
>
> They have at least one or more models of every type of machine guns so the thing for you to do is to send immediately a compensator for a Thompson or other similar machine gun, properly labeled as to sizes, bullets, etc. * * * and with complete instructions.
>
> The letters of recommendation, etc., * * * which you sent me are being translated by Carnot, and he decided not to remove anything from the War Department until he had heard from you, so that we could not in any way interfere with the business in case Bigard is to handle it.

Who is Bigard?

Lieutenant CUTTS. Bigard is the man we originally had, and it was up for decision as to the progress he had made there as against Carnot. And Bigard's contract ran out.

Senator CLARK. Did Bigard ever sell anything for you?

Lieutenant CUTTS. No, sir.

Senator CLARK. What is this reference in this telegram? It says, "Bigard has six rifle compensators."

Lieutenant CUTTS. He had them in his possession.

Senator CLARK. They were samples?

Lieutenant CUTTS. Samples; yes, sir.

Senator CLARK (reading):

> I am very hopeful that business can be done in submachine guns within 6 months, and I will try to find out if Bigard was sent any compensators for machine guns, which he did not mention, and he only showed us one compensator which he got out of a cupboard near his desk; perhaps there were others there.

What does George mean by saying he is very hopeful that business can be done in submachine guns? Was he selling submachine guns for you over there?

Lieutenant CUTTS. No, sir.

Senator CLARK. For whom was he selling them?

Lieutenant CUTTS. I do not know anything about that. He thought they were interested in that model. They no doubt purchased——

Senator CLARK. What did he mean by saying he was hopeful that business could be done in submachine guns?

Lieutenant CUTTS. Speaking of compensators.

Senator CLARK. But he does not say "compensators." He says, "I am very hopeful that business can be done in submachine guns."

Lieutenant CUTTS. Meaning compensators for submachine guns. May I explain something, sir?

Senator CLARK. Yes. I would be glad to have you do so.

Lieutenant CUTTS. Thompson guns at the price in this country cannot hope to compete with guns from abroad. It would be impossible to sell a gun made here over in Europe, because they manufacture them from about one-third to one-fourth the price. When he speaks of submachine guns, he is speaking of the generic term of submachine guns, and he means compensators on those guns, because in the paragraph he asks about compensators for that.

Senator CLARK (reading):

> I have spoken about the business of interesting private manufacturers and a Mr. P. Cunisset-Carnot, cousin of Claude, is interested in approaching some of the manufacturers as he is a well-known hunter and sportsman and feels that, even if not used for regular production, a considerable number of guns could be fitted with compensators each year among the limited number of people who go hunting.
>
> Claude Carnot feels that there is so little business to be had in the sporting field that it is scarcely worth going after as compared with the introduction of the unit into the Army for, as he says, what is there to hunt and where?
>
> As soon as he hears from you and is in a position to collect the various material scattered around, we will turn the compensated rifles over to Cunisset, as the Army will be through with them and Cunisset will take them around to gun manufacturers, repair shops, etc. * * *
>
> As to Germany, the Schmeisser gun is in Germany and both Germany and Belgium export rifles. However, as you know, no money in the way of royalty is allowed to be sent out of Germany and therefore it will not do you much good if they manufacture and you will flood the markets of the world with compensated guns on which you will receive no royalty and which will be sold at prices less than is possible with guns manufactured in the United States of America and elsewhere on which you will have royalty paid. I will see Neuhaus next week and talk over the matters with him as he cannot or will not see this face of the matters, being such a loyal German. Have you any patents in Japan, for they will probably sell machine guns, compensators and all, for $6 or $7, if they follow their present practices of selling watches for 15 cents, bicycles with tires for $2, and the equivalent of a Ford automobile for $150. * * *
>
> I may still be here in time to receive the letter which you will write to Claude Carnot and I will be able to help him getting business under way.

Did you have patents in Japan?

Lieutenant CUTTS. No, sir. We did not wish to disclose anything to Japan.

Senator CLARK. In what countries have you taken out patents?

Lieutenant CUTTS. England, France, Germany, Belgium, Czechoslovakia, Italy, Spain, Switzerland, Sweden, and Canada.

Senator CLARK. You said that George —— what was his last name?

Lieutenant CUTTS. Besler.

Senator CLARK. Mr. Besler was not your agent?

Lieutenant CUTTS. No, sir. He is not our direct agent.

Senator CLARK. Was he going to get a commission on anything he sold over there?

Lieutenant CUTTS. Not that I know of; no, sir. He told me he turned it all over to Carnot and Neuhaus. He originally was interested and went over there and appointed those men as our representatives and he turned the business over to them.

Senator CLARK. Did he have an interest in your company at the time?

Lieutenant CUTTS. No, sir.

Senator CLARK. Was he to participate in their commissions? The commissions of the agents he appointed?

Lieutenant CUTTS. I cannot say, sir. I do not know about that.

Senator CLARK. Did you pay his expenses on the trip to Europe?

Lieutenant CUTTS. No, sir.

Senator CLARK. He just went over there as an act of friendship, devoted his time and services to going around appointing agents for you?

Lieutenant CUTTS. He was conducting other business there. He has a large business over there, and was making the trip anyhow. There was really no expense involved.

Senator CLARK. He inquires about the patents in Japan. You do not know whether he was trying to sell submachine guns and compensators to Japan?

Lieutenant CUTTS. What I gather here, he wanted to know if we were protected there, because if we were not, Japan would keep it and flood the world, as he says, the way they have with other things.

Senator CLARK. I call your attention to a letter dated "11 Francis Street, Newport, R. I., August 11, 1934," which I offer for appropriate number.

(The letter referred to was marked "Exhibit No. 1212", and is included in the appendix on p. 3740.)

Senator CLARK. It is addressed to Mr. Bernard S. Barron, 10 East Fortieth Street, New York City.

Mr. Barron was the gentleman whom you mentioned awhile ago that operated the Governmental Service Co.?

Lieutenant CUTTS. Yes.

Senator CLARK. You say, "I would suggest that you get in touch with the quartermaster at Washington."

That is the quartermaster of the Army?

Lieutenant CUTTS. Our quartermaster.

Senator CLARK. The marine quartermaster. [Reading:]

> and request a list of those firms from whom the Marine Corps purchases khaki, also the name of the company to whom a contract was last awarded. You will then be in a position to get bids. Since you are in the Reserve you should be able to get a line on the price if you request same properly.

What does that mean?

Lieutenant CUTTS. That means this, that he knows exactly what the stuff is. This was done so he could get the information.

Senator CLARK. What was he talking about, Lieutenant, that he wanted to get bids?

Lieutenant CUTTS. As I remember that, you see, the way this compensator works is this, that when people come in and ask for things we cannot sell them things. We are not operating that way. We refer them to the proper manufacturers. This man was after compensators. He wanted a compensator agreement. He came into the company and said his contracts were such and such, and so forth, and he had the specifications that he wanted.

Senator CLARK. He wanted to sell compensators?

Lieutenant CUTTS. He wanted to sell compensators.

Senator CLARK. If he simply wanted to sell the compensators, why did you tell him to get in touch with the marine quartermaster?

Lieutenant CUTTS. No, no; this is Barron.

Senator Clark. A list of firms from whom the Marine Corps purchased khaki. What did khaki have to do with the sale of compensators?

Lieutenant Cutts. Among other things, he had the specifications of various articles, and he wanted to know where to get them. So we just inquired to find out where he could fill the order. As I remember, the American Woolen Co. was probably one of the biggest suppliers. At the same time he was asking for compensators. We sold no stuff to him.

Senator Clark. What significance did it have that Mr. Barron was in the Reserve? You say:

> Since you are in the Reserve, you should be able to get a line on the price if you request same properly.

Lieutenant Cutts. That is correct.

Senator Clark (continuing reading):

> As soon as you get this dope, shoot it along to me and I'll try to get the interested parties lined up.

Who were the interested parties?

Lieutenant Cutts. I do not remember what that was about, sir.

Senator Clark. Then it refers to the same thing as in the second paragraph, the paragraph I just read? Just read those two paragraphs again, Lieutenant. [Reading:]

> I would suggest that you get in touch with the quartermaster at Washington and request a list of those firms from whom the Marine Corps purchases khaki; also the name of the company to whom a contract was last awarded. You will then be in a position to get bids. Since you are in the Reserve, you should be able to get a line on the price if you request same properly.

Lieutenant Cutts. Correct.

Senator Clark (reading):

> As soon as you get this dope, shoot it along to me and I'll try to get the interested parties lined up.

What did that mean?

Lieutenant Cutts. As soon as he got that dope? The point is this——

Senator Clark. Who were the interested parties you were going to get lined up as soon as you got this dope?

Lieutenant Cutts. The point was as follows: This man came in requesting this material and wanted to know where to get it. Our purpose in lining up on this was we were finding out who he was and what his contacts were at the time.

Senator Clark. Who were you going to line up? You say as soon as you got this dope you were going to get the interested parties lined up. There is nothing very complicated about lining anybody up if a man simply wants to buy khaki?

Lieutenant Cutts. It is compensators that he wanted.

Senator Clark. Did you tell him to get a list of the last bidders on khaki?

Lieutenant Cutts. That is a separate paragraph, sir.

Senator Clark. It is a separate paragraph, but you go right along. [Reading:]

> As soon as you get this dope—

Lieutenant Cutts. That is correct.

Senator CLARK. It is the same as in the previous paragraph.

> As soon as you get this dope shoot it along to me and I'll try to get the interested parties lined up.

To what use were you going to put the dope, as to who the last bidders for khaki for the Marine Corps were, and the prices at which the khaki was bought, which you told Mr. Barron to get in his capacity as a Reserve officer? When you got the dope shot along to you, what use were you going to make of it in getting the interested parties lined up?

Lieutenant CUTTS. The "interested parties" was this man, meaning we were to have a line on him. You see, the thing was this, it was a stall to find out who this man was at the time. He later turned out to be not what he represented himself to be. As soon as he got this dope, I told him to shoot it along to me. In the meantime, I could have the parties lined up to find out who he was.

Senator CLARK. You wanted to find out who this man was?

Lieutenant CUTTS. That is all.

Senator CLARK. What did you care about the price at which the last contract was awarded?

Lieutenant CUTTS. I did not care.

Senator CLARK. You told Barron to get it.

Lieutenant CUTTS. That is correct.

Senator CLARK. Told him to find out also the name of the company to whom the contract was last awarded.

Lieutenant CUTTS. That is correct.

Senator CLARK (reading):

> You will be in a position to get bids.

Get bids for what?

Lieutenant CUTTS. Bids on the khaki.

Senator CLARK. Did you want bids on the khaki?

Lieutenant CUTTS. Not ourselves; no, sir.

Senator CLARK. You tell him to use his position in the Marine Corps to get the price.

Lieutenant CUTTS. No, sir; he is not in the Marine Corps.

Senator CLARK. I mean, in the Reserve.

Lieutenant CUTTS. No. I said——

Senator CLARK (reading):

> Since you are in the Reserve you should be able to get a line on the price if you request same properly.

Lieutenant CUTTS. Yes. In other words, he knows the form of letter to write. It is public information.

Senator CLARK (reading):

> As soon as you get this dope shoot it along to me and I'll try to get the interested parties lined up.

Lieutenant CUTTS. That is correct.

Senator CLARK. Do you know who the interested parties were?

Lieutenant CUTTS. Yes, sir.

Senator CLARK. Who?

Lieutenant CUTTS. Thompson, on compensated guns, and so forth, and ourselves, who were interested. This gun was over there, as I explained.

Senator Clark. What did Thompson and the manufacturer of submachine guns care about the price at which the last contract for khaki had been awarded?

Lieutenant Cutts. That does not refer to the contract for khaki, sir. It might appear to do so, but it does not.

Senator Clark. That paragraph certainly refers to the preceding paragraph, because you tell him as soon as he gets that dope to shoot it along to you.

Lieutenant Cutts. That is right.

Senator Clark. I now offer in evidence for appropriate number a statement addressed to this committee by Lieutenant Cutts, from Washington, D. C., 2400 Sixteenth Street NW., dated September 5, 1934, to the Special Committee Investigating the Munitions Industry, United States Senate. Subject, the Governmental Service Co.

> 1. The Governmental Service Co. was originally organized on the possibility of acting as purchasing agents for the Government of Santo Domingo.

What contacts did you have in Santo Domingo?

Lieutenant Cutts. I know the president very well.

Senator Clark. Your father was at one time commandant of the Guardia Republique or something?

Lieutenant Cutts. He was, and I have also served there. I know them myself personally. At that time they were having difficulty in purchasing. They wanted the same materials that we have up here.

Senator Clark. What is the name of that organization down there?

Lieutenant Cutts. Policia Nacional.

Senator Clark. Was your father the commandant of the Policia Nacional at the time the Governmental Service Co. was organized?

Lieutenant Cutts. No, sir; he was not.

Senator Clark. How long afterwards?

Lieutenant Cutts. Approximately 10 years.

Senator Clark. After he had been the commandant of the Policia Nacional?

Lieutenant Cutts. Yes.

Senator Clark (reading):

> 2. I soon realized that it would not be proper for me to be actively associated with a company engaged in this type of business.
>
> 3. It was therefore decided to continue the Governmental Service Co. as a "blind."

Lieutenant Cutts. Correct.

Senator Clark. What did you mean by that?

Lieutenant Cutts. Exactly what was brought out in this last letter, sir. When the people come to us asking information, they come to me. They come to New York shopping. They want to buy this, they want to buy that, they want to buy something else. They hear about the compensator and they want to represent us. They come to the Governmental Service Co. Immediately Barron notifies me who they are, what he has learned about them. Then later they come down here, and they come to see me. In the meantime, we have had time to investigate them. All the Governmental Service Co. does is refer them to other people, just like this khaki thing.

Senator Clark (reading):

> 4. All inquiries on equipment of various kinds that came into the Governmental Service Co. have been referred to the proper manufacturing companies. This was necessary in order that the Governmental Service Co. would appear to be operating as a company.

Lieutenant Cutts. Correct.

Senator Clark (reading):

> However, this company has made no sales, nor has it accepted any commissions.

Lieutenant Cutts. Correct.

Senator Clark. We still have this phrase of "accepting commissions."

> A great many so-called "agents" from other countries make inquiries from the Governmental Service Co. During the necessarily involved correspondence resulting therefrom, the true status of the agent is generally quickly ascertained.
>
> The above method of operation acts as a safeguard to prevent Cutts compensators falling into the hands of irresponsible parties.
>
> There is practically no overhead in conjunction with the operation of the Governmental Service Co., inasmuch as it operates from the office of Mr. Bernard S. Barron, 10 East Fortieth Street, New York City, and its operation has proven of value to Cutts compensator only along the lines indicated.

Attached to this is another page, sworn to by Lieutenant Cutts.

Total royalties received from December 1926 to September 1934:

Auto-Ordnance Corporation, $32,514.24.

From Lyman Gun Sight Corporation, $3,292.51, making a total of $35,806.75.

Another page of the exhibit shows a distribution to Victor F. Bleasdale of $1,577; Mary E. Quayle, $2,444; Richard M. Cutts, Jr.. $4,362.60; and Richard M. Cutts of $5,786.40.

What went with the rest of the $35,000, Major?

Lieutenant Cutts. That goes into development expenses, development experimentation, and so forth, improvements, and engineering.

(The letter referred to was marked "Exhibit No. 1213" and is included in the appendix on p. 3740.)

Senator Clark. That is all.

(Witness excused.)

The Chairman. Mr. Gregg.

TESTIMONY OF MR. IRÉNÉE DU PONT AND W. S. GREGG—Resumed

(The witnesses were previously duly sworn by the chairman.)

The Chairman. Mr. Gregg, it has been indicated that there were some matters in connection with the Old Hickory controversy that you wanted to go a little further with.

Mr. Gregg. Yes; I would, Mr. Chairman.

The Chairman. Very well. Let us take this time to do it.

Mr. Gregg. As I said, it would take about a half an hour.

The Chairman. That is all right.

Mr. Gregg. May it please the committee, I have just read over Mr. Storck's report that was filed in September, I believe, 1923. There are some statements in there about expenditures that I never heard of before. I would like the permission of the committee sometime later on during the investigation to file a statement in connection with the matters that Mr. Storck referred to.[1]

It was testified, Mr. Chairman, on Friday—I believe it was Colonel Harris; I am not sure—that there was no other contract entered into that was as broad in its terms as the Old Hickory contract. I wish to state that a contract was entered into in May of 1918 between the Government and the Hercules Powder Co. for the operation of the Nitro plant, and I would like to put a copy of that contract into evidence, because it will be apparent upon reading its provisions that as to reimbursement to the Hercules Powder Co. it is broader than the provisions in the Old Hickory contract. In other words, the Nitro contract provides that the Government shall reimburse the Hercules Powder Co. for expenditures made by it, upon certification by the treasurer or assistant treasurer of the Hercules Powder Co. The Old Hickory contract provided that the du Pont Engineering Co. should be reimbursed upon producing satisfactory evidence of expenditures, while this other contract merely provided that reimbursements should be made upon the certification of the treasurer or assistant treasurer of the Hercules Powder Co.

Mr. Hiss. Mr. Chairman, I do not recall the exact place in the testimony to which Mr. Gregg refers. I do not remember Colonel Harris' testimony to that effect. But if Colonel Harris did testify to that effect, it would seem to me that this would be relevant; otherwise I do not see how this particular contract would be relevant to the testimony so far. Have you the page citation to Colonel Harris' testimony?

The Chairman. The committee excused Colonel Harris for the morning and asked him to be back again at 2 o'clock.

Mr. Gregg. My recollection is that Colonel Harris, Mr. Chairman, testified that he did not know of any other contract as broad in its provisions with respect to reimbursement as the Old Hickory contract.

Mr. Hiss. I do not recall that particular place, Mr. Gregg.

Mr. Gregg. I would like to introduce——

The Chairman. Wouldn't we do well to wait until Colonel Harris returns at 2 o'clock?

Mr. Gregg. Yes, sir; we can check his testimony on Friday.

The Chairman. Then we can see if he has made such a statement and we can go into it at 2 o'clock.

Mr. Gregg. All right, that is satisfactory.

Mr. Hiss brought up the question the other day as to the responsibility of the Delaware Surety Co., which was the surety on one of the bonds of the du Pont Engineering Co.[2]

That is right, is it not, Mr. Hiss?

Mr. Hiss. That is correct.

NATURE OF OBLIGATIONS ASSUMED AND SECURITY FURNISHED BY DU PONT CO. UNDER OLD HICKORY CONTRACT

Mr. Gregg. Let me have that statement, please.

I should like to introduce in evidence a statement of the assets and liabilities, as of January 31, 1918, of the Delaware Surety Co.

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[1] Under date of Apr. 26, 1935, Mr. Gregg submitted a brief to the committee in relation to Mr. Storck's report. This brief appears in the appendix to Part XIV, p. 3516.

[2] Exhibit No. 1166", Hearings, Part XIV, p. 3217.

Mr. Hiss. May I see that?

Mr. Gregg. Certainly.

(The statement referred to was marked "Exhibit No. 1214," and is included in the appendix on p. 3741.)

Mr. Hiss. May I ask the source of this statement, Mr. Gregg?

Mr. Nielsen. That statement was prepared by the accounting department.

Mr. Hiss. What company?

Mr. Nielsen. Of the Delaware Surety Co. It was their monthly balance statement.

The Chairman. Speak a little louder, please.

Mr. Hiss. This was published in this form, was it, Mr. Neilsen?

Mr. Nielsen. The Delaware Surety, as I recall it, did not publish reports.

Mr. Hiss. How did you secure this particular statement from them?

Mr. Nielsen. The Delaware Surety was a hundred percent owned subsidiary at that time.

Mr. Hiss. Of the du Pont Co.?

Mr. Nielsen. Of the du Pont Co. We had the balance sheet in our files.

Mr. Gregg. Mr. Chairman, Mr. Hiss informs me that he has already introduced in evidence the settlement contract of October 31, 1925,[1] but that he has not put in evidence the memorandum of the Ordnance Department which was prepared at that time. I should like to introduce it in evidence. It is in connection with the settlement contract. I would like to introduce in evidence the memorandum. It is headed, "Memorandum with respect to the settlement of contracts entered into by the United States with the du Pont Engineering Co."

The Chairman. That will be ordered.

(The memorandum referred to was marked "Exhibit No. 1215" and is included in the appendix on p. 3742.)

Mr. Gregg. With respect to the Old Hickory contract, the contract provided that in connection with the construction the United States was to advance $18,750,000 to the contractor. It also provided for an advance in connection with operations of $18,970,000. I have before me a copy of a bond. In other words, the $18,750,000 on construction was advanced to the du Pont Engineering Co.

I have before me a bond to the United States of America by the du Pont Engineering Co., principal, and E. I. du Pont de Nemours & Co., surety, in the penal sum of $20,000,000, covering that advance.

I should like to read the first paragraph of that bond:

> Know all men by these presents, that we, du Pont Engineering Co., a corporation organized under the laws of the State of Delaware, as principal, and E. I. du Pont de Nemours & Co., a corporation, organized under the laws of the State of Delaware, as surety, are held and firmly bound unto the United States of America in the penal sum of $20,000,000, for the payment of which sum, well and truly to be made, we bind ourselves and our successors, jointly and severally, firmly by these presents.

Then it goes on and provides the conditions of the obligation. I should like to introduce a copy of that bond in evidence.

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[1] Entered as "Exhibit No. 1195", see Hearings, Part XIV, p. 3252.

The CHAIRMAN. Let it be given an appropriate number as an exhibit.

(The bond referred to was marked "Exhibit No. 1216" and is included in the record on p. 3755.)

Mr. GREGG. The same character of bond, Mr. Chairman, was given by the E. I. du Pont de Nemours & Co. in connection with the first advance of $6,318,000 in connection with the operation. Later on there was another advance of $12,636,000. Up to the present time I have been unable to find the executed bond for the $12,636,000, but I am having a search made for it, and I am satisfied that it was entered into.[1]

I should like to introduce a copy of the bond covering the $6,318,000 advance as an exhibit.

The CHAIRMAN. It will be received as an exhibit.

(The bond referred to was marked "Exhibit No. 1217" and is included in the appendix on p. 3756.)

Mr. HISS. Mr. Gregg, in addition to the two bonds which you have just introduced in evidence, was any collateral security of any kind furnished to back up the bonds?

The CHAIRMAN. Any what kind of security?

Mr. HISS. Collateral security.

Mr. GREGG. No collateral security. It was a bond of the E. I. du Pont de Nemours Co., which apparently the Government considered as good or a better bond than the bond of any surety company.

Now, in addition to the bond, there were passed two resolutions by the board of directors of the E. I. du Pont deNemours Co., under which Mr. P. S. du Pont was authorized to execute this first bond of $20,000,000, and in addition to that, to execute a guaranty of performance by E. I. du Pont deNemours Co. that the Du Pont Engineering Co. would carry out all of the terms and provisions of the contract.

I found in the files a form of the guaranty, but it is an unexecuted copy, and I know there is an executed copy somewhere, and I am making an effort to find it.[2] But this form was in the files with the executed contract, and I will show you in a moment that in connection with the Penniman shell-loading contract, the Tullytown bag-loading plant, and the Seven Pines bag-loading plant, that the guaranties were actually executed. Therefore, it necessarily follows that if the Government required a guaranty in connection with the Penniman shell-loading plant, which was a smaller plant than the Old Hickory powder plant, a similar guarantee was executed in connection with the Old Hickory powder plant.

That guaranty provides:

> Whereas, simultaneously with the execution hereof, and at the request of E. I. du Pont de Nemours & Co., the United States has entered into a certain contract with Du Pont Engineering Co., bearing even date herewith, for the erection and operation of a smokeless powder plant at Nashville, Tenn., under which contract the United States will, in reliance upon these presents, amongst other things, advance to said Du Pont Engineering Co. large sums of money for use thereunder (as by reference thereto will more fully appear); and

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[1] Further data regarding bonds given Government as surety covering advances under Old Hickory Contract was submitted by du Pont Co. to the committee on Apr. 24, 1935, and appears in the appendix on p. 3919.

[2] Under date of Apr. 19, 1935, Mr. Gregg informed the committee that although an exhaustive search of du Pont Co.'s files failed to disclose a copy of the signed guaranty, he is still entirely confident that it was duly executed.

Whereas, E. I. du Pont de Nemours & Co. is the owner of all, or substantially all, of the capital stock of said Du Pont Engineering Co. and has agreed to place its officers, organization, experience, and processes of manufacture at the disposal of said Du Pont Engineering Co. in the performance of said contract and expects to derive certain pecuniary and other benefits from the operation of said plant:

Now, therefore, in consideration of the foregoing, and of $1 to it in hand paid by the United States, receipt whereof is hereby acknowledged, E. I. du Pont de Nemours Co. hereby guarantees to the United States the full and faithful performance of said contract between the United States and said Du Pont Engineering Co. and of each and every part, term, and condition thereof.

Executed in triplicate at Washington, D. C., March 23, 1918.

I should like to introduce a copy of the form of this guaranty. It was executed in triplicate and therefore there must be a copy on file with the Government.

The Chairman. That may be marked with the appropriate number.

(The guaranty referred to was marked "Exhibit No. 1218", and appears in full in the text.)

Mr. Hiss. Will you also reserve that to be asked of Colonel Harris when he returns?

Mr. Gregg. Yes; I will be glad to do that.

Mr. Hiss. Mr. Gregg, you are testifying of your own knowledge that this was executed, or you are testifying from the logical statement already made by you that it is your inference that it must have been executed?[1]

Mr. Gregg. That is correct.

Mr. Hiss. Which was correct—the former or the latter?

Mr. Gregg. In other words, Mr. Hiss, I have not seen the executed copy; therefore, I cannot testify positively that it was executed; but from resolutions of the board of directors and from the fact that it was executed in subsequent contracts, I have every reason to believe it was executed in connection with Old Hickory.

Mr. Hiss. May I call your attention in regard to the bond, to the language of the contract of March 23, 1918, being "Exhibit No. 1168"?[2] I am reading from article 5, paragraph (a), the last sentence:

> Said advances shall be secured as and when made by bonds or other security satisfactory to the contracting officer.

The contracting officer accepted the bond of the du Pont Co. as satisfactory, under that paragraph?

Mr. Gregg. That is correct.

In this connection I would like to introduce a copy of the resolution of the board of directors, authorizing Mr. P. S. du Pont or Mr. E. G. Buckner to execute the bond of $20,000,000, and another resolution of the same date authorizing Mr. P. S. du Pont to execute the guaranty that I just read.

The Chairman. What were the dates?

Mr. Gregg. The date of the resolution is March 27, 1918.

(The resolution referred to was marked "Exhibit No. 1219" and is included in the appendix on p. 3758.)

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[1] See footnote 2 on p. 3579.

[2] Hearings, Part XIV, p. 3220.

Mr. HISS. Mr. Gregg, I call your attention to what in my copy appears to be article 14 of the contract of March 23, 1918, being exhibit no. 1168, the second sentence:

> The United States shall hold and save harmless the contractor from all loss by accident, fire, flood, explosion, or otherwise, arising or growing out of the construction or operation of the plant.

What is your legal opinion, Mr. Gregg, as to the effect of that in the event of any form of loss that the du Pont Engineering Co. might have suffered in the construction or operation of the Old Hickory powder plant?

Mr. GREGG. I should say that the way that is worded the Government would hold the contractor harmless, as it says, from all loss by accident, fire, flood, explosion, or otherwise; and " otherwise " might mean any other loss than those losses specifically mentioned.

Mr. HISS. Then what possible liability on its bond would the du Pont Co. have, unless the du Pont Co. simply decided not to carry out the contract and so might be sued for breach of contract?

Mr. GREGG. Not to carry out the contract, or the du Pont Co. would be liable on its bond if the Engineering Co. failed in any way to carry out its contract.

Mr. HISS. Would you give me a specific example of the kind of loss that might be covered by the bond and not be reimbursable under this article?

Mr. GREGG. Let us assume that some official of the du Pont Engineering Co. embezzled funds that had been advanced by the Government; then in that case E. I. du Pont de Nemours Co. would be liable. I might think of others.

Mr. HISS. I call your attention——

Senator CLARK. Mr. Gregg, you were in the habit of having your officers and employees who handled money bonded, weren't you?

Mr. GREGG. Yes, sir.

Mr. HISS. Mr. Gregg, particularly referring to that question of Senator Clark's, I call your attention to article 13 of the contract, which authorized the contractor to procure liability insurance to protect it against any and all loss due to claims on the part of employees or the public, and to charge off premiums as part of the cost of construction and operation. You could protect yourself against all loss by appropriate insurance and charge the cost of the premium to the cost of construction, isn't that correct?

Mr. GREGG. That not only covered any embezzlement by any employee or official of the du Pont Engineering Co., but any claims of employees of the du Pont Engineering Co. growing out of accidents at the plants, or any claims by the public against the du Pont Engineering Co. growing out of any claim by any one of the public that was perhaps injured in any way in connection with that contract.

Mr. HISS. Under the example you gave, wouldn't you have been able, under article 13 to have provided against that by insurance, the cost of which would have to be borne by the Government?

Mr. GREGG. It states that we are authorized to procure liability insurance.

Mr. HISS. Furthermore, under article 14 wouldn't you consider that a loss due to embezzlement would be a loss arising out of or growing out of the construction of the plant and would of itself be reimbursable under article 14?

Mr. GREGG. Well, it would be a loss reimbursable under article 13, assuming that liability insurance had been taken out and was sufficient to cover the amount of the embezzlement.

Mr. HISS. Wouldn't it be a loss under article 14 arising out of or growing out of the construction or operation of the plant, as well as a loss which you could have been prompt to guard against by insurance, had you so chosen, under article 13?

Mr. GREGG. In the first part of article 13 you will note that it says to procure liability insurance.

Mr. HISS. Yes, sir.

Mr. GREGG. That is liability, as I construe it, of the du Pont Engineering Co. to any of its employees or to the public, just the same as you would take out liability insurance, automobile-liability insurance, to protect against any claim your employee may make or the public may make in connection with your work under the contract.

Mr. HISS. Then you are inclined to change your first opinion that under article 13 you could have provided against embezzlement by insurance; is that correct?

Mr. PIERRE DU PONT. Mr. Secretary, might I remark there that this bond was given, I believe, at the instance of the Government and not of the company. If they required a $20,000,000 bond, there was some reason to expect a liability on the part of the du Pont Co.

Mr. HISS. That is just the point we are trying to determine, Mr. du Pont, and I was asking Mr. Gregg to give us an example.

Mr. GREGG. On that bond of $20,000,000 that was given to secure an advance of $18,750,000, that was a bond in connection with that advance. In other words, so that the Government would be protected so far as that advance was concerned.

Mr. HISS. To whom was the advance made?

Mr. GREGG. The advance was made to the du Pont Engineering Co.

Mr. HISS. And the du Pont Engineering Co., under article 14, can charge any loss to the Government; in other words, I do not see that the bond given by the du Pont parent company backing up the du Pont Engineering Co. is anything other than a "ring around the rosy."

Mr. GREGG. No.

Mr. HISS. Because for any liability of the du Pont Engineering Co. arising out of the construction or operation it may get reimbursed by the United States. Therefore, any liability on that bond would wash out.

Mr. GREGG. I don't think that necessarily follows. Let us assume that one of the officials of the du Pont Engineering Co. embezzled some money. Article 14 provides that the contractor shall be held harmless from loss by accident, fire, flood, explosion, or otherwise. That, in my opinion, would not be construed by any court to cover a case where an employee of the contractor embezzled a lot of money and the contractor had not protected himself with the proper insurance.

Mr. HISS. Mr. Gregg, isn't that a somewhat more narrow construction of the contract than you were accustomed to make in presenting claims against the United States under this contract?

Mr. GREGG. In presenting claims against the United States under this contract the du Pont Engineering Co. did, I have no doubt, suffer some losses—I do not mean by embezzlement through its officials, or anything of that character—and any losses that it may have suffered, the Government was obligated to reimburse the du Pont Engineering Co.

Now, I think it is pertinent at this point to call attention to the termination clause under the contract.[1] It appears under article 6, paragraph 5. That paragraph provides:

> Should this contract cease or be terminated after the manufacture of powder has begun, the contractor shall be paid by the United States in addition to all costs and expenses incurred to the date of such cessation or termination, the sums provided in paragraphs (*c*), (*d*), and (*e*) of article IV hereof, for all finished powder produced to the date of such termination, and also for all other powder, whether air or water dried—that is, in process of drying or further state of completion. If there shall remain due the United States from the contractor any sum theretofore advanced by the United States, after all reimbursements and payments outlined in this article have been made, such sums shall be promptly returned by the contractor to the United States.

Now, the paragraph just preceding that provides:

> When the operation of the plant shall cease, or upon termination or cancelation of this contract under article XV, the United States shall reimburse the contractor for all costs and expenses of every character and description incurred or made in, or connected with, the construction, equipment, or operation of the plant, or any part thereof, including the cost of all labor, freight, and all apparatus and materials purchased, whether delivered or undelivered, in connection with the construction and equipment of the plant or the operation or contemplated operation thereof; all obligations of the contractor incurred hereunder, outstanding at the date of such cessation or termination or which may thereafter arise, shall be assumed by the United States and the United States shall save harmless the contractor in respect of any liability whatsoever in connection therewith. At the option of the United States, the contractor shall assign or transfer to the United States, or its nominee, all contracts then outstanding entered into by the contractor hereunder.

Mr. HISS. What do you deduce from those two paragraphs you just read, Mr. Gregg?

Mr. GREGG. That the Government agreed to reimburse the contractor for all costs and expenses of every character and description incurred or made under or connected with the construction, equipment, or operation of the plant.

Mr. HISS. Is that an example of a possible loss or liability under the bond? It seems to me that merely goes further to show the duty of the United States to reimburse the Engineering Co. for any losses.

Mr. GREGG. No; I cannot construe the contract in that way. In other words, that paragraph was intended to cover this. We had made certain expenditures under the contract, the purchase of materials, labor, and various other things, and the Government says in this contract:

> For all your cost and expenses in connection with those matters, when this contract is terminated, we will reimburse you.

Mr. HISS. What has that to do with any possible liability of the du Pont Co. on its bond?

Mr. GREGG. If the du Pont Engineering Co. has not properly accounted for the advance payment of $18,750,000 advanced to it by the Government, then the E. I. du Pont de Nemours Co. would be liable, and it was never the intention——

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[1] "Exhibit No. 1168", Hearings, Part, XIV, p. 3220.

Mr. Hiss. You mean if they had misapplied funds advanced to them by the United States then the du Pont parent company would have been responsible under its bond to the United States?

Mr. Gregg. That is correct.

Mr. Hiss. That is the only liability you can figure under that bond?

Mr. Gregg. Well, under that bond, I say that bond was given to protect that advance of $18,750,000 made by the Government to the du Pont Engineering Co.

The Chairman. Protect it to the extent that you have outlined?

Mr. Gregg. I beg your pardon?

The Chairman. You mean to protect it to the extent you have outlined?

Mr. Gregg. Yes.

Mr. Hiss. It was a guaranty on the moneys advanced by the United States to a 100-percent-owned subsidiary, formed at the request of the du Pont Co. as an agency to carry out the contract that had been made, and the only form of bond that was given was a personal bond of the du Pont parent company without collateral security; in other words, an open I O U note on sums advanced by the United States.

Mr. Gregg. Don't you think that a company with the assets of the E. I. du Pont de Nemours & Co., that its bond to the Government in connection with that $18,750,000 was as good a bond as the Government could get anywhere?

Mr. Hiss. Did it give any more right to the Government in the sense of security than if it had simply turned it over to the du Pont Co. on an open account and reserved the right to sue if it was not properly accounted for?

Mr. Gregg. You mean if the contract had been made direct?

Mr. Hiss. If the contract had been made direct with du Pont, the parent company, and the United States had advanced the money on an open account, would the United States have had any less security than it had under this bond that you have just put in evidence?

Mr. Gregg. Any less security?

Mr. Hiss. Right. Would an open account be less security than this bond?

Mr. Gregg. It would have had this security: That the Government could have then proceeded against E. I. du Pont de Nemours & Co.

Mr. Hiss. And that is what it could do under this bond?

Mr. Gregg. That is what it could do under this bond.

Mr. Hiss. Right.

Mr. Gregg. That it gave for this advance of $18,750,000.

Mr. Hiss. Right; to a wholly owned subsidiary, formed at the suggestion of the du Pont Co. to limit its liability.

Mr. Gregg. I am not sure that the du Pont Engineering Co. was formed at the suggestion of the du Pont Co.

Mr. Hiss. Mr. Gregg, it has already been put in evidence that Judge Laffey, general counsel for the company, requested the War Department to permit them, the du Pont Co., to set up this subsidiary company to limit the du Pont liability. It has already been shown by an exhibit which I think has been entered in this record.

Mr. GREGG. Did he so state, that it was to limit the du Pont liability?

Mr. HISS. That is correct.

Mr. GREGG. My understanding has always been that the reason the du Pont Engineering Co. was set up to keep the accounts separate and apart from the E. I. du Pont de Nemours & Co., so there would be no confusion in the accounting under these contracts between the du Pont Engineering Co. and the Government. I may be in error as to that.

Mr. HISS. I call your attention to a memorandum dated October 21, 1917.[1] It has been entered as an exhibit, but I haven't the number of it.

Mr. GREGG. Did you say 1917?

Mr. HISS. Yes. It is signed by E. A. Hamilton, captain, Ordnance Department. This is all relating to the proposed contract, under the paragraph numbered 4:

> The argument advanced in paragraph 1 of the memorandum—

This refers to Judge Laffey's memorandum, which in the first paragraph of this is described as follows:

> Judge Laffey, counsel for the company, has submitted a memorandum to which this is an endorsement wherein he reviews the reasons advanced by his company in support of their request that they be permitted to form a new company for the performance of this work.

Mr. HISS. The fourth paragraph reads [reading]:

> The argument advanced in paragraph 1 of the memorandum is based upon a desire to limit liability which "lies in the possibility of its being hereafter held that the Ordnance Department exceeded its lawful powers in making this contract, in which event the agent might be held liable on its implied warranty of authority on all contracts signed by it as agent of the Government. The du Pont Co. desires to assume no risk of financial loss to itself."

That is a quotation from Judge Laffey.

Mr. IRÉNÉE DU PONT. You mentioned reasons there. That is one reason. Would you read the others, too?

Mr. HISS. I do not have a copy of Judge Laffey's memorandum. I would be happy if you would introduce it in evidence.[2]

Mr. GREGG. We would be glad to get it for you.

I was stating to you what my understanding was. I might say that that was on October 25, was it?

Mr. HISS. October 21.

Mr. GREGG. That was before I came with the company.

I would like to state for the information of the committee that when this contract of March 23, 1918, was drawn up I drew up that contract with the representatives of the legal section of the Ordnance Department, and when the contract was in complete form, or had been agreed to by both sides, I insisted that it go to the Secretary of War and be approved by the Secretary of War.

Col. Samuel McRoberts was then Chief of the Procurement Division of the Ordnance Department, and I suggested to Colonel Mc-

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[1] "Exhibit No. 1129", Hearings, Part XIII, p. 2953.

[2] Under date of Jan. 10, 1935, the du Pont Co. supplied the committee with additional data re Judge Laffey's memorandum, which appears in the appendix on p. 3920.

Roberts that we submit this contract to the Comptroller of the Treasury before it was finally signed. I, having had a number of years' experience with the Government, in Government employ, felt that it was advisable to have the views of the Comptroller of the Treasury with respect to this contract before it was executed. I fully appreciated that the Comptroller could not give a formal approval of the contract. That would only come up when matters came before him in connection with reimbursement under the contract, but I did feel that we should have his views with respect to any suggestions that he might make concerning accounting.

Colonel McRoberts asked me to make an appointment with Judge Warwick—by the way, the Comptroller of the Treasury preceded the Comptroller General. In other words, the act was passed about in 1921 creating the office of Comptroller General, which took the place of the former office of the Comptroller of the Treasury.

I made such an appointment. The morning we were to go up there Colonel McRoberts called me up and said, "It is impossible for me to go this morning. A matter has come up that I must attend to today here in the Ordnance Department, and you go over and submit it to the Comptroller."

I told him I did not like to do that, that I would much prefer that he was present. He said, "That is all right. You go over and take it up with the Comptroller."

I did, and I sat down with Judge Warwick and went over the contract, and he did make certain suggestions in the contract with respect to reimbursements, and which were incorporated in the contract. It was then executed and approved by Benedict Crowell, as acting Secretary of War.

Now, I stated that in some of these other contracts of the du Pont Engineering Co., this form of guarantee that I spoke of—not the bond of the E. I. du Pont de Nemours & Co., but the guarantee given by E. I. du Pont de Nemours & Co. for the du Pont Engineering Co. would fortify, I take it, the contracts. I have some of those contracts here showing those forms of guarantee, attached and signed, and I am making every effort now to find the executed guarantee that I feel satisfied was given in connection with the Old Hickory contract.

Mr. Hiss. Mr. Gregg, was the liability of the parent company, E. I. du Pont de Nemours & Co., enlarged over the liability on the bonds by its giving a guarantee, in your opinion?

Mr. Gregg. I do not quite understand what you are driving at.

Mr. Hiss. Was the liability under the bond coextensive with the liability under the guarantee, or was one broader than the other?

Mr. Gregg. They were different things.

Mr. Hiss. Did you cover different eventualities, and, if so, what is the difference?

Mr. Gregg. They covered different eventualities in this way:

The bond which was given by E. I. du Pont de Nemours & Co. for $20,000,000, covering the advance of $18,750,000, covered that advance.

Mr. Hiss. Right.

Mr. Gregg. And the proper accounting by the du Pont Engineering Co. to the Government of that amount of money, $18,750,000.

Mr. Hiss. We have already discussed that. What did the guarantee cover?

Mr. Gregg. As to the guarantee, it was on a different basis, and the guarantee provided that E. I. du Pont de Nemours & Co. guaranteed to the Government the full and satisfactory performance of the contract between the United States and the du Pont Engineering Co. and each and every part and condition and term thereof.

Mr. Hiss. As a matter of law, did that make the du Pont Co. any more liable to the Government of the United States than if it itself had entered into the original contract instead of entering into it through a subsidiary?

Mr. Gregg. If the contract had been made directly between the Government and the E. I. du Pont de Nemours & Co., in my opinion E. I. du Pont de Nemours & Co.'s obligation under this form of guarantee here was no greater than if the contract had been entered into directly with E. I. du Pont de Nemours & Co.

Mr. Hiss. I agree with you fully.

Mr. Gregg. I might say, Mr. Hiss, that in the performance of contracts between E. I. du Pont de Nemours & Co. and the Government, E. I. du Pont de Nemours & Co. got several advances, and in some of those cases, in a few of those cases, they were bonds of the Delaware Surety Co., and in other cases E. I. du Pont de Nemours & Co.

Mr. Hiss. But never an outside surety, as far as you remember?

Mr. Gregg. I think there was one case, but there was only one, something like $600,000, that I found in the files.

Mr. Hiss. In all cases except this one of $600,000——

Mr. Gregg. That is all I recall now, Mr. Hiss.

Mr. Hiss.—the United States accepted the personal responsibility of the du Pont Co., unsecured, for its advances, and for its carrying out of the contract?

Mr. Gregg. I would not say "unsecured." It was secured by all the assets of E. I. du Pont de Nemours & Co.

Mr. Hiss. Would not that be true of any ordinary promissory note or any contract into which it entered?

Mr. Gregg. I think it has a great deal to do——

Mr. Hiss. Was there any mortgage of its assets specifically executed to the Government?

Mr. Gregg. Mortgage of assets?

Mr. Hiss. Yes, sir.

Mr. Gregg. Not to my knowledge.

Mr. Hiss. Therefore, they were not pledged in any sense that they are not pledged under ordinary notes or contracts?

Mr. Gregg. It gave the Government the right to proceed against E. I. du Pont de Nemours & Co. to recover under the bond. I do not mean to say—and I see what you are driving at: Supposing that a small company, with small assets, were to make a contract with the Government—I do not concede for one moment the Government would have accepted the bond of the contractor in that case.

Mr. Hiss. It is very unusual, is it not?

Mr. Gregg. They would have to take into consideration the financial responsibility of the contractor. And I have every reason to assume that that is what the Government did in this case, with all assets of the E. I. du Pont de Nemours & Co.

The CHAIRMAN. Gentlemen, how far are we from finishing?

Mr. GREGG. It won't take but 3 or 4 minutes longer, Mr. Chairman.

The CHAIRMAN. All right.

Mr. NIELSEN. Mr. Hiss, the Delaware surety bonds were the same as the surety bonds of any other company. That was organized as a surety company, and has separate reserves. You cannot classify that as the du Pont Co.

Mr. HISS. Remember, Mr. Nielson, you have already testified that the Delaware Surety Co. was a 100-percent owned subsidiary of the du Pont Co., and the amount of its bond was $250,000 as to the Old Hickory contract, involving advances of $37,000,000, and total expenditures, as it turned out, of $129,000,000.

Mr. GREGG. I might say, Mr. Hiss, that I think it is well understood that in a case of that character, the Government always stands in the position of a preferred creditor. In other words, that the Government's claim would have preference over any other claims against the du Pont Co.

Mr. HISS. That is true of any relationship that the Government might enter into, of any similar contractual relationship that the Government might enter into with any other company.

Mr. GREGG. That is correct.

Mr. HISS. The du Pont Co. is not unusual in that respect.

Mr. GREGG. That is correct. As I pointed out a while ago, it was the assets back of E. I. du Pont de Nemours & Co. that I assume caused the Government to take the bond of E. I. du Pont de Nemours & Co.

I believe on Friday you put in something from Mr. Towler, in connection with Old Hickory.

Mr. HISS. Who was Mr. Towler?

Mr. GREGG. He was chief of the Bureau of Investigation in Nashville.

Mr. HISS. How do you spell the name?

Mr. GREGG. T-o-w-l-e-r.

Mr. HISS. I do not recall it offhand.

Mr. GREGG. I will have to check that testimony and, if it was brought in, then I have a letter which I would like to put in evidence.[1]

There has been some claim that there was no competition in the purchase of materials for the construction and operation of the Old Hickory powder plant. It was brought out on Friday that Mr. R. H. Williams and Mr. Frierson were appointed special counsel to go into the matter in connection with the du Pont Engineering contracts by the Department of Justice.

Mr. Williams and Mr. Frierson called on us for certain information in that connection. I made one trip to Chattanooga in connection with that matter. They then wanted additional information, and I sent Mr. Shafer, who was then chief accountant for du Pont Engineering Co., and who is now dead, to Chattanooga to take up some matters and furnish certain information that Mr. Williams and Mr. Frierson desired.

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[1] Under date of Apr. 19, 1935, Mr. Gregg advised the committee that he had reviewed the record and found that no testimony concerning Mr. Towler was introduced, and there is therefore no necessity to put in the Towler letter.

I have before me a copy of a letter dated May 10, 1924, written by Mr. Shafer to Mr. Williams, in which he says [reading]:

> Among the subjects which we discussed in reference to the Old Hickory contract, while I was in Chattanooga, was the methods used by the purchasing department in connection with the procurement of material for the Old Hickory projects. You requested me, at the time, to furnish you with evidence which would illustrate that prior to placing orders for materials the purchasing department obtained competitive price quotations. In this connection I am enclosing herewith a special report citing transactions wherein competitive prices were obtained by purchasing department prior to placing orders for materials procured in connection with the Old Hickory powder plant, and a copy of a report dated January 18, 1919, addressed to Mr. David D. Rankin, assistant purchasing agent, which was prepared by Mr. T. W. Harris, one of the purchasing department employees.

He then goes on to point out in this letter a number of materials on which the Government had fixed the price. In other words, he lists them:

> Cement, lumber, pig iron, steel plate, rails, sheet steel, high silicon iron castings, carbon tetrachloride, benzol, methyl alcohol, acetone, toluol, acetate of lime, coal, fuel oil, cotton linters.

I should like to introduce in evidence, because it has been contended that we did not get any competitive bids in connection with that work, a copy of this letter of Mr. Shafer to Mr. Williams, with exhibits attached thereto.

Mr. Hiss. I have no objection.

The Chairman. It will be received and identified properly.

(The letter and attachments were marked, collectively, " Exhibit No. 1220 ", and are included in the appendix on p. 3758.)

Mr. Hiss. May I interrupt you long enough, Mr. Gregg, to offer a letter of October 19, 1918, " subject: Prices of Raw Materials for Old Hickory Plant—Benzol and Alcohol ", written by Major MacCleary, of the Ordnance Department, to the du Pont Engineering Co. I will ask that that be appropriately numbered.

(The letter referred to was marked " Exhibit No. 1221 " and is included in the appendix on p. 3782.)

Mr. Hiss. The third paragraph says [reading]:

> The letter from Mr. Richards does not satisfactorily explain the prices paid for alcohol and benzol, and or why any contract engagements for this material did not include protection against extra declines.
>
> 4. Perhaps you will also agree that it was a little extraordinary to feel that long-term contracts were necessary when material is required by the Government, and when the United States could always commandeer that material whenever necessary or desirable to do so.
>
> 5. This division has not paid over 3.18 on any bookings for benzol which have been made since May.
>
> 6. As regards alcohol, the highest price which the Government has paid is 9.6 cents per pound, and the average is probably about 9.2 cents per pound. Furthermore, it has been generally understood between a sufficient number of alcohol distillers and the United States that the price could not at any time exceed 65 cents per gallon, unless by special agreement, and there is really no excuse for any Government agency to pay more than that price.
>
> 7. In view as above, it is suggested that at least on the raw materials which could be supplied by this division, that your purchasing department be so kind as to submit prices which you can obtain, or permit this division to advise prices at which it can furnish any of the raw materials which it attends.

Mr. Gregg. Do you have a copy of the reply to that?

Mr. Hiss. I have not seen any reply.

Mr. Gregg. I would like to have the opportunity of checking up on that and seeing what reply was made.[1]

Mr. Hiss. Mr. Gregg, was there any competition in the purchase of the material bought from Harrison Bros.?[2] Do you know.

Mr. Gregg. Any compensation?

Mr. Hiss. Any competition?

Mr. Gregg. Oh, competition?

The Chairman. Gentlemen, our 3 minutes have now become 12. I would like to close up this particular matter before we recess, but there must be a recess at this time.

Mr. Hiss. I do not know how much more Mr. Gregg has.

The Chairman. Then let the committee be in recess until 2 o'clock, and we will clear it up then.

(Thereupon, at 12:48 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed pursuant to the recess, at 2 o'clock p. m., Hon. Gerald P. Nye (chairman) presiding.

TESTIMONY OF WILLIAM S. GREGG, IRÉNÉE DU PONT, LT. COL. C. T. HARRIS, AND LT. E. M. BRANNON—Resumed

The Chairman. Colonel Harris, in your absence this morning we reverted to the Old Hickory controversy again, and certain points were raised that we had postponed until this afternoon when you could be back.

If you will go on with your statement, Mr. Gregg, where you left off this noon, we will proceed.

Mr. Gregg. Referring to the bonds, I would like to add this as to the bonds that were given by E. I. du Pont de Nemours & Co. to secure the advances to du Pont Engineering Co. by the Government.

Article 2 of the Old Hickory contract provides:

> The United States shall reimburse the contractor for all costs and expenses of every character and description incurred or made in connection with the construction and equipment of the plant or any part thereof, including the pro rata share properly attributable to the construction work under this contract (*a*), and the expenses of maintaining the contractor's offices at Wilmington, Del., or elsewhere, and (*b*) of the salaries and traveling expenses of all officials and employees of the contractor and of E. I. du Pont de Nemours & Co.

That means, of course, the employees of the E. I. du Pont de Nemours & Co. who were devoting their time to, and working on, the Old Hickory contract. As I stated this morning, I am assuming that the reason the Government took the bond of E. I. du Pont de Nemours & Co. for those advances was because the Government felt that it was getting just as good or better security than if a surety company bond had been put up. Surety companies, as we all know, fail. And I am assuming that in taking the bond of E. I. du Pont de Nemours & Co. the Government felt that it was getting good security.

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[1] Under date of Apr. 19, 1935, Mr. Gregg notified the committee that Major McCleary's letter had never been replied to. See appendix, p. 3921.

[2] Under date of Apr. 19, 1935, Mr. Gregg informed the committee that above subject is dealt with under head of "Subsidiaries" in the du Pont Engineering Co.'s reply of Dec. 4, 1923, to certain inquiries of the War Transactions Section, Department of Justice. See "Exhibit No. 1173", Hearings, Part XIV, p. 3236.

The CHAIRMAN. While security companies have been known to fail, the du Ponts never have been known to fail; is not that the secret of the whole thing?

Mr. GREGG. That is true.

The CHAIRMAN. Of course.

Mr. GREGG. The du Pont Co. has never failed up to the present time.

Furthermore, if a surety bond had been given, there would have been a premium on that bond. Take this bond of $20,000,000. At the premiums charged for surety bonds, the chances are that the premium on that bond might have amounted to $250,000 or $300,000. Under the language of this contract that premium would have been a charge against the Government, because the Government agreed to reimburse the contractor for all costs and expenses of every character and description incurred or made in connection with the construction or equipment of the plant. That same language is also used later in the contract with respect to operation.

As to the form of guaranty, which was discussed this morning, given by E. I. du Pont de Nemours & Co. in connection with a full and faithful performance of the contract between the du Pont Engineering Co. and the United States, I merely used as an illustration embezzlement by employees, but that would apply to any failure on the part of du Pont Engineering Co. If du Pont Engineering Co. deliberately delayed the work and did not use its best efforts to get the plant constructed and into operation as soon as possible, in other words, did not act in good faith, E. I. du Pont de Nemours & Co. would have been responsible under this guaranty, because the language is that—

> E. I. du Pont de Nemours & Co. hereby guarantees to the United States the full and faithful performance of said contract between the United States and said du Pont Engineering Co. and of each and every part, term, and condition thereof.

Mr. HISS. You have not changed your opinion since this morning that the guaranty put no further obligations on the du Pont Co., the parent company, than would have been placed upon it had it itself entered into the construction and operation contract with the United States, have you?

Mr. GREGG. That is my opinion.

Mr. HISS. Any loss arising out of the construction or the operation not attributable to the failure of the engineering company to cairry on the contract would be reimbursed under article XIV, notwithstanding the guaranty, is that correct?

Mr. GREGG. The full and faithful performance by the du Pont Engineering Co. of its contract with the United States.

Pardon me, Mr. Hiss, did you not start to ask me just before adjournment something about the purchase of paints?

Mr. HISS. I thought I had asked it and that you had answered it.

Mr. GREGG. I think you adjourned before I answered.

Mr. HISS. May I restate the question?

Mr. GREGG. Yes.

Mr. Hiss. The question was in relation to an exhibit[1] which you introduced which purported, as I understood your description of it, to show that there had been competition or competitive prices obtained in the case of the purchase of certain of the materials acquired by the engineering company for the construction and operation of Old Hickory.

Mr. Gregg. I did not mean to infer by that that we got competitive bids in every instance, because sometimes that was not feasible. We had to get the material promptly.

Mr. Hiss. But only in the instances referred to in the exhibits you offered, is that correct?

Mr. Gregg. No, I would not say that. Those were only given as illustrations.

Mr. Hiss. But my specific question was, had there been any competitive prices obtained in the case of the paints which were purchased either by Mason & Hanger or by the engineering company, from Harrison Brothers, a subsidiary of E. I. du Pont de Nemours & Co.?

Mr. Gregg. In that connection, Mr. Hiss, may I read a paragraph that was in my brief that I filed before the Joint Board, and which is in evidence?

Mr. Hiss. All right.

Mr. Gregg. This is in connection with the purchase of materials. One of the questions asked by the Department of Justice was this:

> Was it not the rule to purchase materials from Du Pont subsidiaries? Was this not profitable to E. I. du Pont de Nemours & Co.?

This was filed on December 5, 1923.

> Answer: There was no rule relating to the purchase of materials from du Pont subsidiaries. Cotton linters and hull shavings were purchased directly from or through E. I. du Pont de Nemours & Co. or its subsidiary, du Pont American Industries, Inc. The cost of shavings and linters purchased for use at Old Hickory was approximately $4,580,000. No profit resulted to E. I. du Pont de Nemours & Co. or du Pont American Industries, Inc., through the purchase of linters and shavings.
>
> Certain special machinery and equipment were purchased by du Pont Engineering Co. from E. I. du Pont de Nemours & Co., aggregating in value approximately $7,342,926.03, under an arrangement approved by the contracting officer for the United States which provided that E. I. du Pont de Nemours & Co. was to receive a profit of 10 percent above cost. See exhibit 14 hereto attached. However, E. I. du Pont de Nemours & Co. voluntarily waived its rights to the 10 percent profit, and settled with du Pont Endineering Co. on the basis of cost in which was included the amortization of special facilities purchased for producing such machinery and equipment. The total amount of profit waived by E. I. du Pont de Nemours & Co. in connection with this matter was $734,292.60, while the total charges for amortizing facilities was $475,338.99, or a saving to the United States of $258,953.61.
>
> Automobiles manufactured by the General Motors Corporation and its subsidiaries——

Mr. Hiss. Are you getting to the point after a while, Mr. Gregg?

Mr. Gregg. Yes, sir; in just a short time here.

> Automobiles manufactured by the General Motors Corporation and its subsidiaries were purchased from dealers in the vicinity of the several plants operated by the contractor. Such purchases, however, were the result of expediency and on account of the fact that the class of car in question was suitable to the contractor's requirements, deliveries could be made promptly. The indirect profits accruing to E. I. du Pont de Nemours & Co. during its stock owner-

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[1] "Exhibit No. 1220."

ship in the General Motors Corporation on account of automobiles purchased by the du Pont Engineering Co. were intangible and insignificant.

Mr. HISS. Mr. Gregg, may I interrupt you just a moment there? The parent Company's holdings in General Motors at that time were approximately what percent of the total outstanding stock of General Motors, do you know?

Mr. GREGG. May I let Mr. du Pont answer that?

Mr. IRÉNÉE DU PONT. What is the date of this, 1918?

Mr. GREGG. 1918.

Mr. IRÉNÉE DU PONT. My recollection is, it was approximately one-fourth of the common stock.

Mr. HISS. Then the profits accruing indirectly were one-fourth of the profits to General Motors; whether that be intangible and insignificant or not is a question of opinion.

Mr. IRÉNÉE DU PONT. I think he means by "intangible" another word. He means that it is difficult to compute, or incomputable. I do not think he means they are insignificant.

Mr. GREGG (reading):

> For use at the Old Hickory powder plant, 54 Ford cars were purchased by du Pont Engineering Co. from the Hippodrome Motor Co. and Blackwood Tire Co., and 41 Chevrolet cars were purchased from the Broadway Motor Co., which handled Chevrolet cars, which serves to illustrate that the contractor did not show any preference for cars manufactured by companies in which E. I. du Pont de Nemours & Co. was interested.
>
> The contractor purchased its principal supply of paint and paint ingredients from the Harrison branch of E. I. du Pont de Nemours & Co., although a considerable quantity was bought from competitive manufacturers and vendors who dealt in competitive brands. Purchases of paint, pigments, lead, etc., were made from E. I. du Pont de Nemours & Co. on account of the fact that by reason of the relationship between E. I. du Pont de Nemours & Co. and the contractor, pressure could be exerted to insure priority in deliveries, and paints could thus be obtained when needed without delays. Preference was not given to E. I. du Pont de Nemours & Co. for the purpose of increasing its profits, inasmuch as the demand for such commodities throughout the war period was in excess of the supply, and a ready market was available for all the commercial products then manufactured by E. I. du Pont de Nemours & Co. and its branches. Paints purchased from the Harrison works were invoiced to the contractor at the market price. No profit accrued to E. I. du Pont de Nemours & Co. on account of paint sales to the contractor, as the du Pont Co.'s paint business resulted in a deficit for the year 1918.

Mr. HISS. Mr. Gregg, why does it follow from the sale of paints at market price and the fact that the total paint business of the year showed a loss that the sales at market price to the engineering company were not at a profit? I do not follow that at all.

Mr. GREGG. The reason I pointed that out in that way was to show that there was no profit in the paint business for the year 1918. I did make the positive statement they were sold at the market price, whatever that was at that time. It may have been—I cannot say whether it was or not—that there might have been a profit, a small profit, or some profit in connection with the paints that were sold to the du Pont Engineering Co.

Mr. HISS. And there is nothing to indicate that at least it was not helpful in carrying the overhead of the paint business?

Mr. GREGG. I do not know, Mr. Hiss. That would all depend on the amount of the purchases.

Mr. HISS. Do you know the total quantities purchased by Mason & Hangar and by the engineering company?

Mr. GREGG. No; I do not.

Mr. Hiss. Mr. Gregg, in the statements you have just read no reference is made to the purchase of nitrates. Would you add in your testimony that no profit was made in the transfer of nitrates, that no profit accrued to E. I. du Pont de Nemours & Co.?

Mr. Gregg. My recollection is that the nitrate of soda was furnished by the Government and not purchased by E. I. du Pont de Nemours & Co.

Mr. Hiss. That is not quite responsive, because we have had some testimony about a nitrate of soda pool. Specifically, are you prepared to testify that no profit accrued to E. I. du Pont de Nemours & Co. on the nitrate of soda used in the Old Hickory powder plant? [1]

Mr. Gregg. I do not recall, Mr. Hiss, that that question ever came up before. I will be glad to go into that and furnish you with any information that I can obtain.

In view of the fact that E. I. du Pont de Nemours & Co. owned all of the stock of du Pont Engineering Co., and the further fact that E. I. du Pont de Nemours & Co. had any number of contracts with the Federal Government after the armistice, and the further fact that the newspapers have broadcast that we made enormous profits in connection with Old Hickory, in other words, the implication being that we were out to make a profit all the time and to take advantage of every situation that arose in connection with our contracts with the Government, I would like to state this: That immediately upon the signing of the armistice, E. I. du Pont de Nemours & Co. and du Pont Engineering Co. started in to close down as rapidly as possible. The Old Hickory contract provided that the Government had the right to suspend or terminate the contracts at any time. The E. I. du Pont de Nemours & Co. contract contained the same provisions. And in addition to that, a number of the contracts between E. I. du Pont de Nemours & Co. and the Government contained provisions that gave the company the right to operate for given periods after the receipt of suspension requests.

Mr. Hiss. Is that last clause in the Old Hickory contract, Mr. Gregg?

Mr. Gregg. To operate for a given period?

Mr. Hiss. Yes, sir.

Mr. Gregg. No. My recollection is, it is not. That was in the E. I. contracts.

I had an estimate made up for me several years ago as to the approximate saving to the Government by promptly starting in after the signing of the armistice to close down. In many cases we had to take it up with the Government. We were guided by the Government's directions in the matter. But taking all the contracts into consideration, and I am now speaking of the E. I. du Pont de Nemours & Co. contracts, because as to du Pont Engineering Co. were were governed largely by the instructions from the War Department——

Mr. Hiss. I am not quite clear as to your statement on this point, Mr. Gregg. You are saying that you closed down the Old Hickory plant after the armistice on instructions of the War Department or on your own initiative?

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[1] Under date of Apr. 29, 1935, Mr. Gregg advised the committee that he found that the du Pont Co., through its subsidiary, the du Pont Nitrate Co., handled the procurement of nitrate of soda for the Government's use at Old Hickory on a cost basis, and made no profit in doing so. He gives further details in his reply to the "Storck Report." See Hearings, Part XIV, p. 3250, appendix, p. 3516.

Mr. Gregg. We did everything we could to close down as rapidly as possible on all five contracts that du Pont Engineering Co. had, but we were in touch with the War Department and receiving instructions from the War Department as to what we should do from time to time and the further work that we should do after the signing of the armistice.

Mr. Hiss. Colonel Harris, at the time the armistice was signed, was it or was it not the general practice of the Ordnance Department to terminate so far as possible all contracts for operation and construction?

Lieutenant Colonel Harris. It was the general policy to shut down the contracts as soon as possible, but there were several determining ideas that had to be given consideration. One was the status of material going through the plants, and the second was whether labor would be thrown out of work. In some cases contractors were directed to proceed a certain length of time before coming to a stop.

Mr. Hiss. Mr. Gregg, on what date was the Old Hickory powder plant turned over to the United States?

Mr. Gregg. April 17, 1919.

Taking the E. I. du Pont de Nemours & Co.'s contracts with the Government, the estimate that was made up for me—and this is not a recent estimate, it was made up in 1926, at a time when the Department of Justice was reviewing the settlements between E. I. du Pont de Nemours & Co. and the Government—not du Pont Engineering Co. but E. I. du Pont de Nemours & Co. and the Government. It is my best recollection that I filed this memorandum with the Department of Justice at that time. A man by the name of Holzhoff was in charge of that review.

The estimate that I gave him, which has never been disputed, so far as I know, and what I said in that memorandum brief, was this:

> It is to be remembered that the du Pont Co., after the signing of the armistice, on November 11, 1918, did not wait for cancelation notices or suspension orders from the Government, but started in to close down operations under its contracts with the Government. Immediately upon the signing of the armistice the company started in to close down operations under its contracts with the Government, and thus saved the Government millions of dollars. The amount thus saved to the Government, through the prompt closing down of plants after the signing of the armistice, amounted to approximately $10,000,000 by discontinuing operations prior to the receipt of suspension requests from the Government. In addition thereto, the company saved the Government approximately $4,000,000 by not taking advantage of rights which it had under certain of its contracts to operate for certain specified periods after receipt of notice of suspension.

Mr. Hiss. May I interrupt you just a moment?

Mr. Gregg. Yes.

Mr. Hiss. Colonel Harris, after the armistice whenever a company voluntarily ceased operations, did the Ordnance Department consider it necessary thereafter to send formal notice immediately to cease operation?

Lieutenant Colonel Harris. I have no recollection on that point, but I feel sure the Ordnance Department would be likely to notify them whether they had stopped or not.

Mr. Hiss. Would you feel there was as much haste to save the Government money where they had already stopped as where they had not?

Lieutenant Colonel HARRIS. Perhaps not; but the obligation would still be on the Government to give them formal notice.

Mr. GREGG. My best recollection is that one suspension request came through as late as April 1919, and others came through during that period from the signing of the armistice until April 1919.

Mr. HISS. Is that all, Mr. Gregg?

Mr. GREGG. I have just a couple of things more and I am through. In connection with the closing down of plants after the armistice, I have here a file which I shall be glad to submit to the committee or Mr. Hiss for his examination, of correspondence between the home offices at Wilmington and the various plants with respect to closing down after the armistice. I am sorry I did not have time to make copies of all this. It is here for your examination if you care to see it.

Mr. GREGG. There has been considerable criticism at various places that appeared in the hearing before the joint board in connection with freight bills, that there were overpayments on freight bills.

In the brief that I filed before that joint board one of the questions asked me by the Department of Justice was: "Was a reaudit or a refund of excessive freight ever made?"

> Answer. A reaudit of freight bills was made by the War Department, and refunds of freight overcharges detected by the contractor or revealed by the Government audit, or disclosed during audit made by the Railroad Administration, were refunded to the contractor, with the exception of overcharges in freight by the N. C. & St. L. Railroad Co., which claims aggregating $26,411.09 were withheld by the N. C. & St. L. Railroad Co. on the ground that its accounts with the United States were in process of adjustment, and it was not considered advisable to pay this amount to the contractor at the time. In this connection, it is well to state the method which was pursued by the contractor in handling freight bills.
>
> Freight bills were presented at the contractor's plants when materials covered by such freight bills were delivered. These freight bills were then noted with reference to the contractor's order numbers for identification purposes. The railroad companies made sight drafts on the contractor at convenient intervals attaching to such drafts statements of the freight bills covered, which drafts were honored by the contractor, and after the freight bills were received from the plants at the Wilmington office, they were checked with the above described statements, and any discrepancies detected were taken up with the railroads for adjustment.

Mr. HISS. May I interrupt you just a minute?

Mr. GREGG. Yes, sir.

Mr. HISS. A great many things you have referred to have not previously been referred to in the testimony. I don't think there is any statement about this freight matter that I recollect.

Mr. GREGG. It is mentioned in Mr. Toll's report that is now an exhibit in this case.

Mr. HISS. What is the exhibit number, if I may learn? I have been trying to locate it. Was that the Storck report?

Mr. GREGG. I beg your pardon, that is the Storck report.[1] [Reading:]

> The railroad companies made sight drafts on the contractor at convenient intervals attaching to such drafts statements of the freight bills covered, which drafts were honored by the contractor, and after the freight bills were received from the plants at the Wilmington office they were checked with the above-described statements, and any discrepancies detected were taken up with the railroads for adjustment. At the Wilmington office of the contractor all freight bills were checked with the material orders or requisitions and the proper ref-

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[1] Entered as "Exhibit No. 1190", Hearings, Part XIV, text, p. 3250, appendix, p. 3347.

erences cross noted for record. Each freight bill was given a serial number and entered on registers. The charges were then recapitulated and distributed to the proper ledger accounts. After the contractor had completed the above process the freight bills were transmitted to the contracting officer of the United States who proceeded to audit same in any manner that he desired.

Mr. HISS. Mr. Gregg, may I interrupt you once more? I am sorry, but it is a question of time. The Storck report was not read in evidence and your brief which you are reading is already an exhibit. Isn't that sufficient to clarify the record on that point?

Mr. GREGG. I want to read in this connection—in connection with the freight charges—instructions that we received from the Ordnance Department. This letter is dated April 1, 1919. [Reading:]

From: Cost Accounting Branch, Accounting Section, Ordnance Department, du Pont Engineering Co.
To: du Pont Engineering Co., Wilmington, Del.

1. This is to inform you that it will not be necessary for your traffic department to audit the freight bills on various contracts here, after we have had them, as we have had a ruling from Washington stating that this should not be done by the du Pont Co., as they intended performing this function in Washington.

2. The main point of this is that the traffic department would not know or be able to catch errors of rates that the Government is entitled to on all shipments.

Another letter, dated February 26, 1921, from the Administration Division, War Department, Office of the Chief of Ordnance, Washington, addressed to the du Pont Engineering Co., Wilmington, Del. [reading]:

GENTLEMEN: Under date of April 1, 1919, Mr. C. H. Hartman, supervising accountant in charge at Wilmington, Del., addressed a communication to you as per copy attached, on the subject of freight bills affecting the contracts held by you for the Old Hickory Powder Plant, the Penniman Bag Loading Plant, the Seven Pines Bag Loading Plant, the Tullytown Bag Loading Plant, and the St. Ives TNT plant.

2. It is understood that certain of the railroads, particularly the N. C. & St. L. Railroad Co. and the Tennessee Central Railroad Co., have certain amounts of money which the railroads represent as money refundable by reason of overcharges made by the carriers on shipments of materials to your company in connection with Government work. It is understood that the carriers concede the propriety of returning these sums and that the money is now available.

3. You will therefore disregard the communication of April 1, 1919, above referred to in the following respect: You are authorized to accept for the United States the sums of money due upon shipments made to the Government plants in question. You will not be required to audit the amounts in order to determine the particular shipments upon which the conceded overcharges were made.

May it please the committee, in connection with the audit, may I say this, and then I am through. Reference has been made in the testimony to Major Farr, Colonel Anderson, Mr. Williams, and Mr. Frierson. I would respectfully request, if they have not already been summoned, that Mr. Williams and Mr. Frierson, Colonel Anderson, and Major Farr be summoned before the committee, and I think it might be well in that connection—in other words, Mr. John C. Jones was head of the Ordnance Claims Board in Philadelphia, and it was from his office that a re-audit of the du Pont Engineering Co. contracts was started in October 1919 and he was there until that Claims Board was abolished—for the committee to summon Mr. John C. Jones.

The CHAIRMAN. If any of those who have been named want to be heard, the committee will hear them.

Mr. Gregg. I beg your pardon?

The Chairman. If any of those you named want to be heard, the committee, of course, would be inclined to hear them.

Mr. Gregg. It may be that some of them would not want to appear voluntarily, or they might appear if the committee requested them to appear. Of course, I do not like to go to these people and ask them to appear. It does not seem to be within my province.

The Chairman. You had an exhibit here this morning or undertook to develop something this morning that we asked you to withhold until Colonel Harris could be here. You were introducing it on the assumption that Colonel Harris had made an assumption——

Mr. Gregg. That was a copy of the Nitro operating contract.

The Chairman. Yes.

Mr. Gregg. I have had the testimony of Colonel Harris examined and I was in error in my recollection that he had stated that someone had stated that that was a broader contract—that the du Pont contract for the construction of Old Hickory was a broader contract than any other contract the Government had entered into. I now understand that what Colonel Harris testified to was that it was the largest contract.

Mr. Hiss. Then you withdraw the offer of that particular document as an exhibit?

Mr. Gregg. I withdraw it for the time being, unless something comes up in the future.

Mr. Hiss. Mr. Gregg, can you inform the committee from which source the sulphur that was used at Old Hickory was purchased? Do you know the name of the supplier of sulphur? [1]

Mr. Gregg. I can get it for you. I will be glad to.

Mr. Hiss. Also from what source the linters were supplied.

Mr. Gregg. The linters were supplied by the du Pont American Industries, Inc. It was acting as agent for the Government in the purchase of cotton.

Mr. Hiss. You have already adopted the statement in your brief to the extent that you testified that no profit was derived by du Pont on the sale of those linters; is that correct?

Mr. Gregg. Linters or shavings, hull shavings.

Mr. Hiss. Is that all, Mr. Gregg?

Mr. Gregg. I don't know whether the committee desires to hear me or not on this point: It does seem to me that it is important, because the question of the cost of Old Hickory, the construction and operation, has been brought out here, and I do have a comparison of the cost of construction of Nitro and Old Hickory, taking Old Hickory on the same basis as Nitro. Nitro was a five-unit plant and Old Hickory was a nine-unit plant. That appears in one of the exhibits attached to the brief that I filed at the hearing before the joint board. The brief, as we agreed the other day, would go in as an exhibit, but the exhibits would become a part of the record; is that correct?

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[1] Under date of Jan. 9, 1935, Mr. Gregg informed the committee that the sulphur used at the Old Hickory plant was purchased from the Freeport Sulphur Co., and the sulphur was shipped from Freeport, Tex. Under date of Apr. 18, 1935, he supplemented this statement as follows: "The greater part of the sulphur used at Old Hickory was procured from the Freeport Sulphur Co. as stated. A minor but still considerable portion, however, was bought from the Union Sulphur Co., of Sulphur Mines, La., and shipped from that point."

Mr. Hiss. Not to be printed, but to be part of the public record of the committee.

Mr. Gregg. I do have a statement here that covers the comparison between Old Hickory and Nitro, as to the cost.[1] If the committee will bear with me, I would like to state it.

The Chairman. If you have that comparison prepared, why not insert it in the record?

Mr. Gregg. If I may be permitted to do so, then I will make a copy of this and insert that as an exhibit.

The Chairman. That will answer the purpose.

Mr. Gregg. As well as another comparison as to——

Mr. Hiss. May I interrupt just a minute? Will you also submit at the same time an estimate of the cost of the Carney's Point plant which the du Pont Co. had just built? That also had a million pounds a day capacity at this time; is that correct?

Mr. Irénée du Pont. That was the manufacture of powder, but it did not make the gun cotton. That was at Hopewell. But the combination of the two, Carney's Point and Hopewell, might be sufficient.[2]

Mr. Hiss. Can we have that?

Mr. Irénée du Pont. I think that can be prepared, but I don't think it can be prepared in a few minutes.

Mr. Hiss. No; I understand.

Mr. Gregg. If the committee will just give me 2 minutes and stop me when that time is up, I will be obliged.

The estimate of the date of completion as given in the contract of March 23, 1918, for Old Hickory's first unit was August 15, 1918. It was completed July 2, 1918.

The estimate for the second unit was September 15, 1918, and it was completed July 24, 1918.

The third unit, the estimated date of completion of the contract was October 15, 1918. It was completed August 26, 1918.

The fourth unit, estimated date, November 15, 1918. It was completed September 3, 1918.

The fifth unit, estimated date, December 15, 1918, completed September 24, 1918.

The estimated date on the sixth unit was January 16, 1919. It was completed November 11, 1918.

For the next unit the estimated date was February 15, 1919, and it was 98 percent completed on November 11, 1918. That date is the same as the armistice.

Mr. Hiss. What number was that last unit?

Mr. Gregg. I beg your pardon?

Mr. Hiss. What number was that last unit? Out of the total of nine units, how many was that?

Mr. Gregg. The February 15, 1919?

Mr. Hiss. The one that was 98 percent completed on Armistice Day.

Mr. Gregg. That was the seventh unit.

Mr. Hiss. The seventh unit?

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[1] Statement of comparative costs of Old Hickory and Nitro appears in the appendix on p. 3922.

[2] Statement of comparative costs of Hopewell and Carney's Point appears in the appendix on p. 3924.

Mr. GREGG. The estimated date was February 15, 1919, and 98 percent was completed on November 11, 1918.

Mr. HISS. No more than seven units were ever completed; is that correct?

Mr. GREGG. The estimated date for the eighth unit was March 15, 1918. It was 60 percent completed on November 11, 1918.

Mr. HISS. Was that thereafter completed or was work suspended?

Mr. GREGG. It is my understanding that it was suspended. Is Mr. Banker here?

Mr. BANKER. Yes.

Mr. IRÉNÉE DU PONT. I can answer that question. I know that all that construction work was suspended.

Mr. HISS. It was suspended?

Mr. IRÉNÉE DU PONT. Yes.

Mr. GREGG. Mr. Banker, the seventh unit, according to the report made to me, was 98 percent completed on November 11, 1918. The eighth unit was 60 percent completed November 11, 1918, and the ninth unit was 60 percent completed on November 11, 1918. Did you after the signing of the armistice complete those units?

Mr. BANKER. No, sir. They were stopped just as quickly as you could handle the labor situation.

Mr. HISS. Whose estimate of completion were you reading from? An estimate prepared by the Ordnance Department or prepared by the du Pont Co.?

Mr. GREGG. No; it was an estimate prepared by the du Pont Co. from the history that was written up by Mr. Jackling of the Nitro plant.

Mr. HISS. I meant whose estimate as to the time within the various units were expected to be completed; who made those estimates when they were made, Mr. Gregg?

Mr. GREGG. You mean when the contract was entered into?

Mr. HISS. The estimate as to when completion of the various units would be had.

Mr. GREGG. It was a matter arranged between the du Pont Co. and the Ordnance Department as to the best guess when those units would be completed.

Mr. HISS. Were not those estimates based merely upon the du Pont Co.'s own estimates as to when they would be completed?

Mr. GREGG. I am not competent to answer that.

Mr. IRÉNÉE DU PONT. I am sure those are the du Pont Co.'s estimates. I don't think those were made in March. I think those are the same estimates that were made in January, when the contract was started. But it is interesting to know in October, when we signed the first contract with the Government, which was later canceled by Secretary Baker, the estimated time at which the different units would go into production, giving the first unit in July 1918 and carrying over to April 1919, the facts are that the first unit did produce powder, beginning on the 1st of July 1918, so in spite of delays, by rapid work, that progress was made.

FURTHER TESTIMONY AS TO NATURE OF AUDIT OF OLD HICKORY CONTRACT

Mr. IRÉNÉE DU PONT. Could I get back to the matter of summoning the witnesses on the audit? I understand these gentlemen were in charge of the different audits of the company's work; that was referred to in the testimony last week, I believe it was, that no complete audit was ever made of Old Hickory. I also heard testimony, I think, that the Government had spent a million dollars in auditing this, and I think in view of the fact these four different men who were referred to had charge of the auditing, if it is still incomplete after spending a million dollars on this work, I think it would be rather interesting to know why. Certainly, if our auditing cost million dollars on this job, we could have never gotten our overhead down as low as it was anticipated in the contract.

Mr. Hiss. Colonel Harris, can you enlighten the committee on this matter that Mr. Irénée du Pont has just raised?

Lieutenant Colonel Harris. I haven't any knowledge on this subject, other than what I have given from looking up the records.

Mr. Gregg. As to the nitro plant——

The Chairman. For the information of the committee again, do those records reveal that any audit was made by the War Department?

Lieutenant Colonel Harris. I don't know what the records do reveal, because I have never seen them. They were given to the Department of Justice. Mr. Hiss has them in his possession now.

Mr. Hiss. They have already been put in evidence.

Lieutenant Colonel Harris. But whether those are all of the records of the audit existing, I do not know, and I don't think anybody else knows.

Mr. Gregg. Might I ask Colonel Harris a question?

The Chairman. Yes.

Mr. Gregg. Colonel Harris, I notice you produced some records of this audit this morning and you said that was all you could find. Has anyone informed you there are any of those records stored at Curtis Bay?

Lieutenant Colonel Harris. We are familiar with what is stored at Curtis Bay, but those records are apparently not there.

Mr. Gregg. I don't know. Two or three weeks ago someone told me that those records in connection with the reaudit were stored over at Curtis Bay.

Lieutenant Colonel Harris. Mr. Chairman, I might say in regard to war records, the war records are so voluminous they are stored at every Government establishment right now, portions of those war records. I don't know how available those sources as to material have been, but they have all been opened to your investigators.

Mr. Hiss. No more has been found on this subject than has already been put in.

Mr. Gregg. Now, as to Nitro and the completion dates, the estimated date of the first unit was July 1, 1918, and it was completed September 1, 1918.

On the second unit the estimate was August 1, 1918, and it was completed October 5.

On the third unit the estimated date was September 1, 1918, and it was completed November 9, 1918.

The estimated date on the fourth unit was October 1, 1918, and it was 65 percent completed November 15, 1918.

The estimated date on the fifth unit was November 1, 1918, and it was 45 percent complete on November 15, 1918.

Just one word, and I am through. We have stored at Wilmington, Del., records in connection with the du Pont Engineer Co.'s contracts, which I am informed consists of about 400 boxes, about 3 feet long, about 2 feet deep, and 2 feet wide, and in addition to that there are several hundred folders or binders.

I just merely state that to show that we have retained those records.

Mr. HISS. Colonel Harris, you were asked the other day if you could find out for the committee what contractor received the contract for the building of the Nitro plant to which Mr. Gregg has just referred?

Lieutenant Colonel HARRIS. It was the Thompson-Starrett Co. for the building of the plant and the Hercules Powder Co. for the operation of the plant.

Mr. HISS. I would like to say for the record at this time that it does appear that Mr. T. Coleman du Pont was one of the directors of the Thompson-Starrett Co. in 1918 and 1919, according to the New York City directory of directors.

Mr. IRÉNÉE DU PONT. Mr. Hiss—I don't know what your proper title is—Mr. Coleman du Pont was not a stockholder or officer of the du Pont Co. The fact he had the name "du Pont" might be misleading to the press in that connection.

Mr. HISS. My information is that Mr. T. Coleman du Pont's stock holdings have already been requested for the period of——

Mr. IRÉNÉE DU PONT. I say, in 1918 he was not.

Mr. HISS. Colonel Harris, I should also like to call your attention to another letter referring to a question that we raised before, as to Mr. Stettinius being the assistant secretary who had charge of the Old Hickory contract. This is a letter of February 26, 1925, from Colonel O'Shaughnessey, then Major O'Shaughnessy, to Mr. Andrews, of the war transactions section of the Department of Justice, reading:

> MY DEAR MR. ANDREWS: Complying with your oral request, I inclose herewith a history of the transactions which led up to the making of the contract with the du Pont Engineering Co.
>
> For your information, I may add that at the time I prepared this paper I was more concerned with the determination of reasons for the delay in getting into production than with the technique of the contract itself. My conclusion was that, under the contract, the du Pont Engineering Co. was authorized to incur any expenses in connection with the building of the plant which it deemed necessary, and that the company was to be reimbursed for all such expenditures, even if it should later develop that mistakes had been made. I remember very particularly being impressed with this view by the statement of Mr. Stettinius, made at the meeting with the Secretary of War when the contract was finally approved.

I would like to offer that for the record.

(The letter referred to was marked "Exhibit No. 1222", and appears in full in the text.)

Mr. HISS. Mr. Irénée du Pont, you testified the other day—I think it was in answer to a question from Senator Vandenberg—that in your opinion the Old Hickory contract was primarily a service contract, the giving of the du Pont Co.'s services, engineering ability, and experience to the Government, and should not be regarded as an investment-basis contract; is that correct?

Mr. IRÉNÉE DU PONT. Senator Vandenberg made that statement, and I assented to it in part.

Undoubtedly, the capital involved in the Engineering Co. itself was only nominal and consequently was not the funds which produced the profits. That fund alone put in a savings bank or in any ordinary investment could hardly be expected to yield any such profit as came to the du Pont Engineering Co. as it was in proportion to the funds handled. The bond which we gave to cover the advances or any surety that was given was good, because the credit of the company was behind it, and that ran in one case to $20,000,000, and some other bonds that have not been disclosed. So that the capital really used by the company in its credit form was really more than $5,000.

Mr. Hiss. In spite of the advance made by the Government?

Mr. Irénée du Pont. I say that advance was obtained on the du Pont bond, and that was accounted for. To that extent I stand by the Senator in what he says in regard to it being a service proposition.

Mr. Hiss. I call your attention to the letter just introduced, as well as the clause of article 14 of which Mr. Gregg and I discussed this morning, to the effect that even mistakes of the du Pont Co. were meant to be reimbursable, not to come out of the bond of the guaranty.

Now, Mr. du Pont, one further question: Is it not true that the du Pont Co., the parent company, furnished certain engineering services to the Engineering Co.? In addition to supplying personnel who were put on the pay roll of the Engineering Co., did not the parent company furnish additional administrative and engineering service?

Mr. Irénée du Pont. I presume so.

Mr. Hiss. Were not charges made against the Engineering Co. and reimbursed by the United States Government for those services?

Mr. Irénée du Pont. I think for specific performance they would be charged.

Mr. Hiss. So when we refer to this as a service contract, with one million nine hundred thousand profit plus for the services, it is pertinent also to state that specific compensation was made for services actually performed when they were performed. Have you a statement, Mr. Gregg, of how much the du Pont charges were?[1]

Mr. Gregg. Yes; we have that in the records. How much was that?

Mr. Hiss. If you will supply that, it will just about complete the case on that point.

One other point, Mr. Irénée du Pont. It has already been brought out that only seven units were completed. Do you happen to know what the capacity per day in pounds was on November 11; how much was being produced at that time?

Mr. Irénée du Pont. I think the first five units were in full production, 500,000 pounds.

Mr. Hiss. So that at that time only half of the maximum production, roughly half—it may have been 900,000 or a million; isn't that correct, Mr. Banker?

Mr. Banker. Nine hundred thousand was the rated capacity.

Mr. Hiss. That was the rated capacity?

Mr. Banker. Yes.

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[1] Statement of du Pont Co. charges appears in appendix on p. 3927.

Mr. Hiss. Somewhat more than half the maximum capacity or rated capacity had been achieved. That had been in force for only a comparatively short time, since the first unit was not ready until July.

Mr. Irénée du Pont. Correct.

Mr. Hiss. Yet in that very short period the company's profits were $1,900,000. Therefore, had it reached full production and continued for any considerable length of time, the profits would have been considerably larger, wouldn't they?

Mr. Irénée du Pont. I think that is reasonable.

Mr. Pierre du Pont. May I correct a statement my brother assented to? Although 50 percent of the powder manufacturing was in operation, the guncotton and acid plants and all of the rest that contributed to the powder were in much fuller operation. I think that plant as a whole, including the material on hand ready to complete construction, was between 75 and 90 percent completed and in operation.

Mr. Hiss. I understand the profit was based on the completed powder, was it not?

Mr. Pierre du Pont. Yes; it was.

Mr. Irénée du Pont. There is one qualification in my reply to you. You stated there was a profit of $1,900,000. I do not recall the figure $1,900,000. I have not checked on that, in other words. I am not assenting to that. I don't know what it was. It was read in the testimony.

Mr. Hiss. That is the figure that has already been furnished the committee by the company.

Mr. Gregg. Mr. Hiss has referred to the reimbursement and the evidence on reimbursement. I might say that the Old Hickory contract, both in connection with construction and operation, provides that upon presentation of satisfactory evidence showing the costs and expenditures incurred or made in connection with said construction work, the United States shall promptly pay to the contractor amounts equal to such costs and expenditures, which payments shall be made in addition to the advance payment mentioned in paragraph (a) of this article.

That advance payment was $18,750,000. There is the same provision with respect to operation.

Mr. Hiss. You will remember that the testimony has shown that a 10-percent check was considered sufficient under that clause, Mr. Gregg.

Mr. Gregg. I would like to present a statement of the billings—and this comes in connection with paints—a statement of the billings by E. I. du Pont de Nemours & Co. to the du Pont Engineering Co. in connection with these contracts. I would like to introduce that as an exhibit, if I may.

The Chairman. Let that be received and identified.

(The statement referred to was marked "Exhibit No. 1223" and is included in the appendix on p. 3783.)

Lieutenant Colonel Harris. May I remark on something?

The Chairman. Yes, Colonel.

Lieutenant Colonel Harris. With reference to Mr. Hiss' remark of 10 percent audit check, I want to call attention to the fact that every bill was audited by an Army auditor before it was paid.

Mr. HISS. But only in 10 percent of the cases did they account for the supporting original documents back of the vouchers which came through, according to the testimony.

Lieutenant Colonel HARRIS. That would not seem normal. I am not speaking of knowledge in this case.

Mr. HISS. The testimony introduced indicated that was the only time that ever happened.

Lieutenant Colonel HARRIS. The paying or contracting officer did not audit the bill before he paid it?

Mr. HISS. That in only 10 percent of the cases were the original documents back of it considered.

Lieutenant Colonel HARRIS. In the meantime he paid it?

Mr. HISS. In the meantime he paid it.

Mr. GREGG. By the way, Mr. Chairman, in that connection Mr. Cochran was on that work at that time, and I think it might be well for him to state to the committee how it was handled. He has not been sworn.

Mr. HISS. If you would like to have Mr. Cochran testify, we would be pleased to have him testify.

Mr. GREGG. Be sworn.

TESTIMONY OF H. H. COCHRAN

(The witness was duly sworn by the chairman.)

Mr. HISS. Will you give your connection with the du Pont Co.?

Mr. COCHRAN. Accountant.

Mr. HISS. Mr. Cochran, have you heard the testimony that has been introduced to the effect that a Lieutenant Foulke on May 9, 1918, issued an order[1] that 10 percent of the vouchers coming through should be checked for original documents behind them; and the further testimony that General Williams, then Chief of Ordnance, said that he assumed responsibility for this order, and the further testimony that that order was in fact carried out thereafter?

Senator CLARK. When was this order issued?

Mr. HISS. May 9, 1918, in the middle of the construction.

Do you know anything to the contrary of that testimony, of your own knowledge, Mr. Cochran?

Mr. COCHRAN. This is the first time I have heard of it.

Mr. HISS. Do you know anything to the contrary of that?

Mr. COCHRAN. I have never heard anything in reference to the testimony which you have referred to until this morning.

Mr. HISS. Do you know anything of your own knowledge to contradict that testimony?

Mr. COCHRAN. I have not; no, sir.

Mr. GREGG. What was done, so far as you know, in connection with it?

Mr. HISS. Do you have any knowledge of what was done?

Mr. COCHRAN. Yes; I was employed by the du Pont Engineering Co. from its inception to the end.

Mr. HISS. Do you know whether the order of May 9, 1918, to which I have referred, was issued?

Mr. COCHRAN. No; I do not.

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[1] Introduced into the record as "Exhibit No. 1186." Hearings, Part XIV, p. 3246.

Mr. Hiss. Have you any reason to believe it was not issued?

Mr. Cochran. I have no knowledge of it at all.

Mr. Hiss. That is all.

Senator Vandenberg. Do I understand from you, Colonel Harris, that you think that is a bit unusual?

Lieutenant Colonel Harris. Senator, I was speaking without having heard this testimony, and was surprised, because the usual method is for the contracting officer to have vouchers with supporting papers.

Senator Clark. Colonel, in your experience, did you ever hear of any other case in which this 10-percent system was followed?

Lieutenant Colonel Harris. I have never; no, sir.

Mr. Pierre du Pont. Mr. Chairman, I am afraid there is a good deal of confusion, having nothing to do with the du Pont Co. affairs, but Mr. Nielsen checks my opinion that a Government inspector signed or approved every voucher that was paid, and, presumably, the documents were accompanying those vouchers at the time they were signed. I do not know. But this 10 percent, I think, was a spot check of vouchers after the original voucher was made by the men on the ground.

Mr. Hiss. I must call your attention, first, to the date of the order, Mr. du Pont, which was May 9, 1918, before construction had been completed, and secondly, to the statement of Mr. O'Shaughnessy, who is not able to be present to testify personally because he is in Florida, that no original audit was ever made, and there was only this 10-percent check, according to the testimony, in the original audit.

Mr. Pierre du Pont. That is a great surprise to me.

Mr. Cochran. Do you mean, Mr. Hiss, the original audit by the War Department?

Mr. Hiss. It was testified the du Pont Co. had their own audit.

Mr. Cochran. There were during the years 1918 and 1919, 115 Government auditors of the War Department.

Mr. Hiss. That has already been gone into, Mr. Cochran, the other day.

Mr. Cochran. Who did nothing but audit and reaudit these vouchers.

Mr. Hiss. That is correct. We have already received that testimony.

Mr. Cochran. So far as any payments are concerned, the supporting papers are attached to the vouchers showing the purposes of the entire transaction.

Mr. Hiss. You are testifying now to your own knowledge that attached to each voucher of the 400 boxes, to which Mr. Gregg referred, there are original documents?

Mr. Cochran. There are, sir.

Mr. Hiss. That is an astonishing statement to make, Mr. Cochran.

Mr. Cochran. The details are attached to each accounts-payable voucher supporting the prime voucher.

Mr. Hiss. My question was, original documents back of each voucher contained in the 400 boxes.

Mr. Cochran. For instance, if the du Pont Engineering Co. purchased—say you were the seller of materials, and you presented the du Pont Engineering Co. a bill for $500—your bill would be attached to the accounts-payable voucher of the du Pont Engineering Co. They were all drawn on our own forms and all supporting papers were attached to the prime voucher.

Mr. Hiss. All I can say, Mr. Cochran, is that your testimony, for the first time in these hearings, raises a conflict with the testimony presented at the joint board hearings in 1923, where it was testified to the contrary.

Mr. Nielsen. Mr. Hiss, you are talking about "audit." I do not know what is meant by "audit", but every voucher representing payment was approved by some official of the Government, before the disbursing officer paid it.

Mr. Hiss. That is conceded.

Mr. Neilsen. He agreed to the accuracy of that bill.

Mr. Hiss. That is not conceded, because the testimony of the Government officers was only in 10 percent of the cases did they check back to find out if the original documents were supporting it.

Mr. Nielsen. What do you suppose a Government officer's signature meant on the voucher?

Senator Clark. It meant you could get the money.

Mr. Nielsen. It was O. K. for payment or they would not have done it.

Senator Clark. Some officer of the Ordnance Department was satisfied to have vouchers approved on a 10-percent check. Nobody is contending you got the money under false pretenses. What we are examining into now is the care which the Government took before issuing the vouchers.

Mr. Nielsen. The care that was taken was 100 percent.

Senator Clark. That is your opinion, but it is not my opinion, if they made only a 10-percent check.

Mr. Nielsen. You cannot prove a 10-percent check was made.

Senator Clark. We can prove the standing order issued by the War Department.

Mr. Nielsen. That does not prove it was done.

Senator Clark. That is in accordance with the Army orders. If you were ever in the Army, you would know that.

Mr. Nielsen. I was in the Navy; sir.

Senator Clark. Then you know it is customary to follow out standing orders, do you not?

Mr. Gregg. I might say that in an exhibit put in by me this morning, prepared by one of our men in 1923, who is now dead, and who was a very able man, and very familiar with this work, the situation was covered, and I would like to read to the committee just what he said about these audits and checks [reading "Exhibit No. 1199"]:

> Certain proficient employees were appointed to direct and supervise the work of the several departments retained for the purpose of constructing and operating the plants.

Mr. Hiss. Mr. Gregg, do you propose to read all of that?

Mr. Gregg. No, sir; not all of it. [Continuing reading:]

> Whenever the procurement of material or equipment was necessary, requisitions were issued by the departments responsible, and forwarded to the purchasing agent in Wilmington, unless the need was sufficiently urgent to neces-

sitate ordering direct by telegraph or otherwise. In all cases, requisitions were sent to the purchasing agent for record. Orders for materials specified on such requisitions were issued by the purchasing department, and numbered in series, copies being sent, respectively, to the vendors, plants, and accounting department, one being retained by the purchasing department for comparison with the vendors' invoices.

Vendors were required to show the order number on the face of each invoice for identification. Each invoice, after receipt at the home office was compared with the orders, and checked as to terms, quantity, and price by the purchasing department; forwarded to the plant which issued the requisition, where certification was made as to receipt of material, and the approval of the plant representative affixed; then returned to the home office at Wilmington. * * *

When vouchers had been audited, recorded, approved, and paid by representatives of the contractor, they were transmitted to the contracting officer of the United States, who checked and verified the expenditures until satisfied that the requirements of the contracts had been fulfilled.

Mr. Hiss. Mr. Gregg, excuse me for interrupting. Is not what you are reading the accounting system adopted by the du Pont Co. itself?

Mr. Gregg. I am coming now to the point where he takes up what the Government auditors did. [Reading:]

The vouchers were then approved by the departmental director responsible for such expenditures, and the charge distribution noted was thereon, after which the accounting department functioned, checking extensions, recording, and issuing checks in payment therefor.

When vouchers had been audited, recorded, approved, and paid by representatives of the contractor, they were transmitted to the contracting officer of the United States, who checked and verified the expenditures until satisfied that the requirements of the contracts had been fulfilled. He then indicated his approval on each voucher and forwarded all vouchers applicable to construction projects to the disbursing officer, who recorded the approved expenditures on public vouchers, and issued instructions for the contractor's reimbursement.

Senator Clark. Mr. Gregg, if I may interrupt you right there, there is nothing inconsistent in what you just read and what Mr. Hiss read, issued by the authority of the Chief of Ordnance of the United States Army. That document which you just read says that the contracting officer satisfied himself, and what Mr. Hiss read was instructions from the Chief of Ordnance, indicating they were to be satisfied with a 10-percent check.

Mr. Nielsen. This is a 100-percent check referred to here.

Mr. Hiss. It does not say so.

Mr. Nielsen. It does say so.

May I ask Colonel Harris a question? Is it possible for a reimbursing agent of the Government, either Army or Navy, to pay without approval by somebody in the Army or Navy? Can he pay a bill under those circumstances?

Lieutenant Colonel Harris. I am a little distressed by this turn of affairs because my chief, for whom I have the highest regard, General Williams, is brought in. I would never believe that he gave approval to vouchers checked blindly to the extent of 10 percent. I think there is a confusion in the word "audit."

Mr. Nielsen. That is my idea.

Lieutenant Colonel Harris. An original voucher could be checked and satisfied.

Mr. Nielsen. That is my impression.

Mr. HISS. May I read from an order of May 9, 1918, which is signed by First Lieut. George R. Foulke, Jr., paragraph III (C), page 2? [Reading:]

> At least 10 percent of the documents received in this office without supporting papers will be held out and will be forwarded to the contractor with request for supporting papers.

There was later testimony that the order was followed out and no more than 10 percent of the documents received without supporting papers were held out and sent to the contractor with the request that he furnish them. There is a further report which has been offered in evidence[1] which states that a certain percentage of that 10 percent, in the course of 1 week, or some period of a report, had no supporting papers when they went back for them that they could find.

Furthermore, General Williams testified, according to the record already introduced from the joint board, to which Mr. Gregg has already referred, which sat in May 1923 and again in December 1923, when asked, Major General Williams said: "I assume responsibility for that order."

I do not know that General Williams directed Lieutenant Foulke to issue it, but I do know he testified, according to the transcript, "I assume responsibility for that order."

Mr. NIELSEN. I am talking about audit and not approval before advance.

Mr. HISS. This is May 9, 1918.

Lieutenant Colonel HARRIS. May I respond?

Mr. HISS. We found by the statement of Colonel O'Shaughnessy that there was no current audit on this, and that is the only way in which he knew that to be the fact.

Lieutenant Colonel HARRIS. May I respond?

In the statement you have read, Mr. Hiss, you stated that those vouchers had come before the disbursing officer without proper supporting papers. What is the 10 percent? I remember the testimony the other day that there were very few that did come before him without supporting papers. In one case of almost 4,000, there were none, and in another case of some 4,000 there were 1,000.

Senator CLARK. How many?

Lieutenant Colonel HARRIS. One thousand, sir. According to this statement, 10 percent of those without supporting papers were subjected to this treatment. That is not the whole set of vouchers, as I understand it.

The CHAIRMAN. Who is here from the Remington and Winchester corporations this afternoon?

Mr. PUGSLEY. I represent the Winchester Repeating Arms Co.

Mr. DAVIS. I am here.

The CHAIRMAN. Will you come forward?

Mr. PIERRE DU PONT. Mr. Chairman, may I ask if a number could be reserved for an item on Old Hickory, which I have not ready to put in. I will submit it later. May we have a reservation of number.

The CHAIRMAN. It may go in.

(The document referred to was submitted later and marked "Exhibit No. 1224" and is included in the appendix on p. 3784.)

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[1] "Exhibit No. 1187", Hearings, Part XIV, p. 3247.

The CHAIRMAN. We want it understood that the du Ponts will be wanted for testimony in connection with the afternoon work as well.

Have you gentlemen been sworn?

Mr. PUGSLEY. No, sir.

The CHAIRMAN. Is Mr. Lammot du Pont present?

Colonel DONOVAN. He was excused today until tomorrow, I think.

The CHAIRMAN. Then we will want Mr. Irénée du Pont, please.

TESTIMONY OF C. K. DAVIS (recalled) AND TESTIMONY OF EDWIN PUGSLEY, EGBERT C. HADLEY, AND J. H. CHASMAR

(The witnesses were duly sworn by the chairman.)

The CHAIRMAN. Will you gentlemen give your names for the record?

Mr. PUGSLEY. Edwin Pugsley, vice president, Winchester Repeating Arms Co.

Mr. HADLEY. Egbert C. Hadley, technical director, Remington Arms.

Mr. CHASMAR, J. H. Chasmar, Bridgeport works manager, Remington Arms.

GENERAL DESCRIPTION OF INDUSTRIAL MOBILIZATION PLAN

Mr. HISS. Colonel Harris, you are familiar with the printed plan which the War Department has prepared, entitled "Industrial Mobilization Plan", are you not?

Lieutenant Colonel HARRIS. I am.

Mr. HISS. As director of the planning branch of the Office of the Assistant Secretary of War, you have immediate supervision over the industrial mobilization plan. Is that not true?

Lieutenant Colonel HARRIS. Under the direction of the Assistant Secretary of War, I have.

Mr. HISS. This plan embraces all industries which, in your opinion, or that of the Office of the Assistant Secretary of War, may be needed in time of war to supply the United States. Is that correct?

Lieutenant Colonel HARRIS. That is correct.

Mr. HISS. Under your supervision or under the supervision of the Assistant Secretary of War, rather, have there been prepared contract forms to be used in the event of war for the procurement of supplies for the War Department?

Lieutenant Colonel HARRIS. There have been, but it is pertinent to state that these contract forms are in a fluid state, and it is a constant development, and that the present status of the contract forms might be later changed.

Mr. HISS. Have you copies with you of the latest forms?

Lieutenant Colonel HARRIS. I have.

Mr. HISS. Has the Office of the Assistant Secretary of War surveyed several thousand plants in the United States in connection with the industrial mobilization plan, Colonel Harris?

Lieutenant Colonel HARRIS. Not the Office of the Assistant Secretary of War, but the supply branches, acting under the direction of the Assistant Secretary of War.

Mr. HISS. Do you know how many plants have been, as it were, retained on a current list of plants to be relied on by the War Department in the event of war?

Lieutenant Colonel HARRIS. Approximately 12,000.

Mr. HISS. That is applied to all the different purchasing branches of the Army, is it, Colonel Harris?

Lieutenant Colonel HARRIS. Of the Army; yes, sir.

Mr. HISS. Have there also been drafted under the direction of the Assistant Secretary of War comprehensive drafts of statutes to be presented to Congress in the event of the outbreak of war?

Lieutenant Colonel HARRIS. That is correct.

Mr. HISS. How large a force is required in the War Department for the work of this plan, both in the office of the Assistant Secretary of War and in the various supply branches?

Lieutenant Colonel HARRIS. There are 14 officers of the Army on duty in the planning branch, full time. There are approximately 50 officers in the supply branches, either full time or part time, on industrial planning.

Mr. HISS. How large is the civilian and clerical force?

Lieutenant Colonel HARRIS. About one-half civilian to one military.

Mr. HISS. In other words, there are more officers engaged in this than civilians?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. And that is true also of the clerical force in general?

Lieutenant Colonel HARRIS. I think my statement is a little wrong. I would say in the whole field they are about even, one and one, and in my office it is less.

Mr. HISS. What is the legislative authority for the plan which the War Department, or which the Assistant Secretary of War has prepared?

Lieutenant Colonel HARRIS. Section 5 (a) and section 120 of the National Defense Act.

Mr. HISS. Have you a copy of the national defense act with you?

Lieutenant Colonel HARRIS. I have.

Mr. HISS. By the way, what is the date on which the national defense act was passed, Colonel Harris?

Lieutenant Colonel HARRIS. It was passed originally in 1916, amended in 1920, and numerous amendments have been made since, but the amendment of 1920 is basically what we are working under.

Mr. HISS. When was section 5 (a) passed?

Lieutenant Colonel HARRIS. In the amendment of 1920.

Mr. HISS. When was section 120 passed?

Lieutenant Colonel HARRIS. In 1916, in the original act.

Mr. HISS. Are you familiar with the legislation passed just before the United States went into the World War on the general subject of the mobilization of the country's industrial forces, Colonel Harris? Did I make my question clear, Colonel?

Lieutenant Colonel HARRIS. No, sir.

Mr. HISS. I say, are you familiar with the legislative enactments prior to and after the national defense act, which relate to industrial mobilization and coordination?

Lieutenant Colonel HARRIS. Generally speaking, but I would prefer, as to the details of the act, to have Lieutenant Brannon answer it.

Mr. Hiss. Lieutenant Brannon, do you have before you a report of the War Industries Board?

Lieutenant Brannon. I have not.

Lieutenant Colonel Harris. I have.

Mr. Hiss. Colonel Harris, could you furnish Lieutenant Brannon with a copy of that?

Lieutenant Colonel Harris. Yes, sir.

Mr. Hiss. Roughly speaking, Lieutenant Brannon, do you know about when the first legislative enactment relating to surveying industry and determining the industrial needs was passed?

Lieutenant Brannon. As I understand it, this was the act which established the Council of National Defense, which was passed in August 1916.

Mr. Hiss. Are you familiar with the Naval Consulting Board?

Lieutenant Brannon. I know that was established about 1915, I think.

Mr. Hiss. Do you know under what authority that was established, Lieutenant Brannon?

Lieutenant Brannon. I do not recall any legislative authority for it.

Mr. Hiss. If you will turn to page 19 of Mr. Baruch's report, the second complete paragraph on that page, it says [reading]:

> Three official movements began in 1916. The Naval Consulting Board appointed a committee which made a comprehensive survey of some 18,000 industrial plants throughout the country.

Do you know, or could you state for the committee's information, the personnel of the Naval Consulting Board, Lieutenant Brannon? [1]

Lieutenant Brannon. We could get that, I think.

Mr. Hiss. Do you know offhand whether they were civilians or naval officers?

Lieutenant Brannon. As I understand, they were outstanding civilians. I think Thomas A. Edison was one, and a number of men of that caliber.

Mr. Hiss. The third complete paragraph on page 19 of the report of the War Industries Board states [reading]:

> Another survey of importance was made by the Kernan Board, appointed by the Secretary of War to investigate the country's munitions resources with a view to determining the advisability and practicability of the Government's manufacturing its arms, munitions, and other war equipment.

Do you know when that board was appointed, Lieutenant Brannon?

Lieutenant Brannon. I know approximately. It was appointed under a paragraph of the National Defense Act, I think section 121, and, of course, that was passed in June 1916, and the report was supposed to be submitted before January 1, so that the Kernan Board was appointed between June and December. I think they submitted their report in 1916.

Mr. Hiss. Then the Council of National Defense Act, to which we referred, was passed originally June 3, 1916?

Lieutenant Brannon. Yes, sir.

Mr. Hiss. And when was the Council of National Defense created, and under what authority?

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[1] The membership of the Naval Consulting Board was later furnished to the committee and appears in the appendix on p. 3929.

Lieutenant **Brannon**. It was under an act, I think, in August 1916.

Mr. **Hiss**. August 29, 1916, I think.

Lieutenant **Brannon**. I do not remember the day.

Mr. **Hiss**. I will show you a copy of this [referring to document]. Was not the provision in the act of August 29, 1916, a much more ambitious statement of the duty to coordinate industry than the previous statement in what is now section 120 of the National Defense Act, passed in June of the same year?

Lieutenant **Brannon**. You mean as far as planning is concerned?

Mr. **Hiss**. As far as the directive contained in this particular provision is concerned.

Lieutenant Colonel **Harris**. I think that it is a more comprehensive development of the subject, but its directive is not so emphasized. Section 120 of the National Defense Act places a directive on the Secretary of War, covering one limited field of industrial mobilization. The Council of National Defense Act covered a broader field and did not give the power, as I recall it, except in an advisory capacity.

Mr. **Hiss**. For the record, I would like to state the citation to this particular act. This was section 2 of an Army appropriation act for the year 1917, approved August 29, 1916, which appears at 39 Statutes at Large, page 619, at pages 649 to 650.

This provided for a Council of National Defense—

> For the coordination of industries and resources for the national security and welfare * * *.

That provided, furthermore, that the council, which was composed of various Cabinet members—that is correct, is it not, Lieutenant Brannon?

Lieutenant **Brannon**. Yes, sir.

Mr. **Hiss** (continuing reading):

> shall nominate to the President, and the President shall appoint an advisory commission consisting of not more than seven persons, each of whom shall have special knowledge of some industry, public utility, or the development of some natural resource, or be otherwise specially qualified, in the opinion of the council, for the performance of the duties hereinafter provided. The members of the advisory commission shall serve without compensation, but shall be allowed actual expenses of travel and subsistence when attending meetings of the commission or engaged in investigations pertaining to its activities. * * *
>
> That it shall be the duty of the Council of National Defense to supervise and direct investigations and make recommendations to the President and the heads of executive departments as to the location of railroads with reference to the frontier of the United States so as to render possible expeditious concentration of troops and supplies to points of defense; the coordination of military, industrial, and commercial purposes in the location of extensive highways and branch lines of railroad; the utilization of waterways; the mobilization of military and naval resources for defense; the increase of domestic production of articles and materials essential to the support of armies and of the people during the interruption of foreign commerce; the development of seagoing transportation; data as to amounts, location, method and means of production, and availability of military supplies; the giving of information to producers and manufacturers as to the class of supplies needed by the military and other services of the Government, the requirements relating thereto, and the creation of relations which will render possible in time of need the immediate concentration and utilization of the resources of the Nation.
>
> That the Council of National Defense shall * * * provide for the work of the advisory commission to the end that the special knowledge of such commission may be developed by suitable investigation, research, and

inquiry and made available in conference and report for the use of the council; * * *.

For this purpose the sum of $200,000 was appropriated.

Is that act still in force, Lieutenant Brannon?

Lieutenant **Brannon**. I understand it is; never been repealed.

Mr. **Hiss**. Does the Council of National Defense now have meetings?

Lieutenant **Brannon**. I think not.

Mr. **Hiss**. Do you know whether any of the advisory members still consider themselves as on the Council?

Lieutenant **Brannon**. I understand no appropriation has been made since about 1920.

Mr. **Hiss**. Have specific appropriations in recent Army appropriation statutes referred to the duties of The Assistant Secretary of War under sections 5a and 120 of the national defense act?

Lieutenant **Brannon**. They have made some reference to personnel for planning, I believe.

Mr. **Hiss**. Would you please select those specific references for the Committee, Lieutenant Brannon, so that we may have those in the record?

Lieutenant Colonel **Harris**. You understand those references were in the hearings before the Appropriations Committee and were not contained in the appropriation acts.

Mr. **Hiss**. There is no specific appropriation for planning?

Lieutenant Colonel **Harris**. It is in the whole Army appropriation.

Mr. **Hiss**. And none of that is specifically related to the subject of planning?

Lieutenant Colonel **Harris**. In the presentation of the requirements of the Department it is broken down and explained. There is where it shows the portion for industrial planning.

Mr. **Hiss**. Is that stated in the reports of the committee to Congress?

Lieutenant Colonel **Harris**. I should think it would be.

Lieutenant **Brannon**. I would just like to add one thing. I believe there were two or three appropriation acts about 1922—I do not know how long it continued—which placed a limitation on the number of persons employed in planning. I think it stated that no additional personnel should be employed, but by implication it referred to persons who were already employed.[1]

Mr. **Hiss**. I should like to read into the record at this point the provisions of the national defense act which have been referred to, those parts which are pertinent.

Section 5a [reading]:

> Hereafter, in addition to such other duties as may be assigned him by the Secretary of War, The Assistant Secretary of War, under the direction of the

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[1] Under date of Mar. 29, 1935, Colonel Harris supplied additional data concerning personnel for planning, as follows:

The following proviso in the War Department Appropriation Act for the fiscal year 1931 (act approved May 28, 1930, 46 Stat. 432–439) makes specific reference to industrial planning activities:

"*Provided*, That no appropriation contained in this Act shall be available for any expenses incident to the employment of an average number of officers, enlisted men, or civilian employees greater than the largest number employed during the fiscal year ended June 30, 1929, in connection with work incident to the assurance of adequate provision for the mobilization of matériel and industrial organizations essential to wartime needs."

A similar proviso has been included in subsequent War Department Appropriation Acts (46 Stat. 1284; 47 Stat. 671, 1578; 48 Stat. 622)

Secretary of War, shall be charged with supervision of the procurement of all military supplies and other business of the War Department pertaining thereto and the assurance of adequate provision for the mobilization of matériel and industrial organizations essential to war-time needs.

That clause is the fundamental clause under which your branch operates, is it not?

Lieutenant Colonel HARRIS. We operate under both clauses.

Mr. HISS. Section 120 consists of five paragraphs, the first two of which deal with compulsory orders in time of war.

Lieutenant Colonel HARRIS. And commandeering of plants.

Mr. HISS. The first three paragraphs do. The fourth paragraph provides that—

> The Secretary of War shall also make, or cause to be made, a complete list of all privately-owned plants in the United States equipped to manufacture arms or ammunition, or the component parts thereof.

Colonel Harris, what is the accepted definition in the War Department of the words "arms or ammunition" or parts thereof?

Lieutenant Colonel HARRIS. It is, generally speaking, all weapons, bombs, and the ammunition therefor.

Mr. HISS. Would it include the Quartermaster's supplies?

Lieutenant Colonel HARRIS. It would not.

Mr. HISS. Would it include aviation requirements?

Lieutenant Colonel HARRIS. It would in a broad analysis, and particularly the armament on aviation.

Mr. HISS. I call your attention to the fact that this fourth paragraph, in directing the listing of privately owned plants and the determination of whether or not they may be converted into ammunition factories, deals specifically with arms or ammunition or parts and with ammunition factories, whereas the second paragraph, dealing with compulsory orders in time of war, speaks of arms or ammunition or parts of ammunition or any necessary supplies or equipment, and is considerably broader than paragraph 4. Do you consider that under paragraph 4 The Assistant Secretary of War has been directed by Congress to include in any list or any plans plants other than plants engaged in or capable of producing arms and ammunition or parts thereof, Colonel Harris?

Lieutenant Colonel HARRIS. Yes; I consider that to be true; but I further consider that 5a covers the same responsibility in a broader way.

Mr. HISS. Therefore 5a is really the particular provision under which the planning branch operates, rather than section 120, which refers to arms and ammunition in a limited way?

Lieutenant Colonel HARRIS. That is true. There is another paragraph that I wish you would read, if you do not mind, in that section 120, and that is the last paragraph about an authorization to appoint a board. I want to bring that up.

Mr. HISS. I wanted to take that up. The last paragraph is [reading]:

> The President is hereby authorized, in his discretion, to appoint a Board on Mobilization of Industries Essential for Military Preparedness, nonpartisan in character, and to take all necessary steps to provide for such clerical assistance as he may deem necessary to organize and coordinate the work hereinbefore described.

Has any such board to your knowledge ever been appointed?

Lieutenant Colonel HARRIS. It has not.

Mr. HISS. Has any appropriation for the activities of such a board ever been provided by Congress, so far as you know, Colonel Harris?

Lieutenant Colonel HARRIS. Not since the war.

Mr. HISS. This was passed before the Council of National Defense sections of the Army Appropriation Act of August 29, 1916; is that not correct?

Lieutenant Colonel HARRIS. That is correct.

Mr. HISS. Would you not say that both were a part of the then recognized necessity of planning and preparing for the possibility—then seeming very likely—of participation by this country in the European war?

Lieutenant Colonel HARRIS. I do.

Mr. HISS. Do you think that either act was considered at the time a mandate to The Assistant Secretary of War to plan indefinitely in times of peace, such as in the year 1934?

Lieutenant Colonel HARRIS. I consider The Assistant Secretary as now under mandate to plan elaborately for mobilization in time of war.

Mr. HISS. By virtue of what particular legislative provision, Colonel Harris?

Lieutenant Colonel HARRIS. Basically 5a, supported by section 120.

Mr. HISS. I have already pointed out that section 120 is limited to arms and ammunition.

Lieutenant Colonel HARRIS. I think my answer takes cognizance of that.

Mr. HISS. I also call your attention to the fact that 5a refers in the first paragraph, in the first sentence, to two points, one of which is current procurement for the ordinary needs of the Army in peace time or indeed at any time, and the last part of it, "and the assurance of adequate provision for the mobilization of matériel and industrial organizations essential to war-time needs." So that those lines represent the legislative authority for a rather elaborate peace-time organization on planning set up in the Assistant Secretary of War's office.

Returning to the report of the War Industries Board, after the passage of the Council of National Defense legislation, the Council was formed according to the statement on page 20 on October 11, 1916. On February 28, 1917, the Council created a body known as the "Munitions Standards Board." On July 28, 1917, the War Industries Board was created. Then on March 4, 1918, the War Industries Board was reorganized, and after the passage of the Overman Act an Executive order was issued by the President under date of May 28, 1918, formally empowering the War Industries Board.

Does that correctly summarize the planning agencies established during the war?

Lieutenant Colonel HARRIS. Not quite. The Munitions Standards Board was formed just before war was declared, with an idea of standardizing specifications. War was declared just about 6 weeks later, and they knew then it was too late to try to bother with standardizing munitions to any great extent. So they formed the General Munitions Board. Mr. Frank Scott was chairman of both.

It was really the General Munitions Board that carried on until the War Industries Board was formed.

Mr. HISS. That was under the authority of the Council of National Defense Act rather than under the authority of the National Defense Act.

At what period was begun the planning now set up in the Assistant Secretary of War's office under section 5a and section 120, to the extent that it is applicable?

Lieutenant Colonel HARRIS. It was started in 1921; its development has been rather slow because we could not afford to make mistakes. It was started in 1921.

Mr. HISS. That was the first time that the mandate of Congress under which you are now acting was carried out, or was begun by the War Department; is that correct?

Lieutenant Colonel HARRIS. It is the first time that anything under 5a was done. There may have been something under 120, these other surveys you speak of during the war; but after the war it was the first act.

Mr. HISS. Lieutenant Brannon, have you before you copies of the contract forms that you have already referred to?

Lieutenant BRANNON. Yes.

Mr. HISS. I show you excerpts from a memorandum prepared——

Senator CLARK. May I interrupt you just a minute, if I may?

Colonel, did I understand you to say that you have prepared and have on file in the War Department now a lot of legislation that is to be sent up to Congress to be passed after the declaration of war?

Lieutenant Colonel HARRIS. The statement was, Senator, that we had an industrial mobilization plan, and that industrial mobilization plan carried an annex of needed legislation.

Senator CLARK. That included war legislation?

Lieutenant Colonel HARRIS. Yes.

Senator CLARK. But you propose to wait until after the declaration of war, then send it all up to Congress to be passed in one bunch as an emergency measure, at a time when the cry will be raised that if Congress takes time to scrutinize it or study it in detail, they are delaying the defense of the country in a national emergency.

Why is it not possible to send that legislation up there and have it examined in the meantime, before the declaration of war?

Lieutenant Colonel HARRIS. I might state in answer to that that the War Policies Commission in 1932 had before it the same general character of legislation. I think they did submit a report to the Congress at least embodying this proposed plan of legislation in their report.

Senator CLARK. What the legislation itself was has never been submitted to Congress.

Lieutenant BRANNON. I think Attorney General Mitchell in a memorandum to the War Policies Commission raised a question as to the constitutionality of passing legislation of this kind in peace time. This legislation will contemplate price fixing and general control of industry by Congress. I think he stated in that memorandum that the prime basis for the constitutionality was the determination by Congress after the emergency arose of the necessity of control measures.

Senator Clark. There are a great many other provisions in that legislative program, which I glanced over last night, to which that objection would not be in the least applicable, are there not?

Lieutenant Brannon. With reference, for example, to the War Trade Board?

Senator Clark. Yes; in reference to the draft, conscription, and a number of other things to which that objection of price fixing would not in any manner be applicable; certainly since the N. R. A. with its price-fixing program, it is doubtful that that objection would be applicable to any Government act.

Lieutenant Brannon. Might I add one thing, sir, that up until I think the time of the War Policies Commission hearing of the bills, the drafts of the bills in The Assistant Secretary's office were in the form of legislation to be enacted in peace time. It was assumed this thing would be worked up and submitted to Congress. I believe that the drafts of the bill submitted to the War Policies Commission were in that form, but they apparently took the position that it should not be submitted in peace time.

Senator Clark. The point I had in mind, if they were submitted in peace time there would be no reason why Congress should not examine them in detail and know what they were passing before they enacted this very far-reaching and drastic legislation. On the other hand, we all remember how when war is declared the War Department or the Navy Department or the War Industries Board or any other Government activity will send up a bill, no matter how drastic or far-reaching, and Congress is asked to pass it under whip and spur as an emergency measure, without considering its consequences or anything in it; and if Congress does not pass it in that fashion, then a fanfare of protests is raised all over the country that Congress is delaying the national defense. It seems to me these matters ought to be considered at the proper time.

Senator Vandenberg. You do not have to go back to the war. That is the history of the last 18 months.

Senator Clark. The Senator will recall that I have always stood for the fullest consideration by Congress of anything.

The Chairman. Colonel, is there objection to the consideration of and passage of much of this legislation now in peace time? What is the policy of the Department as respects that?

Lieutenant Colonel Harris. There is not the slightest objection, Senator, to the consideration by Congress of these measures.

The Chairman. There has been no effort on the part of the War Department, then, to prevent that consideration?

Lieutenant Colonel Harris. Not the slightest.

The Chairman. Or prevent its passage?

Lieutenant Colonel Harris. Not the slightest. This industrial mobilization plan was prepared with the idea of having something ready on "M. day."[1]

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[1] "M. day", the date designated in War Department orders as the first day of mobilization. Popularly referred to as the first day of war.

HISTORY OF PREPARATION BY WAR DEPARTMENT OF FORMS OF CONTRACTS FOR USE IN NEXT WAR

Mr. Hiss. Lieutenant Brannon, have you before you a copy of excerpts from memorandum of February 20, 1934, headed "War-Time Contract Forms and Emergency Codes", that I handed you?

Lieutenant Brannon. Yes, sir.

(The memorandum referred to was marked "Exhibit No. 1225", and is included in the appendix at p. 3790.)

Mr. Hiss. Do you remember the memorandum prepared by Major Joyner, Lieutenant Commander Lynch, Captain Jones, Captain Johnson, and yourself?

Lieutenant Brannon. Yes.

Mr. Hiss. Those are excerpts from that memorandum?

Lieutenant Brannon. I have not checked it. I assume it is. I am familiar with that original paper.

Mr. Hiss. For the purposes of the record, the underscoring that is not under headings should not be followed. That is erroneously typed in.

In 1921, Lieutenant Brannon, the Bureau of the Budget set up an interdepartmental board of contracts to revise, standardize, and simplify contract forms in use by the Government. Is that not correct?

Lieutenant Brannon. I think that is correct.

Mr. Hiss. That board has prepared the familiar printed forms of Government contracts?

Lieutenant Brannon. That is right.

Mr. Hiss. Now currently in use?

Lieutenant Brannon. That is right.

Mr. Hiss. At the same time was there formed a board to standardize war-time-contract forms?

Lieutenant Brannon. There was.

Mr. Hiss. Under the Assistant Secretary of War?

Lieutenant Brannon. Yes. Not directly the Assistant Secretary. It was appointed under War Department order, but it has functions in cooperation with the Office of The Assistant Secretary of War.

Mr. Hiss. I refer you to a quotation under the second heading there, the first page [reading]:

> In 1921 the Assistant Secretary of War convened a board to standardize war-time-contract forms.

Lieutenant Colonel Harris. That was by authority of the Secretary of War.

Mr. Hiss. Has that board met consistently since that time and devoted itself primarily to the study of the appropriate contract forms to be used in the event of war?

Lieutenant Brannon. All the members of the board perform their duty in addition to the other duties. It has met from time to time, and subcommittees have been formed to work out particular questions or make changes.

Mr. Hiss. But that board has been in continuous existence?

Lieutenant Brannon. Yes.

Mr. Hiss. It has not been, like the Council of National Defense, inactive?

Lieutenant BRANNON. Oh, no.

Mr. HISS. It is a going concern?

Lieutenant BRANNON. That is correct.

Lieutenant Colonel HARRIS. I might state that Lieutenant Brannon is a member of that board.

Mr. HISS. Reading from the memorandum already identified and offered as "Exhibit No. 1225"—

> The Board to standardize war-time contracts in preparing contracts for use in war recognized the following conditions which affect war procurement contracts:
>
> 1. Uncertain labor and material costs which preclude accurate determination of fixed prices.

Is it the opinion of the War Department that for many purchases in time of war a fixed-price contract will be impracticable?

Lieutenant BRANNON. There are two different points there, Mr. Hiss. One is a fixed-price contract where at a particular time we can arrive at a satisfactory price, but due to the uncertainties of the future on a contract which contemplates production over a long period, the uncertainties regarding the increases in the cost of labor and material make it undesirable to fix the price definitely.

Mr. HISS. May I just go on with 2 and 3 of this, then we will come back to that.

Lieutenant BRANNON. Yes.

Mr. HISS. The second part:

> The termination of contracts due to cessation of hostilities.

That means whenever the war ends the problem arises of terminating many hundreds of contracts. We have had reference to it in connection with the Old Hickory testimony today.

Lieutenant Colonel HARRIS. May I interject a remark there?

Mr. HISS. Certainly.

Lieutenant Colonel HARRIS. This paper you are reading is a study by a group of officers.

Mr. HISS. It is.

Lieutenant Colonel HARRIS. If you are coming to any decision where the War Department states a policy, please——

Mr. HISS. I am using this merely to ask a question.

Lieutenant Colonel HARRIS. I just want to make that clear.

Mr. HISS. We are relying on your testimony and that of Lieutenant Brannon as the official statement of the War Department, not this memorandum.

The third point:

> Confusion due to increased industrial activity and unfamiliarity of manufacturers with war equipment and material.

That is one of the problems which must be faced in war-time procurement?

Lieutenant BRANNON. Yes.

Mr. HISS. Fourth:

> Haste incident to the emergency.
>
> 5. Opportunities for profiteering.
>
> 6. Increased powers of the President and removal of legislative restriction upon the powers of the Government agencies.

In time of war it is necessary for the War Department to have untrammeled discretion in many fields in order to move quickly without delay and without red tape, and so forth, is it not, Lieutenant Brannon?

Lieutenant **Brannon**. I think they have such authority. Under section 120 Congress has already given them rather wide powers in the event of war.

Mr. **Hiss**. Has the War Department drawn up a list of statutes which it believes will have to be suspended or superseded in time of war to permit this wide flexibility of operation?

Lieutenant **Brannon**. There was such a list prepared about 1926, and it was not brought up to date. At present there is no such official list, merely a tentative study on the thing that is a sort of preliminary list. It was prepared in the office, but has not been passed upon or approved.

Mr. **Hiss**. In your opinion will there have to be certain liberalizing amendments to existing statutes governing Government procurement in order to give the necessary flexibility in time of war?

Lieutenant **Brannon**. Yes. The draft of one of the bills contemplates that some measures will be included for suspension.

Mr. **Hiss**. The draft does not mention any specific measures at the present time? That is left blank; is that correct?

Lieutenant **Brannon**. That is left blank.

Mr. **Hiss**. Paragraph 7 of this memorandum " Exhibit No. 1225 "—

> Recent recommendations of the War Policies Commission " to minimize the profits of war "—

Does the board to standardize war contracts in developing drafts of those contracts have in mind as one desideratum at least the minimization of the profits of war?

Lieutenant **Brannon**. Yes, sir.

Mr. **Hiss**. And they have attempted to achieve that in the forms prepared?

Lieutenant **Brannon**. They have.

Mr. **Hiss**. When you say " minimize the profits ", just what does the War Department have in mind, Colonel Harris?

Lieutenant Colonel **Harris**. I think to answer that generally that the War Department based its recommendations and its actions on paying 6 percent on the capital invested in the undertaking.

Mr. **Hiss**. And no more.

Lieutenant Colonel **Harris**. Generally speaking, no more.

Senator **Clark**. Then you would have to have in that case, Colonel, one of these rate cases just as a utility has every time the Government made a contract, would you not?

Lieutenant Colonel **Harris**. It would be difficult, Senator.

Senator **Clark**. You would have to go into all the questions of original cost and cost of reproduction new and capital devoted to the particular contract, which would be rather cumbersome at a time when the Government is making 100 or 150 contracts a day.

Lieutenant Colonel **Harris**. I am glad to have the opportunity to answer that question, because in all cost-plus-a-percentage contracts, or adjusted compensation where it is based on costs, the accounting responsibility placed upon the Government is enormous and leads to difficulties. That is a bad feature of a contract of that kind.

Senator **Clark**. I have seen one rate case before a public service commission where they were trying to find out the actual value of the property devoted to the public service last 4 or 5 months. It would seem to me to be an insuperable task, when the Government is making 100, 125, or 150 contracts a day to obtain any figures on which you could base a percentage figure.

Lieutenant Colonel Harris. We hope in our development of peace-time planning to arrive at some of these figures in carrying this out—to arrive at an estimated cost and the values of plants involved. It is a scheme to have, if our system works out to its full flower, the peace-time planning develop the basic data as to that feature of the contract.

Mr. Hiss. Lieutenant Brannon, in subparagraph (*c*) under paragraph 7, the following statement is made:

> The cost-plus-percentage methods of purchase shall be eliminated.

By that you mean the cost plus percentage of cost, do you not?

Lieutenant Brannon. Yes.

Mr. Hiss. Because under some of the present forms, it is the best opinion of the Assistant Secretary of War's office that in the ordnance field and in the large construction field you must still have cost plus a percentage of something?

Lieutenant Brannon. That is correct, cost plus a fee of some kind. But the reason the percentage was in there was to get away from a fee which will increase as the cost increases.

Mr. Hiss. In this particular paragraph your committee had in mind cost plus percentage of cost, did it not?

Lieutenant Brannon. That is correct.

Mr. Hiss. The view of the War Department is that the cost-plus-a-percentage-of-cost contract which was used frequently during the war and which was used in some of the early drafts of the Old Hickory contract and was used in two or three of the other contracts adopted by the du Pont Enginering Co. that we have referred to, should as a matter of policy not be adopted by the Government for future war procurement; is that correct?

Lieutenant Brannon. That has been the assumption of the contract board, I believe, Mr. Hiss.

Mr. Hiss. Has Congress specifically disapproved or at least hinted its disapproval of cost-plus contracts? I call your attention to an excerpt from the Housing Appropriation Act of June 12, 1918, which appropriated $60,000,000 for housing for war needs and amended section 7 of the general housing act as follows:

> That no work to be done or contract to be made under or by authority of any provision of this act shall be done or made on or under a percentage or cost-plus-percentage basis.

Lieutenant Brannon. May I just add there, Mr. Hiss, that the contract form shown in the report of the Housing Corporation shows that they used a cost-plus contract but not a cost plus percentage of cost.

Mr. Hiss. Referring again to "Exhibit No. 1225", Lieutenant Branno, paragraph eight—

> Provision for changes in plans and specifications and necessary readjustments of original estimated cost of contract—

in time of war it will be necessary to have flexibility in that field, too, will it not, Lieutenant Brannon?

Lieutenant Brannon. Yes; the equipment is changing all the time in war.

Mr. HISS (reading):

> The board on war-time contracts, after much research and collaboration with the supply arms and services, adopted certain forms for use in war procurement. These were embodied in a letter to The Adjutant General dated January 25, 1929.

They were the first formal statement in writing of formal adoption by the board of forms of contracts; is that correct?

Lieutenant BRANNON. I believe that is the first we found in our research.

Mr. HISS (reading):

> The forms as then adopted by the board were later referred to another committee appointed by it for further study and recommendations as to revision. This later committee held numerous conferences with representatives of the several supply arms and services and consulted freely with liaison officers of the Navy Department. Consideration was also given to suggestions received from district procurement planning officers and from Reserve officers.

Who are the district procurement planning officers, Colonel Harris? Are they the men you have already referred to as assisting in the planning?

Lieutenant Colonel HARRIS. They are the field agencies of each of the supply branches engaged in industrial planning.

Mr. HISS. Your estimate was that there about 50 of those at present?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. "And from Reserve officers." What Reserve officers do you have in mind there? What Reserve officers were referred to?

Lieutenant Colonel HARRIS. Each one of the planning branches have assigned to them for the war-time associations certain Reserve officers, and they have periodic meetings. At their meetings questions of this character are discussed.

Mr. HISS. The functions of those Reserve officers in time of war would normally be within the supply arms to which they are at present attached?

Lieutenant Colonel HARRIS. Normally.

Mr. HISS. Are they men who have some familiarity with industry?

Lieutenant Colonel Harris. Generally speaking they have.

Mr. HISS. How many of them have some connection with industry?

Lieutenant Colonel HARRIS. Most of them have.

Mr. HISS. Colonel, in connection with your Reserve officers in the procurement branches, are the Reserve officers who now have some connection with industry expected by the War Department to be proficient in the details of that industry when they are called to active duty?

Lieutenant Colonel HARRIS. They are expected to be proficient in the production of the industry rather than the procurement or making any contracts with the industry.

Mr. HISS. Will you use them as advisers in connection with procurement, from the industries with which they were formerly associated?

Lieutenant Colonel HARRIS. When we speak of the procurement branch, I would like to state that there are several phases of it. There is the actual making of the contract, there is the production activity, inspection activity, and the pay activity, all of which we group under the word " procurement."

Senator Clark. Just as an example, Colonel, that may be used by some fellows who remember so long ago that the most of you may have forgotten it—the parties concerned are nearly all dead—there was a time when the Carnegie Steel Co. made a practice of selling to the Government defective armor plate at a very excessive price. Now, it occurs to me that if at that time an officer of the Carnegie Steel Co. was the Reserve officer who was inspecting that armor plate, it would be very difficult for the Government to detect that defective armament.

That is what I was getting at in connection with Mr. Hiss' question, in connection with the matter of taking officers of industry and using them as Reserve officers to regulate those industries in time of war.

Lieutenant Colonel Harris. When we entered the war we had 85 Ordnance officers as such and when we came to the close of the war we had from three to five thousand.

Senator Clark. What I am trying to find out is whether the reserve officers of these corporations, officials that have been given reserve commissions, are going to have to do with the manufacturing and inspection of munitions produced by their own companies.

Lieutenant Colonel Harris. Not by their own companies.

The Chairman. Let us make clear on it. Why not by their own companies?

Lieutenant Colonel Harris. Because generally even the most honest man cannot help but be swayed to a limited agree, at least, by association. We would have to free them of any implication of that kind, and in our plans we hope that no employee of one company will have to do with that particular company.

The Chairman. You mean then specifically this: As an example, in the case of the Colt Corporation, that there would not be a reserve officer assigned in that field who was in any way related to the Colt Arms and Ammunition Co.?

Lieutenant Colonel Harris. I would say there might be a reserve officer selected who had that relationship that you speak of, but he would not be put on that duty that had to do with the Colt Co.

Senator Clark. He would be assigned to some other industrial plant?

Lieutenant Colonel Harris. Yes, sir. We are bound to have in time of war some reserve officers who have affiliations with large industrial corporations, but we endeavor to put them now where there are no connections with their own companies.

Mr. Hiss. Then their peculiar knowledge that they have gained from their industrial experience would be of no value to the War Department?

Lieutenant Colonel Harris. I would not say that.

Mr. Hiss. Let us say their peculiar business knowledge.

Lieutenant Colonel Harris. Let us not say peculiar knowledge.

Mr. Hiss. Their knowledge of that particular industry. In other words, if an expert is an expert in the explosives industry, you will not use his expert explosive knowledge in time of war in regard to procurement?

Lieutenant Colonel Harris. What do you mean by procurement?

Mr. Hiss. The making of contracts.

Lieutenant Colonel **Harris**. You use it in the narrow sense. Procurement for me is getting the stuff, and that covers a wide field.

Mr. **Hiss**. In the contract field, won't they be your advisers?

Lieutenant Colonel **Harris**. I think it is quite likely that some of them may be advisers; yes.

Mr. **Hiss**. When you say they would not be in the same field, you mean you will not have them actually sign the contracts or carry on the final negotiation for the contracts. Won't you, however, use them to advise you as to how the contracts should be entered into?

Lieutenant Colonel **Harris**. Undoubtedly there may be special cases that way, where they should advise, but I like to stick to my original statement, that we will endeavor not to have people in time of war engaged in duties related to the companies from which they came.

Mr. **Hiss**. Referring to the same memorandum, entered as "Exhibit No. 1225":

> Based on these studies, revised drafts of forms were prepared and submitted to chiefs of supply arms and services for further consideration and suggestions. Final redrafts were then prepared by the committee and submitted to the board. At a formal meeting of the board on December 22, 1931, the revised forms as submitted by the committee were adopted.

Are these the forms you have submitted to me hitherto, Lieutenant Brannon?

Lieutenant **Brannon**. I think so. That last one was not included.

Mr. **Hiss**. The last one in there?

Lieutenant **Brannon**. No; that was not included.

Mr. **Hiss**. Do you have copies of these?

Lieutenant **Brannon**. Yes, sir.

Mr. **Hiss**. I am offering in evidence those contracts which were referred to here as having been adopted by the board on December 22, 1931.

(The contract forms referred to were marked "Exhibit No. 1226–A to 1226–D" respectively, the adjusted-compensation form being no. 1226–A; the evaluated fee form, no. 1226–B; the construction form, no. 1226–C; and the supplies form, no. 1226–D. They appear in the appendix on pp. 3795, 3804, 3814, 3819.)

Mr. **Hiss**. I understand that the form I have here in itself contains certain revisions of the December 22, 1931, form; is that correct?

Lieutenant **Brannon**. I do not think any revisions of the form have been made since December 1931.

Mr. **Hiss**. I see.

Lieutenant **Brannon**. Except that a new form has been included.

Mr. **Hiss**. These are contracts for supplies, contract for construction, adjusted compensation contract, exhibit A to the adjusted compensation contract.

> The final redrafts were forwarded to The Assistant Secretary of War in February 1932, together with the recommendations for their approval for use, in their respective fields, for all war procurement purposes, except that of large-scale construction projects.
>
> The Construction Division, Office of the Quartermaster General, was of the opinion that none of the proposed forms was adaptable to large-scale construction and wished to prepare a form which would be suitable for such project.
>
> The Assistant Secretary of War, through the Army and Navy Munitions Board, submitted the proposed forms for consideration of the Navy Department as to their suitability for war procurement purposes by that Depart-

ment—with a view to promoting uniform war-time contracts in the War and Navy Departments. After consideration of the forms by the Navy Department, they were returned with the notation that while most of the principles contained in them were embodied in forms adopted by the Navy, it was not believed advisable or possible to standardize both Department forms into a single form.

Does that state substantially the history of these particular forms to that point?

Lieutenant BRANNON. I think so. It was written some time ago, but, as I recall it, we looked it up at the time.

Mr. HISS (continuing reading):

> In view of recent criticism and suggestions on war contract forms received from procurement district planning officers and industrialists, The Assistant Secretary of War has referred the 1931 war contract forms to the Board on War Contracts for further consideration.
>
> Pursuant to these instructions the Board met on January 11, 1934, and appointed a committee to consider all papers now in the hands of the Board and to present to the Board definite recommendations as to a form of contract based on the adjusted compensation principle and a manual of instructions for the drawing of contracts thereon.

Does that state your recollection of what occurred up to January 11, 1934, Lieutenant Brannon?

Lieutenant BRANNON. I think that is correct.

Senator CLARK. What do you mean by adjusted compensation, Colonel? Congress passed an adjusted compensation bill once having to do with soldiers, and after having been passed everybody got to calling it a bonus. I wonder if this is going to be any different.

Lieutenant Colonel HARRIS. Basically, it is a contract covering a noncommercial item with which the particular contractor is not familiar, and is not able to estimate his costs and for which the Government has got to finance the operation.

Mr. HISS (reading):

> The Board to Standardize Wartime Contract Forms has recommended adoption of the following forms of contracts for use during war.

That is subsequent to January 11, 1934, Lieutenant Brannon?

Lieutenant BRANNON. No; this is simply going ahead in the statement of the thing to say these are the particular forms.

Mr. HISS. This goes back to the December 1931 recommendation?

Lieutenant BRANNON. Yes.

Mr. HISS. Formal contracts. Fixed price contracts, two kinds, contracts for supplies and contracts for construction. Adjusted compensation contracts.

Lieutenant Brannon, will you turn to your form of adjusted-compensation contract?

Lieutenant BRANNON. May I add one thing right there, Mr. Hiss?

Mr. HISS. Certainly.

Lieutenant BRANNON. In preparing this thing no reference was made to the fact that we expect many cases will arise where the standard Government peace-time form can be used.

Mr. HISS. I am sorry; I didn't get that. Will you repeat it, please?

Lieutenant BRANNON. I say it is not mentioned here, but, as I understand it, it is expected that a number of cases will arise where the standard Government peace-time forms will be used.

Mr. HISS. May we just go into that a little more specifically, Lieutenant Brannon?

Lieutenant BRANNON. Yes.

Mr. HISS. During war time in which fields or in what supply arms were the cost plus a percentage of cost and similar contracts used to the greatest extent?

Lieutenant BRANNON. Under the Quartermaster Corps for construction and the Ordnance Department for noncommercial items.

Mr. HISS. I call your attention at this time to an exhibit already introduced, "1107", being appendix A to the letter of the Secretary of War, which shows that a total of $1,271,000,000 was spent in construction during the World War.[1] All of that was not cantonment construction, and, therefore, I assume all of it was not under the Quartermaster Corps, but I should assume that all of that was either under the Quartermaster Corps or to a large extent under Ordnance.

Lieutenant BRANNON. Yes.

Mr. HISS. Is that a substantially correct statement to make?

Lieutenant BRANNON. Yes; I think that is correct.

Mr. HISS. I have handed you that document. What is the number of that exhibit again?

Lieutenant BRANNON. 1107.

Mr. HISS. In addition to the exhibit just referred to on cost of construction, I refer again to "Exhibit No. 1104", heretofore introduced on the relative proportions of the expenditures of the Army supply branches during the war.[2] It will be noticed that the Quartermaster Corps and the Ordnance Department were by far the major purchasers.

Senator CLARK. What is that?

Mr. HISS. This is the Quartermaster Corps and this is the Ordnance and this is the Air Service.

Is it not true, Colonel Harris, that in the event of another war the Air Service expenditures will be proportionately considerably larger than as shown on this chart?

Lieutenant Colonel HARRIS. Quite true.

Mr. HISS. What type of contract do you think would be suitable for taking care of the requirements of the Air Service, for the Air Corps?

Lieutenant Colonel HARRIS. I think some will be fixed price and some will be contracts of the character of the ones we are proposing here.

Mr. HISS. As between those two, which will predominate or preponderate in volume, in your opinion, as between fixed price and adjusted compensation?

Lieutenant Colonel HARRIS. I think there would be more fixed price in the Air Corps, for air equipment, than there will be in the Ordnance Department, for example, but there will be a large proportion of the adjusted form of contract.

Mr. HISS. In the Air Service?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. In ordnance, what would be your estimate—I think you have already testified on this, but I would just like to bring it out—your estimate as to the proportion of the contracts during the war in the field of ordnance which were fixed-price and those which were some other form.[1]

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[1] Hearings, Part XIII, p. 2910, appendix, p. 2981.
[2] Ibid., p. 2906, appendix, p. 2974.

Lieutenant Colonel HARRIS. I am getting that data prepared to present at a later date and I prefer not to answer, because I want to give you the exact figures.

Mr. HISS. We can at this time say a large part——

Lieutenant Colonel HARRIS. A large part undoubtedly would be.

Lieutenant BRANNON (continuing). Would be of the non-fixed-price type?

Lieutenant Colonel HARRIS. Quite true.

ADJUSTED-COMPENSATION CONTRACT FORM [2]—GENERAL

Mr. HISS. Under the adjusted-compensation contract, which I have asked you to turn to, Lieutenant Brannon, the scheme of payment is to pay the cost of production; is it not?

Lieutenant BRANNON. That is correct.

Mr. HISS. And this particular contract is believed to be especially suitable to the needs of the ordnance branch—the Ordnance Department— is that correct, in time of war?

Lieutenant BRANNON. Yes, for the protection of noncommercial items manufacturers, and, of course, they are largely the ones to use them.

Mr. HISS. Ordnance is the largest consumer, if we can use that word, of noncommercial items?

Lieutenant BRANNON. Yes.

Mr. HISS. Under ordnance come the purchase of explosives, small arms, and ammunition, and steel for large ordnance, is that correct?

Lieutenant BRANNON. I think so. It is a question of how much steel they buy, of course.

Mr. HISS. In determining the costs of a contractor who also supplies his own raw material—let us take, for example, one of the steel companies, which has its own coal mines, or one of the copper companies which has its own copper mines—what will the War Department regard as the cost of the raw materials for a component element produced by a contractor?

Lieutenant BRANNON. I think if you look at the form, Mr. Hiss, it is not contemplated that a contractor will furnish any raw material except what he may have on hand.

Mr. HISS. Suppose you have the example given, of a steel company with its own coal mine, will you permit them to use their own coal, or will they have to buy on the market?

Lieutenant BRANNON. I think that the form provides only for the material which they have on hand at the time. I will have to look at that.

Mr. HISS. I don't think there is any specific provision containing that, forbidding a company from using——

Lieutenant Colonel HARRIS. Mr. Hiss, may I answer that question?

Mr. HISS. Certainly.

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[1] Colonel Harris later submitted a list of total cost-plus and fixed-price contracts. See hearings, Part XVI, p. 3936.

[2] Entered as "Exhibit No. 1226–A", p. 3625.

Lieutenant Colonel HARRIS. We contemplate that the prices will be set for raw materials shortly after war is begun, and that all raw material will be on that basis.

Senator VANDENBERG. Is that the price-freezing plan that Mr. Baruch and his board speak of?

Lieutenant Colonel HARRIS. We do not use those terms, but it is under our price control set-up. We hope to take over the next war more or less where the last war wound up on the control of price. At that time they had a standard price on many raw materials, set by the War Industries Board, generally by agreement. There was no legal authority for those prices.

Mr. HISS. Lieutenant Brannon, are you familiar with the memorandum of February 6, 1934, headed, "Comments, Criticisms, and Proposals on the Adjusted Compensation Contract Form?"

Lieutenant BRANNON. Yes; I have a copy here.

Mr. HISS. I show you some excerpts, which may be a little more convenient, and I offer this for their record.

(The excerpts from memorandum referred to were marked "Exhibit No. 1227" and are included in the appendix on p. 3823.)

Mr. HISS. Turn to the third typewritten page, under the heading, "Philadelphia ordnance district." You will see there a statement reading:

> There is nothing in the contract to prevent the contractor from obtaining the market price for such raw materials or component parts as are produced by him.

I agree with that particular provision. I have not been able to find a provision which prevents a manufacturer who also happens to produce his own raw materials from taking over those raw materials at the market price and charging that at cost.

ADJUSTED-COMPENSATION CONTRACT FORM—PROFITS OF INTEGRATED COMPANIES

Senator CLARK. In other words, if you had a manufacturer of heavy ordnance who also controlled his own coal mine and his own iron mine and the railroad to transport them from one part to another, he would make one profit as a producer of coal, he would make another profit as a producer of iron, he would make another profit on the railroad transportation, on the steel, and a further one as a manufacturer of ordnance, wouldn't he, under this proposition?

Lieutenant Colonel HARRIS. Unless other governmental agencies had been established to set prices, that is true.

Senator CLARK. But under this plan he would make a separate profit on each business in which he was engaged.

Lieutenant Colonel HARRIS. But under our industrial mobilization plan we provide a price-control agency which we hope will nullify the feature you speak of.

Mr. HISS. But not under the contract itself.

Lieutenant Colonel HARRIS. Quite true.

Mr. HISS. I call your attention to a similar proposition. Take the du Pont Co., which produces many of its own component elements. In the production of smokeless powder, for example, the smokeless powder department secures cotton from the Parlin plant, which is under the fabrics and finishings department; it secures sulphuric acid from the dye works at Deep Water Point.

Is that correct, Mr. Irénée du Pont?

Mr. Irénée du Pont. We make sulphuric acid at several different places, but your idea that nitrocellulose for smokeless powder would be made at the Parlin plant and shipped somewhere else and made into smokeless powder is erroneous.

Mr. Hiss. I mean at the present time.

Mr. Irénée du Pont. We make some nitro cotton at Parlin; yes.

Mr. Hiss. And the smokeless powder plant receives cotton—Mr. Bradway, you know about that.

Mr. Bradway. It gets purified cotton.

Mr. Hiss. It gets purified cotton and you make your own nitrocellulose.

Br. Bradway. Yes.

Mr. Hiss. Mr. Bradway, will you correct me on any of these points, please?

Br. Bradway. I will.

Mr. Hiss. So far it is all right, is it?

Mr. Bradway. I believe so.

Mr. Hiss. The information I am supplying I believe I got from Mr. Bradway. I may not have understood him correctly.

The smokeless powder department receives its sulphuric acid from the dye works at Deep Water Point, under the organic chemicals department of the du Pont Co.

It receives its nitric acid from the explosives department at Repauno, which in turn has secured its ammonia from the ammonia department.

Diphenylamine, which is an ingredient in smokeless powder, is prepared at Repauno under the explosives department, and the aniline used in the manufacture of the diphenylamine is furnished to Repauno from the dye works at Deep Water Point under the organic chemicals department.

Senator Clark. I just wonder if it is sometimes borrowed from the Government.

Mr. Hiss. Alcohol used in the explosives department, smokeless powder department, is also received from the dye works at Deep Water Point. Trinitrotoluene is also made at the dye works?

Now, I have here an exhibit showing the costs at which the du Pont Co. carries certain of these items within its individual departments.

For example, in 1933 the average manufacturing cost price, within the ammonia department, of ammonia was 0.0291. This is transferred to the next department at 0.0360 the slight percentage of profit being retained in the ammonia department.

Then from the ammonia, nitric acid is made in the next plant, namely, the explosives department. In 1932 the average manufacturing cost price of nitric acid was 2.86 a hundredweight. The average transfer price from the explosives department to the smokeless powder department was 3.83. In 1933 those figures were, respectively, 2.84 manufacturing price and 3.28 transfer price.

Similarly, in regard to aniline produced in the dye works, in 1932 the average price was 8.78. The average transfer price from the dye works to the explosives department was 9.80. In 1933 those figures were, respectively, 9.53 cost, 9.95 transfer.

Similarly, diphenylamine manufactured by the explosives department and transferred to the smokeless powder department was manufactured in 1932 at 16.42 and transferred at 27. It was manufactured in 1933 at 20.20 and was transferred at 21.45.

I offer that as an exhibit for the record.

(The document referred to was marked " Exhibit No. 1228 ", and is included in the appendix on p. 3830.)

Senator CLARK. Do those figures you have been reading include the allocation of all costs?

Mr. HISS. Do you know, Mr. Bradway?

Mr. BRADWAY. That information you received from the Treasurer's Office. I know nothing about that.

Mr. HISS. Is there anyone here from the du Pont Co. that knows the basis for these figures?

Mr. IRÉNÉE DU PONT. I note one thing you leave out of it, and that is the freight for transferring these things. Take ammonia down at West Virginia, at one price, delivered at Repauno at another. You have got to pay the freight en route. Furthermore, if we can sell it at West Virginia at the price we can get at Repauno, there is no particular point in selling it at Repauno at a lower price.

Mr. HISS. Colonel Harris, what is the view of the War Department on the issue presented by this evidence and by Mr. Irénée du Pont's statement, that there would be no particular sense in the du Pont Co. furnishing component elements at less than market price?

Lieutenant Colonel HARRIS. There is a clause in the form that covers part of that.

Mr. HISS. What is that?

Lieutenant Colonel HARRIS. This is the adjusted form, paragraph 9, referring to material on hand, but it does not refer to material thereafter.

Mr. HISS. Material on hand has to be taken over at market price.

Lieutenant Colonel HARRIS. No; taken over at the cost of——

Mr. HISS. Not in excess of the current market price.

Lieutenant BRANNON. Neither in excess of the current market price or the price set forth in exhibit A.

Mr. HISS. This exhibit A is not costs, is it?

Lieutenant BRANNON. Oh, yes.

Mr. HISS. Oh, exhibit A is costs?

Lieutenant BRANNON. Yes; on the cost of the material, which cannot be exceeded unless by approval of the contracting officer or governmental agency.

Mr. HISS. Suppose the contractor had on hand goods that he bought for X dollars?

Lieutenant BRANNON. Yes.

Mr. HISS. If, then, the current market cost was X plus Y, the figure in exhibit A would be X plus Y. He would be entitled under paragraph 9 to transfer that at X plus Y; isn't that correct?

Lieutenant BRANNON. That is correct, if they had agreed in advance that that was the correct price. But here is the thing: Under this adjusted compensation contract, if the stuff is produced in the plant all he gets is a percentage on the value at the plant. We pay the costs. If he gets it from some other plants, if he has two different plants, I don't think there is anything here that specifically prohibits him from buying from a subsidiary, for example; but he could not exceed that cost which had been predetermined in exhibit A. You see, the market price of the materials at the time, all of the different materials which go in, is included in exhibit A; that is fixed in advance and he cannot exceed that, unless either the contracting officer approves or, first, unless a Government agency had raised the price, or if there is no such Government agency, then the contracting officer had approved.

Mr. HISS. But the profits might be more to a contractor who supplies his own raw material or the component parts than 6 percent on the investment.

Lieutenant BRANNON. No; he could not make two profits. We might pay him a certain amount plus 6 percent on what he produced. Now, if he sold coal which would have to go to some other company, on which we did not pay him anything on his mine, it is true on that coal he might make a separate profit, but not a double profit. We would not pay him anything for the use of that mine. You see, we pay him for the use of his plant.

Mr. HISS. The market price of that material?

Lieutenant BRANNON. Yes; we have got to pay the market price to somebody. But if he gets it, he gets not a double profit on his contract, but because he is operating two different things.

Mr. HISS. The War Department has no desire to eliminate any profit on that other transaction?

Lieutenant BRANNON. Not on a separate transaction; no; so long as we have already determined in advance that the price he charges is correct.

Lieutenant Colonel HARRIS. I might state in drawing up this thing we recognize the current market price as being the basic price.

Mr. HISS. I call your attention to a provision of an act approved March 2, 1923, appearing in 42 Statutes, page 1377, at page 1416.

This provides:

> Except as expressly otherwise authorized herein, no part of the sums appropriated by this act for military purposes shall be expended in the purchase from private manufacturers of ordnance and ordnance supplies at a price in excess of the cost of manufacturing such material by the Government, or, where such material is not or has not been manufactured by the Government, at a price in excess of the estimated cost of manufacture by the Government.

Suppose the Government itself begins to manufacture ammonia, nitric acid, diphenylamine, and some of those other elements, what in your opinion will be the effect of this statute on the adjusted compensation form of contract, Lieutenant Brannon?

Lieutenant BRANNON. I am not familiar with this except it says "as otherwise authorized herein." Do you know what the reply to that is, Mr. Hiss.[1]

Mr. HISS. No, sir. We will have to look that up after we adjourn today.

ADJUSTED-COMPENSATION CONTRACT FORM—ACCOUNTING METHODS OF CONTRACTS

Colonel Harris, in determining costs, what is the policy of the War Department with respect to cost-accounting systems which you find in effect when you start negotiations with a particular contractor? Will the War Department, in other words, make any attempt to force a contractor to adopt a different cost-accounting method than that he is currently using?

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[1] Ordnance supplies as specified, 42 Statutes, pp. 1403 to 1406, show no other authorization.

Lieutenant Colonel HARRIS. Quoting article IV, page 6, paragraph 1 of the adjusted compensation contract form——

Mr. HISS. What page is that?

Lieutenant Colonel HARRIS. Page 6, article IV, "Records and accounts" [reading]:

> The method of accounting used by the contractor shall be subject to the approval of the contracting officer. No material change will be made in the contractor's method if it conforms to good accounting practice and the costs are readily ascertainable therefrom. The original documents of all transactions not delivered to the Government in the course of payments shall be retained by the contractor and shall be open to inspection and examination by the contracting officer at all times prior to final settlement.

Mr. HISS. Is there someone from the Winchester Co. present?

Mr. PUGSLEY. Yes, sir.

Mr. HISS. Are you familiar with the relations between your company and the United States Cartridge Co.? The United States Cartridge Co. is a subsidiary of the National Lead Co., is it not?

Mr. PUGSLEY. I believe it is.

Mr. HISS. In 1926 did your company enter into such an agreement with the United States Cartridge Co. for the manufacture of their entire line of ammunition?

Mr. PUGSLEY. The Winchester Repeating Arms Co., which went into receivership in 1931, went into such agreement.

Mr. HISS. Your predecessor company?

Mr. PUGSLEY. Yes, sir.

Mr. HISS. Are you familiar with the provisions of that contract, which provided for reimbursement to the Winchester Co. on a basis related to cost?

Mr. PUGSLEY. In a very general way only.

Mr. HISS. Are you familiar with the fact that it was based on various percentage burdens charges according to different departments and different manufacturing processes through which the ammunition was passed?

Mr. PUGSLEY. I remember there was such a clause; yes, sir.

Mr. HISS. Were you not, because of the size of your business with the United States Cartridge Co., forced to adopt that particular burden charge as to cost-accounting in general for the entire company, until its reorganization?

Mr. PUGSLEY. No; I think it was rather the other way. That was the method. We kept our own costs and we based the contract on that general procedure, with the exception that we more or less froze those overheads, if you want to use that term.

Mr. HISS. From 1926 on?

Mr. PUGSLEY. That is right.

Mr. HISS. In other words, the contract was entered into on the basis of your 1926 cost-accounting methods; is that correct?

Mr. PUGSLEY. That is correct.

Mr. HISS. Did not that freeze your cost-accounting methods as of 1926?

Mr. PUGSLEY. So far as the billings of the United States Cartridge Co. were concerned; yes, sir.

Mr. Hiss. Did you not go further than that, so that you maintained this form of accounting for your entire cost accounting?

Mr. Pugsley. I do not think that that changed our accounting system in any way.

Mr. Hiss. Did you have two separate means of determining cost—one for the United States Cartridge Co. contract and one for your other business—or did you use the same form throughout? [1]

Mr. Pugsley. Insofar as our own business was concerned, we operated a burden debit or burden credit, depending upon the operation of the particular departments. That was not applicable to the United States Cartridge Co., as I recollect it.

Mr. Hiss. It was different from the United States Cartridge Co.?

Mr. Pugsley. As I recall it; yes.

Mr. Hiss. Will you inquire into that and make sure, because we have information to the contrary, that you adopted a uniform accounting method?

Mr. Pugsley. Yes, sir.

Mr. Hiss. Until we can establish that differently, one way or the other, Colonel Harris, may I state a hypothetical question?

Assume that because of such a contractual relation or for some other reason a particular accounting system, cost-accounting system, was adopted by the Winchester Co., which, because of the size of their contractual arrangement they felt must be used as their general cost-accounting system, and that after a period of years those charges or burdens became, because of changes in the company's processes, arbitrary, and did not truly represent cost. Would you require, under the provision which you have just read from the adjusted-compensation contract, a complete new cost-accounting system to be instituted by the Winchester Co.?

Mr. Pugsley. The clause covering that?

Senator Clark. May I ask a question? I do not want to interrupt you, but I have a question along a different line. Colonel Harris, I have before me a public document known as "Industrial Mobilization Plan, Revised 1933", issued by the Government Printing Office in 1933, and in the back of that is included the draft of eight bills about legislation which it is contemplated to submit to the Congress immediately on the declaration of war. Those eight bills do not comprise all the legislation which you have prepared down there to send to Congress, do they?

Lieutenant Colonel Harris. It includes all the legislation which we feel is necessary to put this plan into effect; yes, sir.

Senator Clark. I am not speaking from knowledge, but from hearsay only, but is it not a fact that you have a bill drawn down there to be submitted to Congress as soon as the declaration of war comes for licensing the press of the country?

Lieutenant Colonel Harris. For doing what?

Senator Clark. Licensing the press.

Lieutenant Colonel Harris. Licensing the press?

Senator Clark. Yes, sir.

Lieutenant Colonel Harris. I know nothing outside of those bills.

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[1] The committee under date of Apr. 5, 1935, was informed by the Winchester Co. that under the agreement with the United States Cartridge Co. certain overhead percentages in the Winchester Co.'s cartridge shops were agreed upon as standard and were used as the basis of all Winchester ammunition cost accounting until the company was sold in December 1931 by its receivers.

Senator CLARK. Do you have any knowledge, Lieutenant, of any such bill as that?

Lieutenant BRANNON. No, sir.

Senator CLARK. Has that ever been discussed down there in any of your numerous memoranda?

Lieutenant BRANNON. No, sir.

Lieutenant Colonel HARRIS. Answering your question, here is the part of the form applicable to the following methods:

> No material change will be made in the contractor's method if it conforms to good accounting practice and the costs are readily ascertainable therefrom.

Mr. HISS. May I ask what, in your opinion—you do not have to be too exact, but just off hand—what would be your opinion as to the hypothetical case which has just been stated?

Lieutenant Colonel HARRIS. As I understand it, your question is, based over a period of time——

Mr. DAVIS. The overhead is——

Lieutenant Colonel HARRIS. We would certainly examine into it.

Mr. HISS. Would not the obligation imposed on the War Department by that clause demand lengthy and difficult examination and the determination of very doubtful questions from the standpoint of discretion and judgment?

Lieutenant Colonel HARRIS. It would. As I stated previously, the accounting phases of this contract have very serious objection to it.

Mr. HISS. May I call your attention to an agreement dated January 1, 1934, which I believe has not been hitherto introduced in evidence, between a German corporation, the Dynamit Actien Gesellschaft and the Remington Arms Co., which I offer in evidence at this point?

(The agreement referred to was marked "Exhibit No. 1229" and is included in the appendix on p. 3830.)

Mr. HISS. Who is the representative of the Remington Arms Co.?

Mr. DAVIS. Mr. Green and myself.

Mr. HISS. Have you a copy of this contract of January 1, 1934?

Mr. DAVIS. Yes, sir.

Mr. HISS. Will you turn to page 5, paragraph VII, which reads [reading]:

> The royalty paid to D. A. G.—

That is Dynamit Actien Gesellschaft, Mr. Davis, referred to in the preamble to the agreement? Is that correct?

Mr. DAVIS. That is correct.

Mr. HISS (reading):

> The royalty paid to D. A. G. by Remington with respect to military ammunition manufactured and sold by Remington shall not be less than 1 percent without the express consent of D. A. G.

Colonel Harris, would a royalty to a foreign government, a friendly government, be considered a proper allowance of cost under the adjusted-compensation contract?

Lieutenant Colonel HARRIS. If that was the only way we could get it, I would say "yes."

ADJUSTED-COMPENSATION CONTRACT FORM—ACCEPTABILITY TO CONTRACTORS OF 6 PERCENT FEE

Mr. Hiss. Colonel Harris, the adjusted-compensation contract,[1] in its present form, calls for a fee of 6 percent, does it not, on the estimated value of that part of the plant used in connection with the contract? Is that correct? Have you got that provision?

Lieutenant Colonel Harris. Yes, sir. I will let Mr. Brannon answer it. He is more familiar with it.

Mr. Hiss. Have you the page reference?

Lieutenant Brannon. You spoke of article II and in exhibit A the details of the printed form.

Mr. Hiss. Roughly, the fee is 6 percent of the estimated value of the plant used in connection with the contract. Is not that correct?

Lieutenant Brannon. There is a rate of 6 percent per annum.

Mr. Hiss. That is the fee?

Lieutenant Brannon. That is right.

Mr. Hiss. In addition to the difficulties which Colonel Harris has referred to in computing cost and in computing valuation, do you not have to enter a further field of uncertainty, in that you cannot simply value a manufacturer's entire plant, but you must break it down into the valuation of that part of the plant which he is using currently, if he does not require his entire plant for the particular contract?

Lieutenant Brannon. We may have cases where we will have to do that.

Mr. Hiss. That will be extremely difficult, will it not, of determination?

Lieutenant Brannon. Yes; it will be difficult.

Mr. Hiss. Has this adjusted-compensation contract been discussed rather generally with those industries to whom it is most likely to be applied in the event of war?

Lieutenant Brannon. It has been discussed quite fully with industries in the various ordnance districts.

Mr. Hiss. Have they agreed to the form which has been introduced in evidence and to which we are now addressing ourselves?

Lieutenant Brannon. There have been a number of objections. Usually, that they do not get enough.

Mr. Hiss. Have you found a unanimity of agreement on the 6 percent on the investment point?

Lieutenant Brannon. It is hard to say, but just remembering various criticisms, I think generally industry seems to think 6 percent is not enough.

Mr. Hiss. Has the War Department made up its mind definitely as to whether 6 percent is enough or not?

Lieutenant Brannon. I cannot say the War Department, because the War Department has never approved these forms. The board has made them up on the assumption that 6 percent is correct, and that is the rate recommended to the War Policies Commission.

Mr. Hiss. Did not General MacArthur testify before the War Policies Commission, on behalf of the War Department, that 6 percent had been determined on by the War Department?

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[1] Entered as "Exhibit No. 1226–A", see p. 3625.

Lieutenant Colonel Harris. I think, answering your question, the War Department does look with favor upon 6 percent of the capital invested.

Mr. Hiss. And thinks that that is sufficient?

Lieutenant Colonel Harris. I think that is true.

The Chairman. I think it would be altogether interesting to know what the representatives of industry think of that, rather, what their reaction is to it. Mr. du Pont, what of the 6 percent?

Mr. Irénée du Pont. Mr. Chairman, I have not given any long, consecutive thought to this problem, but it would seem to me that the fixing of a definite percentage would at least eliminate all the embarrassment about trusteeship for your stockholders. In other words, if you are in a position where you deserve more than 6 percent by reason, we will say, of their position in the industry and their efficiency, if 6 percent were the limit, it might be that that would keep them from signing their name on a contract limiting them to 6 percent. I think it would have that very definite advantage in eliminating the double responsibility to stockholders as trustees, and a desire to aid the Government in every way possible on the other hand.

If the general principle is adopted of a fixed percentage like 6 percent for everything in this country, I think that would take away a great deal of the feeling that some people are treated better than others, and I think that that kind of feeling does a great deal of harm. Each thinks somebody else is getting more, and they want to get more for that reason. I think on the war materials which you do not classify as munitions such as grain, perhaps, it is going to be extremely difficult to know whether the farmer gets 6 percent or not. Perhaps it would be found wise to let the price of grain soar, and placate the farmer. I do not know. I think you are going to have great difficulty in drawing the line on war munitions, and if you try to fix it on grain or cotton, on a 6 percent basis, I think you are going to get into grave difficulty. But I do not think that these difficulties are insuperable, and I think the War Department is doing a grand job, trying to figure out ahead of time as to how and where to start this thing and get a plan ahead of them.

Mr. Hiss. Mr. du Pont, this 6 percent, as I understand it, is not on the basis of freezing prices. Is that correct, Colonel Harris?

Lieutenant Colonel Harris. There are two different things.

Mr. Hiss. Does the War Department consider that it has jurisdiction over the fixing of prices in time of war?

Lieutenant Colonel Harris. The War Department does not, but it has the responsibility for planning for it.

Mr. Hiss. And making recommendations?

Lieutenant Colonel Harris. I would like to make the point clear. We have one great responsibility in the War Department, supervising procurement, and we have another responsibility, planning for operation in war, to be operated by this agency appointed by the President.

Mr. Irénée du Pont. Mr. Chairman, could I finish one other thought on this thing?

I do not think we ought to forget in these times that the main object of a war is to win, and fixing the dollars, whether for yourself or preventing somebody else from getting them, is, after all, minor, compared with winning the war. If war came, it would be a very expensive thing to pay all of these damages. I am not saying that the idea is to favor preparedness, regardless of expense, because I am opposed to that thing.

Lieutenant Colonel HARRIS. Mr. Chairman, may I read a paragraph on that from the Foreword to the Industrial Mobilization Plan?

The CHAIRMAN. Yes, sir.

Lieutenant Colonel HARRIS (reading):

> In formulating this plan, the recommendations of the War Policies Commission of March 5, 1932, have been taken into consideration. The tendency to overemphasize administrative efficiency and underemphasize national effectiveness has been guarded against. The objective of any warring nation is victory, immediate and complete. It is conceivable that a war might be conducted with such great regard for individual justice and administrative efficiency as to make impossible those evils whose existence in past wars is well known. It is also conceivable that the outcome of a war so conducted might be defeat. In all plans for preparedness and policies to be pursued in event of war it must never be overlooked that while efficiency in war is desirable, effectiveness is mandatory.

The CHAIRMAN. Colonel, is any consideration given in these plans at all that would in any wise regulate the salaries that would be paid officials of an industry, or bonuses that were to be awarded?

Lieutenant Colonel HARRIS. Please answer that.

Lieutenant BRANNON. In this adjusted-compensation contract there is provided in 2 (a) a schedule of the salaries and wages which would be paid, and which cannot be exceeded unless either approved by a governmental price-fixing agent or by a particular officer.

Senator CLARK. How about the bonuses prevailing in the last war? Would your limitation include bonuses paid in the last war to the various workers in munitions plants, so far as concerns the discussions which we have had from time to time?

Lieutenant BRANNON. I think so.

Lieutenant Colonel HARRIS. I do not think you understand the Senator. I think he is asking whether the Government would sanction including bonuses in the rates.

Senator CLARK. Whether the limitations you are speaking of for this would include bonuses, or whether bonuses would be in addition to that.

Lieutenant Colonel HARRIS. The rates are for salaries or wages to be paid, and there is nothing about bonuses, and 6 percent is on the capital investment involved.

Senator CLARK. What I am trying to get at, Colonel, is this:

Whether or not a set-up was made for them and for bonuses to be paid for the work.

Lieutenant Colonel HARRIS. I think that is prevented in this contract, because the only bonus paid is where an agreement is made as to some form of piecework, in which some incentive to rapid production may be included.

The CHAIRMAN. Mr. Pugsley, do you have any thought which you wish to express concerning the limitation of 6 percent? Have you given it any thought at all?

Mr. PUGSLEY. Practically none. My recollection of the adjusted-compensation contract, so far as my own connection with it is concerned, was a meeting which I attended 6 or 7 years ago in Hartford, at which the original draft was presented, and that seemed to involve so many difficulties of accounting that we did not get as far as discussing the percentage. I heard nothing more from it until I should say 2 or 3 years ago there was another conference, and at that time we were informed by representatives of the Ordnance Department that the former contract which we had discussed was now obsolete and was being revised, and they were swinging away from that type onto another type, and that we would be advised in the matter.

I do not remember ever having any further conference about that, and I have no idea about the 6 percent. I would want to discuss that with the board of directors before I express an opinion.

The CHAIRMAN. Mr. Davis, would you like to discuss that thought, too?

Mr. DAVIS. I have given no thought to it at all, Senator, but I feel sure that you could count on Remington giving their 100-percent support to any plan that the War Department thought was equitable.

Mr. HISS. Mr. du Pont, did you understand that the 6 percent referred not to general fixing of such throughout industry but to a return to specific contractors with the War Department?

Mr. IRÉNÉE DU PONT. I appreciate that now, but I do not know how far you are going down the line.

Mr. HISS. As I understand it, those contractors who the War Department determines require this particular type of contract will be primarily certain contractors with the Ordnance Department. That is correct, Colonel Harris?

Lieutenant Colonel HARRIS. But applying to noncommercial material.

Mr. HISS. And the Ordnance Department is the primary purchaser of such material?

Lieutenant Colonel HARRIS. Generally speaking; yes, sir.

Mr. IRÉNÉE DU PONT. May I say a word about bonuses?

The du Pont Co. certainly paid out very large bonuses throughout the period of the war, especially before the United States went into the war, when we had larger profits than during the war, to offer incentive to men for carefulness and energeticness in the pursuit of their work.

Senator CLARK. That was very general throughout industry, was it not?

Mr. IRÉNÉE DU PONT. I do not know how general it was, but the du Pont Co. had been giving them for many years. It is my belief that the best investment we made during the war was in our bonus plan. I think we got back more earnings by economies from operation, savings all along the line, preparatory to getting further progress, than we could have gotten by the investment of that fund in any other way, without exception.

If that could be grafted onto the plan to incite people to efficiency and the like, it would be a very fine thing to do. I talked to a fellow who used to be vice president of the United States Rubber Co., and I asked why he did not use the bonus plan. He said the plan worked wonderfully if you were working under a beneficent autocracy.

Senator CLARK. The thing I had in mind was that there were men in the front-line trenches frequently working 24 hours a day, without any incentive, and I was trying to find out the difference between a civilian man back of the line and the man in the front-line trenches.

Mr. Irénée du Pont. Mr. Senator, I do not know much about the Army, because I have never been in it. If it could be grafted onto the Army, it might do good and might not. I have my doubts about it, but that is for you Army officers to pass on, not me.

The Chairman. Mr. du Pont, was the matter of bonuses essential to the creation of initiative as respects the executives of the corporation during that period?

Mr. Irénée du Pont. I think it was; yes, sir.

The Chairman. You mean that there was a larger initiative and a larger service performed by reason of the fact that executives felt there was going to be a bonus for them?

Mr. Irénée du Pont. Yes; if they could earn it. I think that ran all through the organization. I have not the least doubt that it was the real cause of a great deal of improvement in our efficiency. You will appreciate that efficiency is very important. Take the matter of alcohol, I mentioned before. The old plan called for using nine-tenths of a pound of alcohol for a pound of powder, probably eight-tenths. I think both the Army and the Navy had the same experience. By concentrating on that particular problem, among the innumerable other problems, we gradually reduced the amount of alcohol required for powder to three-tenths of a pound. Alcohol was extremely scarce at that time, and its price was fixed in the price of molasses and grain. That is, those were means of fermentation. That saving was not only large in dollars, running into millions of dollars, but we might not have been able to get enough alcohol to make all the powder required if we had not saved.

Mr. Pierre du Pont. Mr. Chairman, may I say a word on this?

The Chairman. Yes; Mr. du Pont.

Mr. Pierre du Pont. I think I have had a great deal to do with the bonus system in the du Pont Co. and elsewhere. I never happened to have received a bonus for anything in my life—and possibly I did not deserve it—but that is a fact. However, I have had a great deal to do with other people receiving bonuses, and I have recommended to everyone having control over men to award a man for good work accomplished, whether it is in the Army, industry, or anywhere. I cannot imagine how the Army would fail to improve in its operation if there was a system of reward for success, financial as well as honors. Some people are appealed to more by honors than money, and frequently the reverse is the case. But the fact remains that it appeals to a man to be awarded in that way for good things accomplished. In the du Pont Co. my brother said a lot of men received a bonus. I doubt if he received a bonus at all.

Mr. Irénée du Pont. I did not after becoming president but in the war I received two bonuses. It is in the record of compensation I received.

Mr. Pierre du Pont. It is the second line of men who generally receive the larger bonuses, rather than the first line. Their bonuses, if received at all, are extremely small, but it is the second-line men who are stepping into the big positions who are the ones who get the best bonuses. It is a plan that certainly worked very well.

May I say a word on the question of a 6-percent profit? I agree with what my brother says, but I cannot imagine anything that would discourage invention more than a known policy of that kind applying to everything. I am not trying to raise objections, and I do not know how to overcome that difficulty. But, for instance, in the air business, which is a new thing, it certainly would discourage all invention, if it were known that a 6-percent money reward was all that was being paid, because a tremendous amount of money is going to be required in developing the inventions. A great many people know that the better part of the inventions will fail.

If the man who succeeds has nothing but 6 percent ahead of him, and maybe over 90 percent open to failure, he is not going to pursue that business very far.

New business must be encouraged by higher profits, otherwise nobody will go into it and nobody will follow the inventions which are necessary.

The CHAIRMAN. Do you mean that is true in time of war?

Mr. PIERRE DU PONT. No; I do not. I think in time of war that patriotic feeling gets possession of everybody and they will do everything, knowing what they do will have a direct result. It was certainly apparent when we joined the war, how everybody joined in in every way. That is a condition entirely different from what is a normal condition, and how to meet that condition as against normal is a very difficult problem.

I agree with the starting of this plan, possibly on the 6-percent basis, especially with the things that have become standard, it is a very good plan, possibly at the start, but I think there should be a great deal of care taken in preparing it and not to go so far that we are going to discourage invention, from time to time, which possibly should be promoted in military affairs.

Mr. HISS. Do you realize that your brother, Mr. Irénée du Pont, was referring to a proposal relating to war-time contracts, not to general procurement contracts?

Mr. PIERRE DU PONT. I was not certain about that, whether he was speaking of both or only war time; but I think the whole proposition would be much easier to put in force in war time than in peace time, for the reason that the incentive to go ahead and do things is so much greater then that the money profit is more lost sight of.

Mr. HISS. Do you believe that a 6-percent return on valuation as the fee is a sufficient fee to be paid by the War Department in time of war?

Mr. PIERRE DU PONT. I should say probably yes. I would not want to say without exception. But I think, in general, probably that would be a good throw-down to start.

Mr. HISS. Do you think the War Department should not attempt to be arbitrary about it and apply it to all contractors, but should make exceptions?

Mr. PIERRE DU PONT. I think it ought to be open to possible exceptions. I cannot name any. I agree with my brother it is very difficult to lay down a rule that will apply to everyone. I do not see how the rule could apply to things such as farm products. I do not see how they could be controlled.

Mr. HISS. Do you think the du Pont Co. would be included in the exception, or do you think the du Pont Co. would agree that 6 percent would be sufficient return for it on its contracts with the Government?

Mr. PIERRE DU PONT. I have no right to speak for the du Pont Co. Personally, I should say it was all right, probably.

Senator CLARK. Coming back to this question I was asking a while ago, Lieutenant Brannon has been kind enough to direct my attention to paragraph 5, section D, on page 100 of the Industrial Mobilization Plan to which I referred a little while ago. It is a Presidential proclamation which has been prepared to be issued in the event of war.

> I hereby appoint and designate ____ as Administrator of Public Relations. His duties and powers shall be to advise and assist the President in all matters relating to public information as to the progress, aims, and purposes of the Government of the United States in the present emergency. Said Administrator of Public Relations shall also have the authority to employ such assistants and subordinates as may from time to time be deemed by him necessary, and to fix the compensation of such assistants and subordinates.

Lieutenant Brannon, is there any specific indication as to what the duties of this Administrator of Public Relations would be, other than this chart found opposite page 46 of this document? In other words, is it the purpose of the War Department in setting up this administration of public relations having control of the public information that that is simply a reference—for instance, the administration of the Administrator of Public Relations is divided into the division of news, both domestic and foreign; division of pictures, films, posters, cartoons, photographs, and scenarios; the administrative division; division of civic cooperation—does that simply apply to cooperation or does it apply to taking control of the avenues of public information which are ordinarily put out by the newspapers and magazines, is what I was trying to get at?

Lieutenant BRANNON. Following page 45 are the outlines of the plan so far as they pertain to public information.

Senator CLARK. I see paragraph (*g*) there, Lieutenant, under section 2 on page 46, among the functions to be performed:

> To enlist and supervise a voluntary censorship of the newspaper and periodical press.

Do your plans contemplate anything other than voluntary censorship?

Lieutenant BRANNON. So far as I know, they do not.

Senator CLARK. Colonel Harris, do you have any further information on that subject than what the Lieutenant has given?

Lieutenant Colonel HARRIS. I am sure it does not, Senator.

The CHAIRMAN. The committee will be in recess until 10 a. m. tomorrow morning.

(Thereupon, at 5: 10 p. m., Monday, December 17, 1934, the hearing was recessed until tomorrow, Tuesday, December 18, 1934, at 10 a. m.)

INVESTIGATION OF MUNITIONS INDUSTRY

TUESDAY, DECEMBER 18, 1934

United States Senate,
Special Committee to Investigate
The Munitions Industry,
Washington, D.C.

The hearing was resumed at 10 a.m., in room 357 Senate Office Building, pursuant to the taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Vandenberg, Barbour, and Pope.

Present also: Alger Hiss, legal assistant to the committee, and R. Wohlforth, assistant chief investigator for the committee.

The Chairman. Will the witnesses who were on the stand last night please come forward.

TESTIMONY OF EDWIN PUGSLEY, C. K. DAVIS, EGBERT C. HADLEY, J. H. CHASMAR, LT. COL. C. T. HARRIS, AND LT. E. M. BRANNON—Resumed

Mr. Pierre du Pont. Mr. Chairman, might I present " Exhibit No. 1224 " for the record, the document I spoke of last evening?

The Chairman. Present what, Mr. du Pont?

Mr. Pierre du Pont. This is a record concerning Old Hickory that I have prepared.

Senator Clark. That was the exhibit for which you reserved the number?

Mr. Pierre du Pont. Yes.

The Chairman. Yes; that may be received at this time.

(The statement referred to was marked " Exhibit No. 1224 " and is included in the appendix on p. 3784.)

DOMESTIC SALES OF WINCHESTER REPEATING ARMS CO.

The Chairman. Mr. Pugsley, for the purpose of making the record clear at this stage, what is your official capacity?

Mr. Pugsley. Vice president of the Winchester Repeating Arms Co.

The Chairman. There are one or two matters, Mr. Pugsley, concerning your domestic sales about which the committee is desiring information this morning. Is the committee correct in understanding that your production is primarily that of sporting arms and ammunition?

Mr. Pugsley. Yes, sir.

The CHAIRMAN. Have you manufactured certain parts of guns that have not been intended for sporting purposes?

Mr. PUGSLEY. Possibly.

The CHAIRMAN. You have manufactured gun barrels alone?

Mr. PUGSLEY. Yes, sir.

The CHAIRMAN. Information before the committee reveals that you manufactured some 200 gun barrels at one time, 100 barrels in 1933, and 100 barrels in 1934. Can you tell the committee who they were for?

Mr. PUGSLEY. I think you are referring to an order of short barrels. The first order was made for Griffin & Howe.

The CHAIRMAN. For whom?

Mr. PUGSLEY. Griffin & Howe is my recollection. The second order came in and Mr. Beebe handled that. I don't remember who it was made for. I think it was a short barrel similar to a Thompson submachine gun barrel.

The CHAIRMAN. The correspondence before the committee indicates that these gun barrels were for the Hyde Arms Co. of Brooklyn.

Mr. PUGSLEY. I think that is correct.

The CHAIRMAN. What was the other company to which you referred?

Mr. PUGSLEY. Griffin & Howe.

The CHAIRMAN. Are they in any way related?

Mr. PUGSLEY. That I cannot tell you. As far as I know they are a subsidiary of Abercrombie & Fitch.

The CHAIRMAN. I offer in evidence to be marked with such number as is in order a letter dated September 8, 1934, addressed to the Winchester Repeating Arms Co. by the Hyde Arms Corporation, signed by F. V. Huber, sales manager.

(The letter referred to was marked "Exhibit No. 1230" and is included in the appendix on p. 3833.)

The CHAIRMAN. Is that the same Mr. Huber who is present here?

Mr. PUGSLEY. I could not tell you that. I do not know Mr. Huber.

The CHAIRMAN. I read the letter.

> Gentlemen: Confirming our telephone conversation with your Mr. Elmslie Jonas, please enter our order for 100 barrels as per specifications of the previous 100 that you supplied.
>
> It is understood that delivery is guaranteed in 6 weeks or less and that the price will be $5.50 each, placed in New York City. We are enclosing a check for $550 to cover the value of this order.
>
> We will appreciate having you make early delivery on these barrels.

Do you know what these barrels were for. Mr. Pugsley?

Mr. PUGSLEY. From the contour of the barrels, they looked as though they were for Thompson submachine guns; that same type.

The CHAIRMAN. You had knowledge that the barrels were for use possibly in machine guns?

Mr. PUGSLEY. Possibly.

The CHAIRMAN. Mr. Pugsley, I read from a letter dated June 10, 1933, addressed to Mr. Jonas by the Winchester Repeating Arms Co., for whom Mr. H. F. Beebe was writing. I offer this for appropriate exhibit marking.

(The letter referred to was marked "Exhibit No. 1231" and is included in the appendix on p. 3833.)

The CHAIRMAN. This letter reads:

> Referring to your statement that you had heard confidentially that the Lake Erie Chemical Co. were considering manufacturing a machine gun similar to the Thompson submachine gun, I spoke to Mr. Pugsley about this and he was quite interested. I believe he would like an opportunity to figure on the manufacture of such a gun if contemplated.
>
> He told me that we had received an order from Griffin & Howe for some 500 barrels different from anything that we make which might be intended for machine guns.

I take it then there were sales to Griffin & Howe of barrels of this kind, as well as to the Hyde Arms Corporation?

Mr. PUGSLEY. That is my belief; yes, sir.

The CHAIRMAN. The committee, Mr. Pugsley, is interested in this because of its anxiety to find out how machine guns are assembled by securing parts from different manufacturers. Do you know of any material business along that line, buying of parts from different manufacturers and then assembling them?

Mr. PUGSLEY. No, sir; not on new guns. This is the only instance that I have run into on this type of business.

The CHAIRMAN. How similar is the Hyde gun to the Thompson machine gun?

Mr. PUGSLEY. I never saw it, sir.

Senator BARBOUR. Are the barrels similar?

Mr. PUGSLEY. The barrels look about the same length and they are about the same design.

Mr. WOHLFORTH. Are the magazines similar?

Mr. PUGSLEY. That I could not tell you.

The CHAIRMAN. Is there any law or any regulation, Mr. Pugsley, that you know of, which might prevent persons from buying or having manufactured parts of machine guns?

Mr. PUGSLEY. No, sir.

The CHAIRMAN. Quite obviously it would take the cooperation of reputable manufacturers, such as your firm, to supply component parts to anyone who was engaged in that kind of business?

Mr. PUGSLEY. If you were going to make them in large quantities; yes. Any machine shop could make this barrel in relatively small quantities.

The CHAIRMAN. This order with which we are dealing this morning, you had good reason to believe that those were for machine gun purposes?

Mr. PUGSLEY. Yes, sir.

The CHAIRMAN. Does the National Fire Arms Act serve to restrict in any way the manufacture by some individual collecting the parts from various manufacturers?

Mr. PUGSLEY. It would regulate it, as I understand it, on account of the barrel length. Barrels would have to be more than eighteen inches long.

The CHAIRMAN. Have you finished, Mr. Pugsley?

Mr. PUGSLEY. Somebody asked the question "why" back here.

The CHAIRMAN. Could that question be answered; why?

Mr. PUGSLEY. Because that is what the law says.

The CHAIRMAN. Are you acquainted with R. F. Sedgley?

Mr. PUGSLEY. Yes, sir.

The CHAIRMAN. What is he known as? How is he spoken of?

Mr. Pugsley. He is a manufacturer of revolvers. He has made wrenches and he also supplies military arms.

The Chairman. Particularly machine guns?

Mr. Pugsley. He supplies machine guns; yes, sir.

The Chairman. Is he known in the trade as " Sidewalk " Sedgley?

Mr. Pugsley. I heard some paper published that some time ago. I never heard it but that one time.

The Chairman. Have you heard any reason given as to why he would be termed in such manner?

Mr. Pugsley. Only the headlines in that article.

The Chairman. Where does Sedgley secure his stocks of machine guns?

Mr. Pugsley. I could not tell you that.

The Chairman. You do not know?

Mr. Pugsley. I imagine from Government sales, but I am not familiar with that end of the business.

The Chairman. Have you had any transactions with him, your company?

Mr. Pugsley. We have.

The Chairman. What have you sold him?

Mr. Pugsley. We have sold him sporting barrels. We have also sold him some military barrels.

The Chairman. Barrels for what?

Mr. Pugsley. Rifles; shoulder rifles.

The Chairman. Rifles alone?

Mr. Pugsley. He makes quite a line of sporting rifles. We supply him the barrels for those sporting rifles.

The Chairman. Have you knowingly manufactured any component parts of machine guns for him?

Mr. Pugsley. Not to my recollection.

The Chairman. I have here a letter dated as recently as April 12, 1933, Mr. Pugsley, which has the advice that six machine guns by your firm were sold to Mr. Sedgley. I offer that letter for the record.

(The letter referred to was marked " Exhibit No. 1232 " and is included in the appendix on p. 3833.)

The Chairman. I read from that letter:

> Confirming your conversation with Mr. Pugsley and telephone conversation with the signer this afternoon, we are forwarding to you a case containing six Browning light-weight machine guns, caliber 30 Government 06 on consignment.

That letter was written by Mr. Beebe and addressed to R. F. Sedgley, Inc., at Philadelphia. Can you tell us whether or not this was the only sale of machine guns made to Sedgley?

Mr. Pugsley. I think it was. The old company may have made one similar sale. These particular guns were guns that were kept over from the war and turned up when we opened up some boxes that had gotten mislaid, and we found those six guns; I think there was one other sale but I am not sure of that.

The Chairman. How many guns do you carry in stock; machine guns?

Mr. Pugsley. None.

The Chairman. Were you carrying machine guns in stock back there in April 1933?

Mr. PUGSLEY. These were experimental samples that had been filed away for experimental work when we had the war work and they had been mislaid and never been disposed of.

The CHAIRMAN. Mr. Beebe is not present today?

Mr. PUGSLEY. No, sir; he is not.

The CHAIRMAN. I wish you would make note, Mr. Pugsley, so that upon your return you can gather for and supply to the committee definite information concerning stocks on hand and concerning sales of machine guns or component parts to Mr. Sedgley.[1] Will you do that?

Mr. PUGSLEY. Yes, sir.

The CHAIRMAN. And send it to the committee?

Mr. PUGSLEY. Yes, sir.

The CHAIRMAN. Make that inclusive, Mr. Pugsley, of all sales to agencies other than governmental agencies.

Mr. PUGSLEY. Yes, sir.

The CHAIRMAN. I have before me a letter dated July 16, 1934, from one G. Oberdick, of Federal Laboratories, Inc., to the Auto Ordnance Corporation—who are the dealers in the Thompson Machine Gun?

Mr. PUGSLEY. I believe they are.

The CHAIRMAN. I offer this letter for the record.

(The letter referred to was marked "Exhibit No. 1233" and appears in full in the text.)

The CHAIRMAN. The letter reads as follows:

> A few days ago Mr. Thompson, export manager of the Winchester Repeating Arms Co., telephoned to our New York office for a price of 250 type L drums for the Thompson submachine gun.
>
> It is our opinion that these drums are for shipment into Cuba and, no doubt, inquiry was received by Winchester from Lake Erie Chemical Co.
>
> We have advised them that we must know the shipping destination in order to secure the necessary State Department permit before quoting or promising delivery on the equipment.
>
> It is just possible that they may approach you direct on this lot of equipment, so we are passing this information on to you.

Do you also supply machine-gun drums, Mr. Pugsley?

Mr. PUGSLEY. No, sir.

The CHAIRMAN. This letter would indicate it, wouldn't it?

Mr. PUGSLEY. It would, from the first paragraph.

The CHAIRMAN. You never have handled the drum?

Mr. PUGSLEY. No, sir.

The CHAIRMAN. Nor have you had any sales. Have you acted as intermediary for the sale of any such drums?

Mr. PUGSLEY. Not to my knowledge.

The CHAIRMAN. The F. V. Huber mentioned in the exhibits which have been referred to this morning, do you know him to be sales manager for the Hyde Arms Corporation?

Mr. PUGSLEY. No, sir; I do not know Mr. Huber at all.

The CHAIRMAN. Do you know him to be an officer of the Lake Erie Chemical Co.?

Mr. PUGSLEY. No, sir; I do not.

The CHAIRMAN. Do any of those associated with you who are present know him?

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[1] The information regarding sales of machine guns was submitted to the committee under date of Jan. 7, 1935, and appears in the appendix on p. 3929.

Mr. PUGSLEY. I do not think so.

The CHAIRMAN. Is there any association that you know of between the Hyde Arms Corporation and the Lake Erie Chemical Co.?

Mr. PUGSLEY. I do not know a word about it.

The CHAIRMAN. How many parts of a submachine gun can you manufacture?

Mr. PUGSLEY. We could manufacture them, sir, if we were tooled up for it.

The CHAIRMAN. If what?

Mr. PUGSLEY. If we were tooled up for it.

The CHAIRMAN. You mean equipped for it?

Mr. PUGSLEY. Yes, sir.

The CHAIRMAN. Do you manufacture any at all?

Mr. PUGSLEY. No, sir.

The CHAIRMAN. Never have?

Mr. PUGSLEY. Not to my knowledge, except these barrels. That is the only thing that I can recall.

The CHAIRMAN. And you do not think the company has ever produced the drums?

Mr. PUGSLEY. I am certain of that.

The CHAIRMAN. Mr. Pugsley, by shopping around it would be possible for anyone to get the parts from reputable manufacturers to make a complete machine gun?

Mr. PUGSLEY. I think that if anybody came to us that was a legitimate customer, and asked us to bid on a part, that we would bid on them.

Mr. WOHLFORTH. Do you consider the Hyde Arms Co. a legitimate customer?

Mr. PUGSLEY. I do not know anything about the Hyde Arms Co., Mr. Wohlforth.

Mr. WOHLFORTH. That is the corporation to whom you sold these barrels.

Senator CLARK. If you did not know who the Hyde Arms Co. were, Mr. Pugsley, how did you know you were dealing with a legitimate customer?

Mr. PUGSLEY. Mr. Beebe would have to testify as to who they were. I had nothing to do with that transaction other than that I was told that another order for barrels had been received.

Senator CLARK. It has been shown in evidence here that the manufacture of those guns was financed by the Lake Erie Chemical Co., a gas manufacturer of Cleveland, Ohio.

The CHAIRMAN. Mr. Pugsley, the committee has before it a letter written by yourself, dated March 21, 1932. upon which we should like to have a little information. Your letter is addressed to Maj. Julian S. Hatcher, Office of the Chief of Ordnance, Washington, D. C.

(The letter referred to was marked "Exhibit No. 1234" and appears in full in the text.)

The CHAIRMAN. It reads:

> DEAR MAJOR HATCHER: Some time ago I understood that the War Department were testing various types of bullets and velocities and their action in meat and to this end had developed a synthetic material which simulated the action of flesh as regards behavior when struck with rifle bullets.
>
> We are continually experimenting along similar lines and it will be a great aid to us if we could develop such synthetic material to enable us to study action

of soft point and steel-jacketed bullets and, therefore, will appreciate any information you could give us with reference to composition and behavior of such a meat substitute.

Very truly yours,

Winchester Repeating Arms Co.,
By Edwin Pugsley.

What is this practice referred to here?

Mr. Pugsley. When we develop a new sporting cartridge, it is always of importance to find out how it will mushroom. It has been very difficult to find anything that acts like living flesh. You cannot experiment on that, so the best we can do is to buy beef from the butcher, and that is not a satisfactory substitute.

The Chairman. You actually use meat as a target or a receiver for the projectile?

Mr. Pugsley. On testing such sporting cartridges; yes, sir.

Senator Clark. Do you use it on military cartridges, Mr. Pugsley?

Mr. Pugsley. No, sir; we do not use it on military cartridges, but we do for jacketed bullets, because the trappers object to the hides being torn, and we have to furnish jacketed bullets for the hide trade.

Senator Clark. Of course, the military authorities are not concerned about how much hide they tear.

The Chairman. You are writing now to the War Department, and you discover that they have been doing some experimental work, and you want the advantage of their knowledge. What is the relationship there. if it had to do only with sporting goods?

Mr. Pugsley. The relation is, if they had discovered a material which would act in the same way that live tissue would, it would be of advantage to us in designing our sporting cartridges.

The Chairman. What does the War Department practice on?

Mr. Pugsley. That I could not tell you. That is what I was trying to find out.

The Chairman. You understood that they were testing types in meat, did you not?

Mr. Pugsley. I had heard they were making some tests.

The Chairman. For what purpose?

Mr. Pugsley. That I do not know.

The Chairman. Do you know to what extent the War Department engages in experimentation of this kind?

Mr. Pugsley. No, sir.

The Chairman. What reply did you have from the War Department in answer to your inquiry?

Mr. Pugsley. My recollection is that we either got no answer or it was a negative, in any event. I do not remember, but we got no information.

The Chairman. What degree of perfection is attained by a perusal of this practice?

Mr. Pugsley. I do not quite know as I understand your question, Senator.

The Chairman. What is it you would want to know about the action of a bullet in meat?

Mr. Pugsley. A soft-nosed bullet has to be hard enough so that it will not go to pieces, and yet soft enough so that it will mushroom when it strikes the animal. We have tried soft pine boards and various other materials, but it is very hard to get a substitute for living tissue. We have reports from hunters continuously telling us about various experiences they have with the use of these hunting bullets, and it is our endeavor to perfect our hunting bullets.

The CHAIRMAN. Have you found any synthetic substances yet?

Mr. PUGSLEY. No, sir.

The CHAIRMAN. Nothing to take the place of living flesh?

Mr. PUGSLEY. The nearest we can come to it is beef which we buy from the butcher.

The CHAIRMAN. How extensively have you experimented with beef?

Mr. PUGSLEY. I would say that for any cartridge which we get out, before it is finally approved for the market, it is tested in beef.

The CHAIRMAN. What results do you seek to accomplish in these tests?

Mr. PUGSLEY. Simply to determine whether the bullet acts all right in beef; whether the upset is proper.

The CHAIRMAN. And this testing is confined exclusively to sporting ammunition, is it?

Mr. PUGSLEY. Absolutely.

The CHAIRMAN. You have no knowledge of these experiments by the War Department at all?

Mr. PUGSLEY. None whatsoever.

The CHAIRMAN. This was in March 1932, that you were writing the War Department for this information. Have you heard since, or have you had any understanding since, that they were testing types of bullets upon flesh?

Mr. PUGSLEY. No, sir.

The CHAIRMAN. Have you ever made any further inquiry as to the results of the War Department experimentation?

Mr. PUGSLEY. Not to my recollection; no, sir.

The CHAIRMAN. Did the War Department, in responding to you, say that they were not engaged in that kind of experimenting?

Mr. PUGSLEY. I do not remember that they did.

The CHAIRMAN. But they gave you no advantage of their experience?

Mr. PUGSLEY. No, sir.

The CHAIRMAN. Mr. Pugsley, assuming that you are sufficiently well acquainted with the submachine gun to know, I want to ask you again on what scale one could engage, if he were inclined to do it, in the manufacture of submachine guns, through purchasing component parts from various manufacturers?

Senator BARBOUR. You mean assembling guns, Mr. Chairman?

The CHAIRMAN. That is right. Assembling guns without the necessity of having to buy all parts from one factory.

Mr. PUGSLEY. The parts would all have to be specially made for the particular gun, and it would be possible to contract for these parts, yes, sir, in different gun shops.

The CHAIRMAN. What of the Hyde gun? Are there not parts of the Hyde gun which could be used in the Thompson submachine gun?

Mr. PUGSLEY. I do not know.

Senator CLARK. Mr. Pugsley, do you know anything about the practice of the Government in disposing of rifles and machine guns?

Mr. PUGSLEY. Of what?

Senator CLARK. Of rifles and machine guns, when they are supposed to be rendered useless and sold for junk.

Mr. PUGSLEY. I know that they are sold.

Senator CLARK. As a matter of fact, it is the practice of the Government arsenals in one case to break the barrel, and in another arsenal to break the stock, is it not, and if a man wants a machine gun, all he has to do is to buy some so-called "useless" weapons from one arsenal and some from another arsenal, and put them together?

Mr. PUGSLEY. The guns which I have seen have invariably been burned with an acetylene torch and the barrels, bolts and so forth would be affected.

Senator CLARK. Is it not a fact that some arsenals make it a practice to break the stock and other arsenals make it a practice to break the barrel?

Mr. PUGSLEY. Not that I know of.

Senator CLARK. And by assembling the various parts, it is possible to make a serviceable weapon?

Mr. PUGSLEY. Not that I know of. I have never seen that, in other words.

Mr. WOHLFORTH. Mr. Pugsley, just to make the record clear, it is perfectly easy to buy a barrel from your company, and you do not inquire to whom you sell it, that is, you did not know who the Hyde Arms Co. was. You simply made the 200 barrels and sold them.

Mr. PUGSLEY. Mr. Wohlforth, I personally did not know who the Hyde Arms Co. were and had never heard of the Hyde Arms Co. at the time. When Griffin & Howe inquired for the barrels, we knew Griffin & Howe, and made them for them. I cannot testify for the Hyde Arms Co., because I did not know anything about them. I was simply told by Mr. Beebe that they had another order for more of the gun barrels.

Senator VANDENBERG. If you had an offer from Sedgley for barrels, would you fill it?

Mr. PUGSLEY. Yes, sir; we do fill orders from Sedgley for barrels.

Mr. WOHLFORTH. This letter previously referred to, dated September 8, 1934, is a letter in which Mr. Huber is writing you as an official of the Hyde Arms Corporation, and he says [reading]:

> Please enter our order for 100 barrels as per specifications of the previous 100 that you supplied.

The previous 100 were the Griffin & Howe barrels, were they not?

Mr. PUGSLEY. I imagine so.

Mr. WOHLFORTH. Would not this seem to indicate that the Hyde Arms Co. and Griffin & Howe Corporation are very closely allied?

Mr. PUGSLEY. I do not know anything about that.

Mr. WOHLFORTH. After getting the barrel, it would be easy to get the stock and then the other mechanism could perhaps be just as easily assembled and screwed together, and you would have a fairly good submachine gun with a little bit of work, would you not? The point I want to make is that there is no restriction. You will sell it and somebody else will sell the stock, and they can take a pistol and file down the sear, perhaps, and develop some sort of a very dangerous weapon, which often gets into the wrong hands?

Mr. PUGSLEY. I imagine that could be done.

Senator CLARK. Mr. Pugsley, there has been put in evidence in this hearing last September[1] testimony showing a contention raised by the Federal Laboratories, Inc., at Pittsburgh, which make gas, but has a side line, an agency for the Thompson submachine gun, that this Hyde gun which is being put out by the Lake Erie Chemical Co., now the U. S. Ordnance, Inc., of Cleveland, a competitor of Federal Laboratories—that the Hyde gun was nothing on earth except a Thompson machine gun with a new barrel, that they were getting some Thompson machine guns and putting on a new barrel for sale in Cuba. Do you know anything about that?

Mr. PUGSLEY. No, sir; not a word.

In answer to your other question, Senator, you were a little bit confused in my remark, saying, "tooling up." I might say that to tool up to make a given rifle, or any rifle, is a very long and expensive job. It would take 6 months or a year just to tool up to make the Springfield rifle, making the jigs, fixtures, and tools.

Senator CLARK. As a matter of fact, bearing out what you say, American troops were compelled to use the Enfield rifle throughout the war, Mr. Pugsley, because Remington and Winchester were tooled up for making Enfields, which is a far inferior gun to the American Springfield, but the Government went ahead and bought those and used them because of the assurance on the part of the manufacturer that it would take some time to tool up. Is that correct?

Mr. PUGSLEY. That is the only way it could be done.

Senator CLARK. I am not criticizing, but I am just pointing out that.

Mr. PUGSLEY. We have no military rifle in our line whatsoever, and had no military rifle in our line when the Great War broke out, sir.

The CHAIRMAN. The parts which you were manufacturing might have entered into the making of guns for military purposes?

Mr. PUGSLEY. Only a very inferior military rifle. We supplied the Russian Government with some of our model 95, which is a sporting rifle, made over into a military model. It was an extremely unsatisfactory military rifle, but Russia had to have it because it was all they could get.

Senator CLARK. What is the difference between a sporting rifle and a military rifle, Mr. Pugsley?

Mr. PUGSLEY. A military rifle, I think, is generally acknowledged as a bolt-action rifle. There is no Army I know of who has anything but bolt-action rifles.

Senator CLARK. Do you think that the British troops who opposed the Americans in the Battle of Kings Mountain and at the Battle of New Orleans would regard the old squirrel rifle that the American troops were armed with as military or sporting weapons?

Mr. PUGSLEY. They were sporting weapons but they turned out to be a great and important factor in winning the war.

The CHAIRMAN. Are not sporting rifles and sporting ammunition used to some extent in practice by the Army?

Mr. PUGSLEY. In practice, possibly.

Mr. WOHLFORTH. Mr. Pugsley, you have a bolt-action which is caliber .30 in your line, do you not?

Mr. PUGSLEY. We do. We have a model called 54.

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[1] Hearings, Part VIII, p. 1933.

Mr. Wohlforth. All you would need to do would be to change the front sight and the rear sight a little bit, and you would have a military rifle, would you not?

Mr. Pugsley. I do not think it would be a military rifle which could be sold to any military country. The gun would have to be designed from the ground up to make it a satisfactory military rifle. If you wish to go into the technical reasons, I would be very glad to.

The Chairman. China would be a market for it, would it not?

Mr. Pugsley. I do not think they would take the rifle the way it is at the present time. It would have to be redesigned. Further than that, we are tooled up to produce about 50 guns a day, and it would take a long time to stock an army on 50 guns a day.

Senator Clark. Colonel Harris, on the very point we raised, that is, that American troops used Enfields, which are notoriously inferior to Springfields, that is a point to which I think you will agree.

Lieutenant Colonel Harris. Springfield rifles are superior to the Enfield.

Senator Clark. The Springfield rifle is the best military rifle in the world?

Lieutenant Colonel Harris. It is so regarded by the world, I think.

Senator Clark. I call your attention to section 123 of the National Defense Act, headed:

> Procurement of gages, dies, jigs, and so forth, necessary for manufacture of arms, and so forth.

That reads [reading]:

> The Secretary of War be, and he is hereby, authorized to prepare or cause to be prepared, to purchase or otherwise procure, such gages, dies, jigs, tools, fixtures, and other special aids and appliances, including specifications and detailed drawings, as may be necessary for the immediate manufacture, by the Government and by private manufacturers, of arms, ammunition, and special equipment necessary to arm and equip the land forces likely to be required by the United States in time of war.

I regard that as the most important section in the National Defense Act. I do not wish to ask you to what extent the War Department has been making preparations under that section, but I would like to ask you whether the War Department is taking steps to obviate such occurrences as arose during the war due to the fact that the Remington Co. and other manufacturers of small arms were tooled up for British Enfields and the American troops were compelled to use an inferior weapon during the war, or whether you are prepared with the necessary tools to start into production in the event of war?

Lieutenant Colonel Harris. We are not prepared. We are prepared to the extent that money is appropriated.

Senator Clark. You are limited to the amount of the appropriation by Congress?

Lieutenant Colonel Harris. The appropriation of some $75,000 a year. I imagine that the jigs, dies, and fixtures required for a military program would cost $100,000,000.

Senator Clark. That would be the cheapest money that the United States Government could spend.

Lieutenant Colonel Harris. It would, indeed, sir, and we would like to have the money, too.

Mr. Hiss. Toward the close of yesterday's hearing, there was testimony on the question of what costs were to be included in the adjusted compensation contract, and there was some suggestion on the part of Mr. Pierre du Pont, I think, that bonuses should be included.

I would like to offer for the record at this time an analysis obtained by the committee from the du Pont Co., showing income taxes, experimental and engineering expense in connection with new production, and part of the foreign-trade development expenses, as well as bonuses, to October 31, 1934.

(The document referred to was marked " Exhibit No. 1235 " and is included in the appendix on p. 3834.)

Mr. Hiss. It shows " B " bonus. What is the " B " bonus. Mr. Irénée du Pont?

Mr. Irénée du Pont. The " B " bonus is really the regular bonus. We have "A" bonus, which is specific compensation for special invention or special activity.

The " B " bonus is based on the judgment of the men, Senator, all the way up, checked as they go up, as to how much he really contributed, to the best of his judgment, to the general progress.

Mr. Hiss. Is that a cash bonus or a stock bonus?

Mr. Irénée du Pont. It used to be entirely a stock bonus. I think that since the law regulating issuing securities, which was recently passed, we have been obliged to pay in cash because we would be involved in some of the red tape pertaining to the issuing of stock. I am not quite sure of that, but it is my impression it is so. But in those days it was substantially all stock.

Senator Vanderberg. That is your impression of the red tape, at any rate?

Mr. Irénée du Pont. Very seriously, I think it is a case of overreaching by the legislators in trying to make a thing good and forgetting what other harm may come about in the effort to do good.

Mr. Hiss. Mr. du Pont, the " B " bonus is paid to what class of employees, roughly?

Mr. Irénée du Pont. My recollection is—of course, I am going back a good many years—that the limit was down to a salary of $400 a month.

Mr. Davis. $300.

Mr. Irénée du Pont. $300.

Mr. Hiss. From there up?

Mr. Irénée du Pont. From there up.

Mr. Hiss. It does not include pay-roll employees, but just salary employees.

Mr. Irénée du Pont. I think that is correct, although I am not absolutely sure of that. I think in later years that was departed from, but I am not at all familiar with the details since 1925, 8 years ago.

Mr. Hiss. Mr. Lammot du Pont, can you answer the question?

Mr. Lammot du Pont. I think that is correct.

Mr. Hiss. That from $300 a month up, the salary employees are included, and no pay-roll employees are included?

Mr. Lammot du Pont. I think that is correct.

Mr. Hiss. What is the "merit bonus", Mr. Lammot du Pont, as distinguished from the "B" bonus? Are you familiar with the "merit bonus" paid by your company?

Mr. Lammot du Pont. I do not know of anything at the present time that is referred to as "merit bonus."

Mr. Hiss. This statement prepared by the comptroller, Mr. Nielsen, shows a "B" bonus (consolidated) (including previous year adjustment) for 1934 up to the 31st of October of $945,000, and a merit bonus, also (consolidated) (including previous year adjustment), of $1,733,000. Do you know what that particular bonus referred to there is?

Mr. Lammot du Pont. I have just been reminded that the term "merit bonus" is ordinarily applied to a bonus paid which was set aside under a certain agreement plan, an executive trust agreement plan, which the company adopted some years ago.

Mr. Hiss. Is that a cash-bonus or a stock-bonus plan?

Mr. Lammot du Pont. That is a stock-purchase plan.

Mr. Hiss. Colonel Harris, I call your attention to that specific topic. The present adjusted compensation form of contract excludes from cost the payment of bonuses. Is that correct?

Lieutenant Colonel Harris. I will get Lieutenant Brannon to answer that.

Mr. Hiss. Lieutenant Brannon?

Lieutenant Brannon. Just a second, and I will check on that.

Article III, paragraph 2, subparagraph I, the contract provides (Exhibit No. 1226–A):

> The Government will not reimburse the contractor for any of the following expenditures:
>
> 1. Bonus payments to officers and employees based upon profits earned by the contractor.

Mr. Hiss. Mr. Lammot du Pont, do either the "B" bonus or the merit bonus, in your opinion, constitute bonus payments to officers and employees based upon profits earned by the contractor, assuming that the du Pont Co. were a contractor with the Government?

Mr. Lammot du Pont. Yes; I would so consider it.

Mr. Hiss. Colonel Harris, does not that constitute one point at which there is not agreement between the War Department and one of the major contractors in the event of war?

Lieutenant Colonel Harris. There are a number of points.

INDUSTRIAL CONNECTIONS OF CERTAIN WAR DEPARTMENT AND OTHER OFFICIALS INVOLVED IN PROCUREMENT AND RELATED ACTIVITIES DURING WORLD WAR [1]

Mr. Hiss. Judging from the exhibit which is put in, this particular one may be a rather sizeable item.

Also, toward the close of yesterday's session, there was some testimony on the question of the men who would be chosen by the procurement branches, the supply branches of the Army, to operate on behalf of the Government.

Colonel Harris, I show you a memorandum of April 1, 1924, signed by Mr. Henning, of the du Pont Co., which I offer for appropriate number.

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[1] This subject was entered into further in hearings of Dec. 19, 1935. See Part XVI, pp. 3991 and 4002.

(The memorandum referred to was marked " Exhibit No. 1236 " and appears in full in the text.)

Mr. Hiss. That memorandum reads:

> Acting on telephone request, obtained the following information regarding the method of contact between the War Department and the General Motors Corporation. Until recently, this was had directly from the office of the Secretary of War, but now through the Detroit district ordnance office in charge of Mr. O'Dell, and with Captain Barnard as executive assistant, and handling joint allocations for the Air Service, Ordnance, and Quartermaster Service. It has been recently proposed to make Mr. Mott of the G.M.C. a colonel of ordnance, and handling matters relative to tractors, motorization of artillery, etc.

This was dated in 1924. Under the proposed plan would Mr. Mott, if he became a colonel of ordnance, deal with the topics here stated, tractors, motorization of artillery, et cetera?

I am not sure that I understand your testimony of yesterday which has been called to my attention.

Lieutenant Colonel Harris. That is a rather difficult question to answer. This Reserve officer in time of peace would be used in planning in connection with these materials with which he was familiar, and if he were called to active service would probably be used somewhere in connection with the production of material of this nature. But, as I stated yesterday, common sense would dictate that he should not deal with his own company.

Mr. Hiss. I misunderstood your statement. I thought you said he would not deal with his own industry, meaning the field in which he had been.

Lieutenant Colonel Harris. No; I referred to his own company.

Mr. Hiss. But he would probably be used within the industrial field from which he came and with which he would be familiar?

Lieutenant Colonel Harris. There are no written regulations now existing which says a thing like that, but I imagine he would, because that is where he would be most useful.

Mr. Hiss. Was that true during the World War, Colonel Harris, that men from a given industry—by that I do not mean a company—were used within the War Department on matters relating to that particular industry?

Lieutenant Colonel Harris. That is true.

Mr. Hiss. Was it understood that the Government was requesting the services of men from various industries, in order to have people from those industries?

Lieutenant Colonel Harris. In many cases they did; yes, sir.

Mr. Hiss. I offer a letter dated August 21, 1917, addressed to Mr. P. S. du Pont, by Clarence C. Killen, secretary of the Chamber of Commerce of Wilmington, Del.

(The letter referred to was marked " Exhibit No. 1237 " and appears in full in the text.)

Mr. Hiss. That letter reads:

> I beg to call your attention to the enclosed copy of letter from the secretary of the Chamber of Commerce of the United States. To secure the type of men suggested in Mr. Goodwin's letter I know of no one else to appeal save to your company. If you are in position to suggest the names of men who are qualified and free to accept these positions in the War Department, I would thank you exceedingly to advise me so that I can make the suggestions to Mr. Goodwin.

Then there is attached a letter under date of August 8, 1917, from Mr. Goodwin, secretary of the Chamber of Commerce of the United States, to Mr. Killen, secretary of the Chamber of Commerce of Wilmington, Del., which reads as follows:

The Ordnance Bureau of the War Department is in urgent need of securing the services of 60 office managers to serve in that Bureau in a civilian capacity during the length of the war. It is essential that those selected shall thoroughly understand office management. The compensation will range from $2,000 to $2.500, but the responsibility calls for men who are now receiving twice that amount, but who will make the sacrifice for patriotism.

Please wire us at the earliest opportunity the names of 5 men who will serve, stating in detail their business connections, and any other information available in regard to their experience in office management.

This affords an excellent opportunity for business organizations to serve the Government efficiently, which we feel sure you will welcome. We shall appreciate your cooperation in securing immediate action.

Mr. Hiss. I also show you a letter dated October 9, 1917, which I offer in evidence.

(The letter referred to was marked "Exhibit No. 1238" and appears in full in the text.)

Mr. Hiss. This is addressed to Colonel Hoffer, gun division, Ordnance Department, Washington, D.C.; signed by Pierre S. du Pont (reading):

In formal reply to both your verbal and written request of September 23 to this company to supply to the gun division of the Ordnance Department men from this company of the highest grade to assist in the development, purchase, and production of explosives, and the urgent need of your Department for such men, and the necessity of the du Pont Co.'s giving the Department assistance in this connection, I would say that we have, as you know, given careful consideration to this request during the past week or 10 days and have arrived at the following conclusion and for the following reasons:

Appreciating the enormous work which is before this company, we still feel it our duty to comply with the Government's request. The men of the class which you require are high-salaried men with this company and men who have been with it a great number of years, and men who are financially interested in the company through their stock holdings. They are also men who will have to make serious sacrifices by severing their active connection temporarily with the du Pont Co., and men who have homes and families in this city. The company feels that they cannot ask these men to simply resign from the company in order to take up this work. The company, therefore, after serious consideration, has decided that they will immediately grant to Mr. Charles A. Patterson leave of absence, with full pay, until the end of the war. It is our feeling that after Mr. Patterson has been with you for 2 or 3 week's he can better judge of what other men it would be well for you to have, and we believe at this time that we can arrange to let you have three or four men under these terms.

We have been somewhat disturbed over section 3 of the Lever Food Act, which forbids any person acting either as a voluntary or paid agent in the employ of the United States in any capacity where he has in any sense a pecuniary interest in contracts or belongs to any firm or company directly or indirectly interested in contracts. We assume, however, that as the Government has requested of this company assistance in the way of men this difficulty can be overcome so that it will not subject either the company or these men to criticism.

The following was written on the reverse side:

October 12, 1917. This letter read by Colonel Hoffer but not delivered to him, as there seemed to be no way by which employees of du Pont could accept positions without sacrificing all connection with the company, including sale of their stock.

Then on October 22, 1917, a letter apparently signed also by Mr. Pierre du Pont, addressed to the Chief of Ordnance, United States Army.

(The letter referred to was marked " Exhibit No. 1239 ", and appears in full in the text.)

Mr. Hiss (reading) :

> I take great pleasure in introducing and recommending to you Mr. Charles A. Patterson who has been employed by E. I. du Pont de Nemours & Co. for a number of years. His duties with us have been very extended in both manufacturing and administrative affairs.

What was Mr. Patterson's duty, do you know, Mr. Irénée du Pont, with the du Pont Co.?

Mr. Irénée du Pont. At that time I think he was general manager of the dynamite division, high-explosives division of the company; either was the head or the next to the head. I am not perfectly sure which.

Mr. Hiss. Was he a member of the board of directors?

Mr. Irénée du Pont. I could not tell you offhand. I would have to refer back to the records. That was 1917?

Mr. Hiss. 1917.

Mr. Irénée du Pont. I could not carry it in my head.

Mr. Hiss (reading) :

> Mr. Patterson is particularly well suited to the work which you have at hand from the fact that he has a thorough knowledge of practical explosive manufacturing, coupled with the necessary experience in administrative affairs and, above all, a disposition particularly adaptable to surrounding circumstances and methods of associates. You will find him invaluable and he leaves our company only because a sense of high duty to the Government prompts us to release him for service with you. Mr. Patterson leaves us without obligation of any kind to further serve E. I. du Pont de Nemours & Co. or to return to its services and it is our desire that he should perform his new work with no sense of obligation to his former associates.

Did Mr. Patterson return to the company after his war-time service, do you know, Mr. Irénée du Pont?

Mr. Irénée du Pont. I do not think he left the company at all. I think he could not stand the physical examination, if I recall it rightly.

Mr. Hiss. Then on November 9, 1917, the president of the du Pont Co., presumably Mr. Pierre du Pont, wrote to General Crozier, Chief of Ordnance.

(The letter referred to was marked " Exhibit No. 1240 ", and appears in full in the text.)

Mr. Hiss (reading) :

> I take great pleasure in recommending for a position in the Ordnance Department of the United States Army Mr. W. C. Spruance, Jr.

What was Mr. Spruance's connection with the du Pont Co. at this time, Mr. du Pont?

Mr. Irénée du Pont. He had been the head of the engineering division of the explosives department. I think at this time he was second in command of the explosives department. Mr. Patterson, I think, was first in command.

Mr. Hiss. Was he a member of the board of directors, do you know?

Mr. Irénée du Pont. I do not think he was at that time. He has been since.

Mr. HISS (reading "Exhibit No. 1240"):

> Mr. Spruance has been prominent in the administrative affairs of our company for many years, particularly with reference to the manufacture of high explosives. His knowledge in this line is extensive, accurate, and up-to-date. It is with great regret that I have consented to the leaving of Mr. Spruance from the employ of our company, and he is doing so only on account of sense of duty. He leaves with no obligation or service to E. I. du Pont de Nemours & Co. in any way or to return to its service at any time.

Mr. Spruance did return to the company after the war, Mr. du Pont?

Mr. IRÉNÉE DU PONT. He did.

Mr. HISS. This was in answer to a letter attached to the letter already offered in evidence.

Mr. IRÉNÉE DU PONT. Mr. Secretary, I am not quite sure whether Mr. Patterson and Mr. Spruance were on the board of directors. I would rather withdraw any reply I made to that question and ask to look it up for the record.[1]

Mr. HISS. All right.

The letter of November 9, which has just been read, was an answer to a letter from Colonel Hoffer, of the Ordnance Department, dated November 6, addressed to Mr. P. S. du Pont.

> Colonel Buckner has spoken to me of Mr. J. A. Haskell as one who might possibly fill the position for which Mr. Patterson was selected.

That indicates Mr. Patterson did not finally serve with the Army.

> I took the matter up wih General Crozier, who has personally known Mr. Haskell for some years, and we have considerable misgivings as to whether he would meet the requirements. We fear that his age would be against him, and also that he has lost touch with problems of a character which we would want him to handle.
>
> It is with considerable regret and hesitation that I came to this conclusion, particularly as Colonel Buckner stated that Mr. Haskell's name had been suggested by you.

Mr. Haskell had what position with your company at that time, Mr. Irénée du Pont?

Mr. IRÉNÉE DU PONT. He had been vice president and member of the board of directors, but whether he had ceased to be a vice president at that time, I could not recall.

Mr. HISS (reading):

> I can't but hope that your company will see its way clear to give me an active member of its staff to assist me in this great undertaking which has been thrust upon me and which I am so little able to bear without able assistance.

Then, one final letter in this field, letter of June 29, 1918, which I offer in evidence.

(The letter referred to was marked "Exhibit No. 1241", and is included in the appendix on p. 3836.)

Mr. HISS. This is an excerpt from a letter of Mr. Pierre du Pont on June 29, 1918, to Mr. Barksdale at White Sulphur Springs.

> There seems a little more activity in Washington with regard to the nitrogen question but nothing definite nor hopeful. We have agreed to lend Edgar and Liljenroth—

Who were Edgar and Liljenroth?

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[1] See p. 3661 for corrected reply.

Mr. Irénée du Pont. Edgar was in the development end, a specialist in the fixation of atmospheric nitrogen. Liljenroth was a man we had gotten from outside. He was an expert in nitrogen fixation.

Mr. Hiss (reading):

> We have agreed to lend Edgar and Liljenroth for a portion of their time without cost to the Government in the belief that their influence will be helpful toward a proper solution of the problem.

Lieutenant Brannon, have you the personnel of the Naval Consulting Board to which reference has already been made?

Lieutenant Brannon. Mr. Hiss, I took this memorandum from a bound brochure pertaining to different agencies associated with the Council of National Defense. It is not a printed volume. I do not know the authority for it, but I have no reason to question it.

Mr. Hiss. This was an official Government document?

Lieutenant Brannon. It is a document we had in the library, but the author's name is not given, so I cannot attest as to the accuracy other than that we have it in the library and use it for reference purposes.

Mr. Hiss. This is the Naval Consulting Board personnel?

Lieutenant Brannon. Yes.

Mr. Hiss. So far as you know, was that the first board of prominent civilians appointed just before the war to assist the Navy or the War Department in their problems?

Lieutenant Brannon. I think this is the personnel just after we entered the war. There may have been a few changes. I do not suppose there were very many.

Mr. Hiss. Do you know when the Naval Consulting Board was first established?

Lieutenant Brannon. Yes; I have an extract from a book entitled "Handbook of Economic Agencies of the War of 1917–19."

Mr. Hiss (reading):

> NAVAL CONSULTING BOARD, DEPARTMENT OF THE NAVY
>
> A body of scientific experts representing the scientific and technical fields involved in the solution of naval problems. It was appointed by the Secretary of the Navy and met for organization on October 6, 1915. After the organization of the Council of National Defense it became a part of that body, acting as an inventions committee. It handled correspondence relating to naval inventions, and examined such inventions as did the Inventions Section, General Staff, and the National Advisory Committee for Aeronautics. It functioned through the following committees: Aeronautics; Aids to Navigation; Chemistry and Physics; Electricity; Food and Sanitation; Internal-Combustion Motors; Life-saving Appliances; Metallurgy; Mines and Torpedoes; Optical Glass; Ordnance and Explosives; Production, Organization, Manufacture, and Standardization; Public Works; Yards and Docks; Ship Construction; Special Problems; Steam Engineering and Ship Propulsion; Submarines; Transportation; Wireless and Communications. President, Thomas A. Edison; chairman, William L. Saunders.

The personnel of that board as supplied by Lieutenant Brannon consisted of [reading]:

> Chairman, Thomas A. Edison; Washington representative, Capt. William Strouther Smith; secretary, Thomas Robbins; members, Lawrence Addicks, Bion J. Arnold, Dr. L. H. Baekland, Howard E. Coffin, Alfred Craven, William LeRoy Emmet, Peter Cooper Hewitt, Andrew Murray Hunt, Dr. Miller Reese Hutchinson, B. G. Laume, Hudson Maxim, Spencer Miller, Prof. Joseph W. Richards, Andrew L. Riker, William L. Saunders, Matthew Bacon Sellers, Elmer A. Sperry—

That is the inventor of the Sperry gyroscope?

Lieutenant BRANNON. I do not know.

Mr. HISS (continuing reading):

> Frank J. Sprague, Benjamin B. Thayer, Dr. Arthur G. Webster, Dr. W. R. Whitney, and Dr. Robert S. Woodward.

Mr. IRÉNÉE DU PONT. Mr. Secretary, I can now answer those questions about the directorate that you asked. I have been handed a copy of the list of officers and directors of the du Pont Co. on October 5, 1917, in connection with these Old Hickory contracts. Neither the name of Mr. Patterson, referred to, nor Mr. Sprague appears on the board of directors at that time. Mr. J. Haskell was on the board at that time.

Mr. HISS. Thank you.

Colonel Harris, I show you extracts from special orders relating to the Kernan Board.

(The memorandum referred to was marked "Exhibit No. 1242", and is included in the appendix on p. 3836.)

Mr. HISS (reading):

> Under the provisions of section 121 of the act of Congress approved June 3, 1916, a board to consist of Col. Francis J. Kernan, Lt. Col. Charles P. Summerall, Maj. Lawson M. Fuller, Mr. Benedict Crowell—

Was Mr. Crowell at that time Assistant Secretary of War, do you know, Colonel Harris, or was he later appointed?

Lieutenant Colonel HARRIS. I think he was appointed later. I do not have the record.

Mr. HISS (reading):

> and Mr. R. Goodwyn Rhett—

Was Mr. Rhett at that time president of the United States Chamber of Commerce, Colonel Harris, do you happen to know?

Lieutenant Colonel HARRIS. I do not know.

Mr. HISS. I understand that he was at that time. [Continues reading:]

> is appointed to meet in this city at the call of the senior member of the board for the purpose of investigating and reporting upon the feasibility, desirability, and practicability of the Government manufacturing arms, munitions, and equipment.

I also offer in evidence excerpts from a letter of December 5, 1916, from Mr. Bascom Little, chairman of the United States Chamber of Commerce Executive Committee on National Defense addressed to or, rather, found in Mr. Pierre du Pont's files.

(The excerpt from letter referred to was marked "Exhibit No. 1243", and appears in full in the text.)

Mr. HISS (reading):

> The Chamber of Commerce of the United States has been keenly interested in the attempt to create an entirely new relationship between the Government of the United States and the industries of the United States. It is hoped that the atmosphere of confidence and cooperation which is beginning in this country, as shown by the Federal Trade Commission, the Federal Reserve Board and other points of contact which are now in existence, may be further developed, and this munitions question would seem to be the greatest opportunity to foster the new spirit.

Senator CLARK. What is the date of that letter, Mr. Hiss?

Mr. Hiss. The date of that letter is December 5, 1916.

May I offer in evidence at this time a memorandum furnished by the du Pont Co. showing their subscriptions in the year 1934 to various chambers of commerce, manufacturers associations, trade associations, and technical associations? The 1933 total payment of dues or contributions to chambers of commerce totaled $14,563; to manufacturers associations, $10,398; to trade associations $49,416; and to technical associations $3,257. A grand total of $77,636.

(The memorandum referred to was marked "Exhibit No. 1244", and is included in the appendix on p. 3836.)

Mr. Hiss. Referring to page 20 of the report of the War Industries Board, the personnel of the advisory commission to the Council of National Defense, which was organized, according to the report to which I am referring, on October 11, 1916, consisted of Daniel Willard, Hollis Godfrey, Howard E. Coffin, Dr. Franklin H. Martin, Bernard M. Baruch, Julius Rosenwald, and Samuel Gompers.

Reading from the page referred to:

> Each of these commissioners took charge of a special field. One was assigned to transportation, one to engineering and education, one to munitions and manufacturing, one to medicine and surgery, one to raw materials, one to supplies, and one to labor—

Who was presumably Mr. Gompers. [Continues reading:]

> A system of contracts through "committees of the industries" was worked out by the commissioner in charge of raw materials, and it was on March 3, 1917, that the idea of a large organization was made effective.

Colonel Harris, are you familiar with the Council of National Defense subcommittee or committee known as the Munitions Standards Board? I show you excerpts from a meeting of that council dated February 28, 1917.

(The memorandum referred to was marked "Exhibit No. 1245", and appears in full in the text.)

Mr. Hiss (reading):

> Chairman Willard read the following list of men nominated by the Commission to compose a "Munitions Standards Board":
>
> W. H. Vandervoort, Root & Vandervoort, builders of special machine tools and president of the Moline Automobile Co.
>
> E. A. Deeds, formerly general manager of the National Cash Register Co., president of the Dayton Engineering Laboratories Co., and interested in many industrial activities.
>
> Frank A. Scott, Warner & Swasey Co., Cleveland, manufacturers of automatic machinery and optical instruments.
>
> Frank Pratt, General Electric Co., Schenectady.
>
> Samuel Vauclain, Baldwin Locomotive Works, Remington and Westinghouse Cos.
>
> John E. Otterson, vice president Winchester Arms Co.

Colonel Harris, what were the duties of the Munitions Standards Board when it was first created?

Lieutenant Brannon. As I understand it, the Munitions Standards Board was created for the purpose of standardizing specifications for munitions.

Mr. Hiss. On page 21 of Mr. Baruch's report there is a statement that a month after the appointment of the Munitions Standards Board the General Munitions Board was established, with the duty of coordinating the buying of munitions by the War and Navy Departments and to assist those Departments in acquiring raw materials and manufacturing plants to meet their requirements. This new and larger board had the same chairman, and included the civilian personnel of the Munitions Standards Board.

According to that statement the General Munitions Board had a wider scope of duty than the Munitions Standards Board. Is that correct, so far as you know?

Lieutenant BRANNON. As I understand it, the war was declared before the Munitions Standards Board had an opportunity to do very much, and the need then was to assist the War and Navy Departments in actually procuring munitions, so that the General Munitions Board was formed.

Mr. HISS. Colonel Harris, can you identify Colonel Hawkins, who was in the War Department during the war?

Lieutenant Colonel HARRIS. Col. J. H. Hawkins?

Mr. HISS. Yes.

Lieutenant Colonel HARRIS. He was an officer in the Ordnance Department during the war. He was a man of legal training and had to do with legal matters.

Mr. HISS. I would like to offer for the record excerpts from his testimony before the Graham committee, to be marked as an exhibit.

(The excerpts from testimony referred to was marked "Exhibit No. 1246", and is included in the appendix on p. 3840.)

Mr. HISS. Can you identify Colonel McRoberts, who was referred to in these excerpts?

Lieutenant Colonel HARRIS. Colonel McRoberts was an officer of the Ordnance Department in charge of the Procurement Division of the Ordnance Office, having to do with the placing of orders and making contracts.

Mr. HISS. Do you know what his services had been before?

Lieutenant Colonel HARRIS. He was a banker in New York City.

Mr. HISS. Do you know what bank he was connected with?

Lieutenant Colonel HARRIS. I do not recall just now.

Mr. HISS. Colonel Hawkins in his testimony stated that he was with the National City Bank.

Mr. LAMMONT DU PONT. Mr. Chairman, might it be proper for us to see copies of these matters that are being presented now?

(Copies of the exhibits were handed to Mr. Lammot du Pont.)

Mr. HISS. Colonel Harris, you referred yesterday to the function of some non-War Department agency in time of war in controlling prices. That was the function during the World War of a special committee, a price-fixing committee of the War Industries Board, was it not?

Lieutenant Colonel HARRIS. It was a price-fixing committee, the chairman of which reported directly to the President. The chairman happened to be a member of the War Industries Board, but the committee, while it had personnel from the War Industries Board, was a separate committee answerable to the President.

Mr. HISS. It had separate legal authority of its own, apart from the War Industries Board?

Lieutenant Colonel HARRIS. Yes, but it used the War Industries Board as its source of information.

Mr. HISS. The personnel of the War Industries Board as stated on page 22 of Mr. Baruch's report was Frank A. Scott, chairman of the Board; Bernard M. Baruch; with whom were associated L. L. Summers—can you identify Mr. Summers, Mr. Irénée du Pont?

Mr. IRÉNÉE DU PONT. I recall having met him. I could not identify him; no sir.

Mr. HISS. Perhaps it will refresh your recollection: You wrote a memorandum on April 16, 1917, relating to a conference in Washington, in which you referred to Mr. Summers as late assistant to Mr. Stettinius. Do you remember that?

Mr. IRÉNÉE DU PONT. I do not recall that; no, sir.

Mr. HISS. Alex Legge, Eugene Meyer, Jr., J. L. Replogle, S. H. MacDowell, M. F. Chase, O. F. Weber, E. A. Pierce, and Fred Allen. They were associated with Mr. Baruch, who was commissioner of raw materials.

Robert S. Brookings, commissioner of finished products; Robert S. Lovett, priorities commissioner; Hugh A. Frayne, labor commissioner; Colonel, later Brig. Gen. Palmer E. Pierce, Army representative; and Rear Admiral F. F. Fletcher, Navy representative.

Was Colonel Pierce succeeded by other officers as the Army representative?

Lieutenant Colonel HARRIS. Yes. in the development of the War Industries Board he was succeeded by General Goethals.

Mr. HISS. And was General Goethals in turn succeeded by another representative of the Army?

Lieutenant Colonel HARRIS. I think he was succeeded by Hugh Johnson. Mr. Hiss, I might state that the record of the Board does not show General Johnson, it shows General Goethals, but General Johnson was associated with the Board. I do not know whether he was a member or not.

Mr. HISS. As an Army representative?

Lieutenant Colonel HARRIS. As an Army representative.

Mr. HISS. I call your attention to the fact that at a meeting of the Council of National Defense and the advisory commission on February 14, 1917, Mr. E. S. Stettinius, a member of the firm of J. P. Morgan & Co., addressed the meeting on the manufacture in this country of munitions for the Allies.

(The memorandum containing the excerpt referred to and other excerpts from minutes of meetings of the Council of National Defense was marked "Exhibit No. 1247". and is included in the appendix on p. 3843.)

Mr. HISS. Do you know when Mr. Stettinius became Assistant Secretary of War, Colonel Harris?

Lieutenant Colonel HARRIS. The records I had yesterday showed that he became Assistant Secretary of War on April 11, 1918.

Mr. HISS. Will you turn to page 5 of those excerpts, Colonel Harris?

Mr. HISS [reading "Exhibit No. 1247"]:

> Excerpts from meeting of the Council of National Defense, March 3, 1917. Secretary Baker requested Director Gifford and Mr. Clarkson to retire during the consideration of the election of a director and secretary. Following upon this, Mr. W. S. Gifford was elected as director, and Mr. Grosvenor B. Clarkson as secretary of the council.

On page 8 of the excerpts you have:

> Report of Commissioner Coffin on formation of munitions standards boards and problems of manufacture in aeronautics.
>
> The report of the Advisory Commission's committee on munitions is one of progress. The Munitions Standards Board, created by the Council of National

Defense, following recommendation of the Advisory Commission, held its meeting Wednesday, March 21.

Then there is stated on page 9 the following:

> By formal action, the Board resolved itself into six subcommittees, and by appointment of the Chair the members were assigned to the chairmanship of subcommittees as shown in the following list:
>
> J. E. Otterson: Small arms, including machine guns and small arms ammunition;
>
> Samuel Vauclain: Army artillery and the ammunition therefor;
>
> W. H. VanDervoort: Naval artillery and ammunition therefor;
>
> Francis Pratt: Gages, specifications, jigs, and fixtures;
>
> E. A. Deeds: Time fuses and detonators;
>
> Frank Scott: Scientific instruments, including optical and range-finding apparatus.

Are you familiar with the patent situation in the aeronautical field at this time, Colonel Harris?

Lieutenant Colonel HARRIS. I am not.

Mr. HISS. Will you turn to page 11 of " Exhibit No. 1247 ", which refers to the report of Commissioner Coffin. These are excerpts from the same report of Commissioner Coffin which I quoted before.

PATENT SITUATION

> On March 22, there occurred in this city a meeting of all the manufacturers of airplanes and the members of the National Advisory Committee for Aeronautics. The difficulties in the way of a rapid development of the airplane business were discussed in detail, and two definite actions were taken, which should go far towards clarifying the situation. Through the first of these actions, there was created a committee representing the American Aircraft Manufacturers' Association, for active cooperation with the National Advisory Committee in the investigation and elimination of the difficulties preventing progress in quantity production. The second important step had to do with the patent situation. A tentative agreement was reached whereby all manufacturers agreed to execute a cross-licensing patent agreement, as of date of March 2. The agreement further provides that each manufacturing member of the association shall pay into the treasury of the association a certain stipulated sum for each plane made and sold. A quarterly accounting period is provided. Of the sum thus created, a certain percentage per plane is paid to the Wright-Martin Co. over the period of 6 years for which the Wright patents run. Another definite but smaller percentage is to be paid to the Curtis-Burgess interests during the 15-year period of the life of the Curtis patents. or until such time as the payment to the Curtis Co. has equalled the total sum paid to the Wright Co. during the 6-year period above mentioned.
>
> * * * * * * *
>
> In looking over the purchasing records of the War and Navy Departments during the 8-year perior prior to 1916, four names are found responsible for the development of the art during this time when Governmental support was almost entirely lacking. These names are Wright, Curtis, Burgess, and Martin. Peculiarly, Wright has joined Martin, and Burgess has joined Curtis, thus setting up two groups of patents representing the early development of the art and combining in these two camps the men to whom we owe most for aeronautical development in this country. In the recognition which it is proposed to accord the patents controlled by these two groups, there is a recognition also of the moral obligation to these four men. Through an arrangement such as outlined above, the total tax upon the industry has been reduced to a figure considered reasonable, and the airplane manufacturers of the country have been joined together in a closely knit and cooperative organization, and the danger of patent litigation between manufacturing members has been removed for many years and probably for all time. Moreover, an organization thus firmly knit together insures a definite channel of contact between the industry, the National Advisory Committee for Aeronautics, and the departments of the Government, which will bring about the greatest possible development within the briefest space of time.

Mr. HISS. Do you know whether the cross license or patent pool referred to in this report has remained in effect in the aviation field since that time, Colonel Harris? [1]

Lieutenant Colonel HARRIS. They have just had a study made on that in the office, but I am not familiar with the results. I can find out and answer your question later.

Mr. HISS. Colonel Harris, will you please turn to page 29 of " Exhibit No. 1247 ", excerpt from minutes of joint meeting of the Council of National Defense and Advisory Commission, June 2, 1917:

> Commissioner Willard read the following letter, of date May 31, 1917, from E. H. Gary, chairman of the committee on steel and steel products, of the Advisory Commission:
>
> " I send you herewith copy of letter just received from one of the manufacturers in reply to our request for detailed information concerning the supply of ferromanganese on hand. I do not add the names. The letter speaks for itself. If there is any question in regard to these matters we should know it now.
>
> " The letter referred to by Mr. Gary reads as follows:
>
> " ' Ferromanganese consumption approximately 250 gross tons per month. Two months' supply on hand May 1. Contracts on open market for 6 to 8 months additional. Do not use Spiegel.'
>
> " We are anxious to do everything we can to assist the Government, and have complied with their request for detailed information regarding all of our business, including the steel mill. We are very doubtful, however, as to how far it is safe or proper for us to cooperate with some of the committees that are endeavoring to assist in the matter. I was called to Washington a few weeks ago in connection with some of this committee work, and found that they were operating in flagrant disregard of the Sherman Law, the Clayton Law, and all the other statutes that are supposed to regulate business, particularly big business.
>
> " The Government officials who were sitting in at this conference admitted that they had no authority for doing so, and upon a little further inquiry we were advised that the Government officials' presence at the conference would not in any way protect us. As a matter of fact, we have recently made a settlement with the Treasury Department of a transaction which took place in 1903, notwithstanding the fact that the Government admitted that we had acted in good faith at the time, and under the explicit instructions of the official representative of the Treasury Department. The present administration takes the position that the former contracts were wrong, and not in conformity with the law; therefore we must be punished for doing exactly what we were told to do by the authorized representative of the department at the time.
>
> " It seems to us that if the Government desires cooperation on the part of the business interests in helping them with their problems, the least they could do would be to have Congress pass a resolution suspending operation of these laws during the period of the war. Until such time as such action is taken to protect us against persecution in the future, we should prefer to do our bit by responding to the direct requests of the several branches of the Government for assistance, and this we are doing practically every day."
>
> The director was requested to send the foregoing letters to the Attorney General with the statement that the council and commission, and the various committees acting thereunder, are constantly encountering the difficulty referred to, and if there is any expression on the subject that the Attorney General can make, the council will be glad of his helpful cooperation.

Senator CLARK. What is the date of that letter?

Mr. HISS. This is quoted from a meeting of June 2, 1917, and Judge Gary's letter was May 31, 1917, after war had been declared.

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[1] Under date of March 29, 1935, Colonel Harris submitted the following information respecting aviation cross-license agreements: " With reference to the patent pool mentioned in ' Exhibit No. 1247 ', the Manufacturers Aircraft Association, Inc., has continued an agreement for the cross licensing of aircraft patents. The original agreement has been modified from time to time to meet changed conditions, but the principle has remained in effect."

Do you know, Colonel Harris, or Lieutenant Brannon, what was decided as to the antitrust laws during the war?

Lieutenant Brannon. I do not recall, except I do remember there was conflict between the different agencies of the Government. In other words, I remember there was some lack of cooperation between the Attorney General's office and either the War and Navy Departments and some of the agencies under the Council of National Defense, but I haven't any data here as to the particulars.

Mr. Hiss. If you will look at the bottom of page 30 of "Exhibit No. 1247"; this is from a meeting of the Council of National Defense, June 8, 1917:

> The director read the following letter, of date June 6, 1917, from the Attorney General, in response to inquiry made of the Attorney General as directed by the council on June 2, 1917:
>
> "I have your letter of the 4th instant transmitting a copy of a letter from Mr. E. H. Gary, chairman of the committee on steel and steel products of the Advisory Commission, Council of National Defense, together with a copy of a letter from an unnamed manufacturer. You inquire whether the Department of Justice desires to express an opinion on the question raised by these letters.
>
> "As I read the letters, the question raised is whether the operation of certain laws, more especially the Sherman law and the Clayton law, should be suspended by resolution of Congress during the period of the war. This is not a legal question, but a question of national policy, in respect of which I do not feel that I should express an opinion unless requested to do so by the President."

So far as you know, they were not suspended during the war?

Lieutenant Brannon. I do not think so.

Senator Vandenberg. Were there any subsequent prosecutions growing out of the situation to which Judge Gary referred?

Mr. Hiss. None have been called to my attention, Senator.

Senator Clark. The incident spoken of there in 1903 occurred at a time when the United States was not engaged in war.

Mr. Hiss. I will offer this next document for appropriate exhibit marking.

(The excerpts from meetings of the War Industries Board were marked "Exhibit No. 1249" and are included in the appendix on p. 3848.)[1]

Mr. Hiss. May 28, 1918, a meeting of the War Industries Board was held, according to these excerpts of minutes, at which were present Mr. Baruch, chairman, Mr. Brookings, Brig. Gen. Hugh S. Johnson, Mr. Frayne, Mr. Legge, Judge Parker, Mr. Peek, Mr. Replogle, Mr. Summers, and Mr. Ingels, secretary.

Under the subject of "Price fixing", I read:

> Attention of the board was called to the probable differences in rulings of the Price Fixing Committee and the Board of Appraisers of the War Department now operating under the direction of the Surveyor General of Purchases. If a manufacturer or producer refuses to deliver his product to the Government at prices fixed by the Price Fixing Committee and the product is commandeered, under the present arrangements, it is the function of the Board of Appraisers to determine a fair and just compensation. Considering the demoralizing effect that would result from having the Board of Appraisers fix prices different from those fixed by the Price Fixing Committee, Mr. Brookings was requested to discuss with General Johnson the advisability of—
>
> 1. Having the Board of Appraisers work with the Price Fixing Committee, or
> 2. To have the Price Fixing Committee take over the work now being done by the Board of Appraisers.

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[1] There was no exhibit marked "No. 1248."

Page 9, Colonel Harris, excerpts from meeting of the War Industries Board on Tuesday, June 18, 1918. Present Mr. Baruch, chairman, Mr. Legge, Admiral Fletcher, General Johnson, Mr. Brookings, Mr. Frayne, Judge Parker, Mr. Peek, Mr. Replogle, Mr. Summers, Judge Ritchie—the general counsel of the War Industries Board was Albert C. Ritchie, isn't that true?

Lieutenant Colonel HARRIS. He was.

Mr. HISS. Mr. Ingels, Secretary. Under the heading of "Curtailment of Industry (Pooling of Production)", "Exhibit No. 1249" reads:

> Judge Ritchie reported that he had considered the question referred to him by the Board on June 11, 1918, namely, when the output of plants in the congested area was cut down, whether it would be legal to require the pooling of the output of all plants of the same character, both within and without the congested area, in order to prevent the plants outside that area, where output was not cut down, from undue profiting at the expense of the plants within the area, where output was cut down.
>
> Mr. Ritchie's opinion was that a pooling agreement of this kind would not violate the Sherman Law, provided the Government was a party to it, because he thought that under the circumstances the pooling agreement could not be construed as unreasonable. The only difficulty he saw was that he knew of no act of Congress authorizing the War Industries Board, or even the President, to enter into such an agreement relating to industries controlled by this Board, but Mr. Ritchie felt that, even without such an act of Congress, the President's war powers were sufficient to authorize him to enter into or direct such an agreement with the industries affected.

On April 9, 1917, the General Munitions Board's minutes show that the advisory committee of the Council of National Defense assignment to various subcommittees or subdivisions was as follows:

Raw material, Bernard M. Baruch, chairman; industrial, Howard E. Coffin, chairman; supplies, Julius Rosenwald, chairman; medicine, Dr. Franklin Martin, chairman.

I offer General Munitions Board minutes for appropriate marking as the next exhibit.

(The minutes referred to were marked "Exhibit No. 1250" and are included in the appendix on p. 3849.)

Mr. HISS. At a meeting held on June 1, 1917, of the executive committee of the General Munitions Board——

Lieutenant Brannon, these boards all continued to some extent overlapping, didn't they, during this period?

Lieutenant BRANNON. The General Munitions Board had, I think, the same personnel as the Munitions Standard Board, except that a representative from the Army and a representative from the Navy were added.

Mr. HISS. Under the heading of "Publicity Campaign," the minutes contained the following—

Lieutenant Colonel HARRIS. What page are you on, Mr. Hiss?

Mr. HISS. The last page, page 16 [reading]:

> At the suggestion of Mr. Coffin, the chairman advised that a publicity campaign to guard against adverse public opinion was to be begun immediately. It was suggested that Major McArthur, Captain Marshall, and Maj. Preston Brown be appointed members of this committee. The chair advised that all information would have to come through Mr. Creel, chairman of the Committee on Public Information, and that he would take this matter up with Mr. Clarkson.

I offer the next set of excerpts from minutes of the General Munitions Board for appropriate marking as the next exhibit.

(The excerpts from minutes were marked "Exhibit No. 1251", and are included in the appendix on p. 3851.)

Mr. HISS. On the first page, on June 5, 1917, at a meeting of the General Munitions Board, we have the following:

> Military instruments: A communication from the Ordnance Department was submitted relative to a proposed arrangement with the Warner & Swasey Co. of Cleveland, covering the manufacture of 3,000 panoramic sites for the use of the field artillery.
>
> Chairman Scott retired—

Chairman Scott had been connected with the Warner & Swasey Co.?

Lieutenant BRANNON. Yes.

Mr. HISS (continuing reading "Exhibit No. 1251"):

> And Colonel Blunt presided. Colonel Blunt stated that this company had agreed to take this work only after considerable pressure from the Ordnance Department.
>
> It was moved by Mr. Rosenwald and seconded by General Aleshire, that the price of $300 being fair and just, the proposition would be approved, and it was recommended that orders be placed.

Meeting of June 19, 1917, under the heading, "Organization: Investigation by Major Stimpson", we have the following:

> Mr. Scott stated that now that the emergency in connection with the work of the board is somewhat lessened, that it seemed right to so organize the Board and the members of its subcommittees that the board and the members of its subcommittees shall be free from reasonable criticism. This is particularly necessary in relation to the membership on a board or subcommittee of a man who is actively interested in a concern which may benefit by the awarding of a contract concerning the recommendation of which the subcommittee or board has some authority. To investigate this condition, Mr. Scott suggested that the Board ask Major Stimpson if he would be willing to give his time to this matter. Major Stimpson stated that he would be glad to do this. He thereupon asked what functions the board and its subcommittees had and was informed that the final decision regarding the awarding of contracts did in no case rest with the board or its subcommittees. He asked whether the final decision by the Government officer was simply based on the experience of the board's recommendation and was informed that this was not always the case as recommendations of the board had been reversed on several occasions, the contractor for the cantonment at Chillicothe, Ohio, being mentioned, likewise reversal of the decision by the Secretary of the Navy of the recommendation of the board regarding the price of gun forgings to be placed with the Bethlehem Steel Corporation.
>
> Major Stimpson asked whether it would help matters if a small body of men constituted by law took the place of the heads of the Departments in making final decisions and awards. Mr. Scott stated that the present plan of the board was to coordinate and supplement the work of the departments and that with the present arrangement the small-board idea is impossible.
>
> Mr. Rosenwald give his opinion that a central purchasing body was necessary.
>
> Colonel Dunn stated that the order of the Secretary of War removing the necessity of bids for purchases led the Ordnance Department to believe that the prices submitted by the General Munitions Board were correct and thus accepted them.
>
> Colonel Hodgson outlined for the benefit of Major Stimpson the method pursued in recommending purchases by the Committee on Supplies.
>
> Major Pierce stated that the General Staff had been greatly relieved by the result of the methods used, and complimented the board on the prices received.

Excerpts from June 20, 1917, meeting of General Munitions Board:

A memorandum from Colonel Littell, approved by the Secretary of War, was presented, asking the board to reconsider their recommendation for contractor to build cantonment at Yaphank, Long Island, because of the interest which Chairman W. A. Starrett had in the Thompson-Starrett Co., which firm had been previously recommended.

The matter was referred to Mr. R. J. Bulkley, to investigate the exact standing of Mr. Starret relative to the Thompson-Starrett Co., and likewise the George A. Fuller Co.

Then on June 21, "Exhibit No. 1251", the same subject is referred to:

Cantonments: Request for reconsideration of Yaphank, Long Island, recommendation:

In accordance with action of the Board, Mr. Bulkley presented a report showing that Mr. W. A. Starrett has not had any connection with the Thompson-Startett Co. for a period of more than 4 years.

The first paragraph of this communication was approved without changes. The second paragraph was altered by the addition of a list of contractors to be furnished by the Committee on Emergency Construction, who might have the ability to build the above cantonment.

Mr. Bulkley likewise reported by request, relative to Mr. Starrett's alleged connection with the George A. Fuller Co. showing that Mr. W. A. Starrett has no connection with said company; but that one of his brothers is the president of the George A. Fuller Co.

Page 7, Colonel Harris. On June 26, 1917, under the heading of "Prices, Steel", we have the following:

The chairman outlined the conference held with President Farrell of the Steel Corporation originally called to settle the matter of priority, and eventuating into a discussion as to the prices of steel for the Shipping Board, etc.

A memorandum submitted on the price question to the Secretary of War and to the Secretary of the Navy as being the sense of the conference, was read, together with an answer by the Secretary of War asking that nothing be done at present, but stating that he had informed the governmental purchasing departments that steel should be bought now at pre-war-time prices and the difference in prices adjusted at a later date.

It was thereupon suggested that Mr. Scott find out what was meant by "pre-war-time prices", and that if the prices previous to the war, August 1914 was meant, that the sense of the Board was not in accord with the suggestion of the Secretary.

July 13, 1917, minutes of the executive committee of the General Munitions Board, page 11:

Machine-gun committee: Resignation of Mr. Hanson. A communication from Mr. Hanson, chairman of the machine-gun committee, was presented stating that due to his having accepted a position with the Colt's Patent Fire Arms Manufacturing Co., who were to receive and had received Government orders for machine guns, he felt it necessary to tender his resignation as chairman of that committee.

Mr. Hanson's resignation was ordered accepted and the Secretary was instructed to advise Mr. Hanson of the regret of the Board at his action and to express the Board's thanks for the valuable assistance he had rendered.

Page 15, Colonel Harris, meeting of the executive committee of the General Munitions Board, July 28, 1917:

Present: Colonel Pierce, Colonel Blunt, Colonel Hodgson, Paymaster Hancock, Mr. Meyer, Mr. Rosenwald, Dr. Simpson, Major Starrett, Mr. Scott presiding, and Mr. H. P. Bingham secretary.

Investigation: A telegram from Mr. Rosenwald to the President, bearing on the rider which was to be attached to the food bill relating to the employment of men in an advisory capacity, and regarding such men interested in companies receiving orders, was read and a copy of this telegram together with the President's letter to Senator McKellar on this subject was ordered made a part of the record.

Copy of a telegram forwarded July 2, 1917, to President Woodrow Wilson at the White House, Washington, D. C., from Mr. Julius Rosenwald:

"DEAR MR. PRESIDENT. It is of the most vital importance that the rider in the food bill referring to the Advisory Commission and its method of securing supplies be stricken out. To cast suspicion on men in many industries who without exception have been eager to serve the Government rather than themselves will destroy a spirit which should be encouraged. The committees representing these industries have succeeded in instilling and securing a loyalty to the Government from many in their own lines that could never have been produced under the old system. Even at this early stage of the war the savings to the Government due to this desire to serve, runs into many tens of millions of dollars. Having been intrusted with a responsibility to protect and serve their Government interests a patriotism has been aroused in these men which is absolutely necessary to secure rapid production. It is probably impossible to devise any plan which is dishonesty proof but any man of standing in his profession or industry will sacrifice everything rather than be unfaithful to his trust. At any rate, such has been my experience with the men who have served as advisers to the Commission which I have had the honor to appoint. The present system should not be destroyed until a better one is found. If changes in method are desirable they can be made after proper investigation. It is vital that the cooperation which has already been established should be maintained and furthermore it is of greatest importance that confidence exist between Government and industry and that suspicion which has existed on the part of both be eliminated."

Do you know, Lieutenant Brannon, the provision to which Mr. Rosenwald referred in his telegram?

Lieutenant BRANNON. I am not familiar. As I understand it, considerable criticism was made against the General Munitions Board and the subcommittees, because in some cases the same men were representing both the Government and industry. I believe there was a provision in the Food and Fuel Control Act which prohibited officers or advisers of the Government having any interest in corporations receiving Government contracts. I believe a reference was made to that earlier in the discussion this morning.

Mr. HISS. On the last page of "Exhibit No. 1251", page 17, Colonel Harris, meeting of August 6, 1917, of the executive committee of the General Munitions Board, under the head, "Artillery forgings", we have the following:

> Attention of the Board was called to the question of the distribution of forgings to the Midvale Steel Co. and the Bethlehem Steel Co., particular attention being called to the plan of Midvale furnishing the Navy forgings and the Bethlehem Steel Co. furnishing the Army forgings. Mr. Scott referred to an understanding with these two companies, that each of them was to furnish Army and Navy forgings at a certain fixed price, this price being based on the Navy forgings being divided equally between them. He stated that he did not believe Bethlehem would agree to accept only Army forgings at the prices agreed upon.

The CHAIRMAN. The committee will be in recess until 2 o'clock.

(Whereupon, at 12:20 p. m., the committee recessed until 2 p. m.)

AFTERNOON SESSION

The hearing was resumed at 2 p. m., pursuant to the taking of the recess.

FURTHER TESTIMONY OF LT. COL. C. T. HARRIS, LT. E. M. BRANNON, LAMMOT DU PONT, IRÉNÉE DU PONT, EDWIN PUGSLEY, C. K. DAVIS, E. C. HADLEY, J. H. CHASMAR, E. E. HANDY, AND W. U. REISINGER

(The witnesses were previously duly sworn by the chairman.)

The CHAIRMAN. The committee desires for a few moments to go to the——

Senator CLARK. Mr. Chairman, before you do that, may I offer an exhibit?

The CHAIRMAN. Surely, Senator.

Senator CLARK. I have before me the document to which I referred yesterday, the Industrial Mobilization Plan, Revised, 1933, approved by the Secretary of War February 1, 1933, approved by the Secretary of the Navy February 23, 1933. from the Government Printing Office, 1933. This is a public document, but I understand that the supply of it was exhausted within 48 hours after it was printed last year, at the time of its publication. I ask that it be made a committee exhibit and be published separately.

The CHAIRMAN. That is ordered.

(The Industrial Mobilization Plan was marked "Exhibit No. 1252", and was published separately as Committee Print No. 2.)

Mr. IRÉNÉE DU PONT. Mr. Chairman, you granted us permission to put in, under an appropriate number reserved for it, charts showing the relative prices paid for powder and other commodities.[1]

The CHAIRMAN. Yes.

Mr. IRÉNÉE DU PONT. I desire to do that now, and if you will permit me just a few minutes to explain the charts, I think it will clear up any indefiniteness.

The CHAIRMAN. When you say "a few minutes" is that what you mean?

Mr. IRÉNÉE DU PONT. If you do not ask me too many questions, I can do it in 5 minutes.

The CHAIRMAN. Because the committee has an intense week ahead of it.

Mr. IRÉNÉE DU PONT. I think, Mr. Senator, this is a very important phase of it, because some of the curves going on that chart I think are very striking.

The CHAIRMAN. Very well. Let us proceed to that consideration.

Mr. IRÉNÉE DU PONT. Mr. Chairman, I prepared in writing a description of what I am about to say, but my eyes are none too good, but I shall try to follow it accurately, and I would like to attach this as an exhibit to the chart.

This first chart which they are putting up, which you can read, is the price per pound of Army and Navy cannon powder, air-dried. The data was taken from War Industries Board information, the data used for powder and powder materials.

Raw material prices, which are the double line, are weighted, again all the data taken from the War Industries Board. You will notice the dotted line is the powder price paid by the United States. That is according to the War Industries Board's figures. Of that powder, the vast bulk came from the du Pont Co. I do not know whether it is 96, 98, or 93 percent, but it is substantially du Pont prices, and our prices would probably be a little lower because at that time, to encourage other manufacturers, they were given a little bit higher price than the du Pont Co. were given on their powder.

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[1] Hearings, Part XIII, p. 2928.

That double line there represents the cost of ingredients in powder, weighted, as I say, to get the amount of ingredients per pound of powder.

All these lines refer to 100 percent, being the 1913 price of the commodity.

The full black line is the same as you had on your charts, the general average commodity prices. You will note from this that powder declined quite materially from pre-war prices, in spite of the fact that the raw materials entering into it are considered double what they were prior to the war.

A small part of the time they were above that, and for a considerable time quite a little bit below it, but most all at least 150 percent throughout the whole period.

That refers to the United States alone.

·Now as to powder sold to foreign nations——

Senator Clark. Mr. du Pont, does this dotted line include also the price of the powder made by funds furnished by the United States?

Mr. Irénée du Pont. I presume it does, but I do not think that will disturb the cost much because our manufacturing cost—to the Government on the relatively small production of powder at Old Hickory—was just a little bit above our selling price on powder made in our own plants, and, if anything, it would tend to raise the price, and I think that is negligible.

The second chart shows the prices charged the foreign nations. You will note the large bulge in the dotted line, beginning in January 1915 or December 1914 and starting in January 1917; that bulge represents the amortization of the plants, which we had to build, the facilities which had to be created to meet the demands, and which, of course, would be worthless after the war.

If you can draw a straight line across the 100 percent line connecting those two dots, it will represent what was charged for the powder, that is, the balance being amortization.

That is again compared with the upper two lines, the United States lines, showing how it affected manufacturing for foreign shipment.

The foreign line is essentially all du Pont manufacture. The contribution by other manufacturers was very small, and I would state the Government made none of it.

Senator Clark. Mr. du Pont, I notice on both of these charts that in 1917, after there had been a steadily growing cost of powder raw materials, there began to be a very marked drop on both charts. That is due to the fact the United States Government took charge of the matter of raw materials?

Mr. Irénée du Pont. Yes, sir; and I want to bring that out, showing in a later chart the control of raw-material prices.

This third chart represents the price of cotton as compared with the same all-commodity price, the dotted line being cotton, the upper one of those two, and the lower one being the general commodity price, showing that cotton went up even more than other commodities.

That is, you might take in one of our ingredients, which is cotton, and it went up unduly high compared with the price of powder, at least even more than other commodities.

The chart below is the wheat price and the corn price, which undoubtedly affect the price of alcohol, in that alcohol has to be made from grain or molasses, and the molasses price got out of control entirely, which indicates how the grains went up 'way above the ordinary increase in general commodities. That, of course, in turn influenced the cost of raw materials going into powder, which had to be absorbed, and are included in the smaller prices of powder on the first of the charts. We had to absorb part of the increase.

The corn price, you will find on the right. Mr. Senator, and it indicates about the same as the wheat. We put up both grains, because one might be substituted for the other.

Now the last chart to which I would like to call attention may seem 'way afield from powder, namely, flaxseed. Flaxseed comes from the Argentine essentially. That is the product which represents its price. That requires shipping from the Argentine to the United States and, due to the scarcity of shipping, undoubtedly, it went unduly high, as you will see.

Nitrate also comes from Chile, in the southern part of South America, and undoubtedly it, too, would have skyrocketed in price had not the Government intervened and fixed merchant marine rates, at least attempted to fix them, held them down somewhat, although nitrate prices did actually about double in this period.

Senator Clark. Flaxseed does not enter into the manufacture of munitions, does it?

Mr. Irénée du Pont. Not at all, but it shows the general ocean freight rates which might have applied to nitrates, had the Government not gone back and attempted to fix prices of raw materials.

I want to point out this: That that astonishing price of powder was the result not of fortuitous circumstances. Powder might have been expected to cost a great deal more. The labor rates went up a great deal in this period, as well as the raw material prices. But I think it is a monument to show what organized efficiency can do.

At the peak I think the du Pont Co. had approximately 100,000 men organized. Each division knew what they were doing and how to do it, and had competent men in charge, and we applied the principle of rewarding those men especially well if they could do especially well.

Now take alcohol, a point which I keep always bringing up as a case in point. We were able to reduce the amount of alcohol, which had become very valuable, and thereby effect economies in the cost of manufacture of our product.

I think I have covered everything in this memorandum which I would like to put in as an exhibit, but the striking part, to my mind, is that the real profiteers on war are not the powder manufacturers. The real profiteers, the ones who did not have to do any additional work, but got two and sometimes three times the price of their product, are the raw-material manufacturers, essentially the farming group.

I do not know how the case of profiteering is going to be done away with, but it is evident that there was much more than any profiteering in the manufacture of powder.

(The memorandum on the charts referred to was marked "Exhibit No. 1253" and is included in the appendix on p. 3854.)

(The charts referred to were marked "Exhibits No. 1253–A to 1253–F" and appear in the appendix on pp. 3855 to 3857.)[1]

The CHAIRMAN. Mr. du Pont, are you aware of the fact that the urge which was upon the producers, for example, of wheat and flaxseed, particularly flaxseed, the urge which was upon them by the Government to produce more, has inflicted upon the flaxseed-producing area an injury that is certainly not yet overcome and won't be for a long time? The farmers went out and turned over sod which ought never to have been done, because the Government was urging them to produce flaxseed. Therefore, we are today having conditions in those regions which I do not know how we are going to solve, or when we are going to catch up ourselves on it, because of the response given when the urge was upon the farmer to produce those things which the Government was calling for.

Mr. IRÉNÉE DU PONT. I appreciate that there are very many bad things which flow out of war, and that is one of the reasons why I am against war. But I simply want to point out to you the real expenditure of money above the normal price of commodities does not lie in powder, but it lay in the matter of raw materials, mostly agricultural, that is, from that point of view.

Perhaps the other may be agricultural—I do not know, but the things which enter into powder went higher up compared with the price of powder, and I think those charts conclusively prove it.

The data on agriculture is taken from the Department of Agriculture, Bureau of Agricultural Economics, and the powder tables are taken from the War Industries Board, price data used for powder and powder materials.

Are there any further questions on that? I am afraid I took a little bit over 5 minutes.

The CHAIRMAN. Mr. Pugsley, do you want to be heard?

Mr. PUGSLEY. Yes, sir. I have three documents here in connection with the Geneva Convention, which we thought might be helpful to the committee to have, and we ask that they be inserted in the record.

They are, first, a transcript of the hearings before the Committee on Foreign Relations, United States Senate, Sixty-ninth Congress, Supervision of International Trade in Arms, dated April 28, 1926.

(The document referred to was marked "Exhibit No. 1254" and is included in the appendix on p. 3858.)

Mr. PUGSLEY. The second is a copy of the message from the President of the United States transmitting a convention for the supervision of the international trade in arms and ammunition and in implements of war, signed at Geneva, Switzerland, on June 17, 1925.[2] It was confidential, and was made public on the 18th of May this year.

(The letter of transmittal from the President referred to was marked "Exhibit No. 1255" and is included in the appendix on p. 3866.)

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[1] See Hearings, Part XIII, p. 2928, appendix, pp. 3011 to 3014, for committee charts on commodity prices, "Exhibit No. 1115–A to 1115–F."

[2] The text of the Convention for the supervision of the international trade in arms and armaments and in implements of war is included in the appendix to Committee Print No. 1, on p. 80.

Mr. PUGSLEY. Third, we have a report of the Foreign Relations Committee to the Senate on the Geneva Convention, which is dated May 18, 1934.

(The document referred to was marked "Exhibit No. 1256" and is included in the appendix on p. 3866.)

Mr. PUGSLEY. In connection with this report of the Foreign Relations Committee, I call attention particularly to the letter on page 2 of the report, from the Hon. Cordell Hull, Secretary of State, to Senator Pittman, in which the Secretary states that the convention of 1925 was signed at Geneva and in all essentials was based upon the preliminary draft adopted at Geneva in 1924, and which has been argued in this proceeding was essentially altered by the conference.

I also call attention to the fact that the resolution, as adopted by the Senate June 15, 1934, and as appearing in this report of the Foreign Relations Committee, recommends the approval of the treaty by the United States.

I quote from the report:

> * * * subject to the reservation that the said convention shall not come into force so far as the United States is concerned until it shall have come into force in respect to Belgium, the British Empire, Czechoslovakia, France, Germany, Italy, Japan, Sweden, and the Union of Soviet Socialist Republics.

Senator CLARK. I think the last exhibit is already in the record.

The CHAIRMAN. Of course, if any part of it is in the record, the reporter will make note of that. They will be received and given exhibit numbers.

Senator CLARK. Mr. Pugsley, on the subject of these exhibits, did your company have a representative on the committee which prepared a recommendation as a result of this conference in the commerce department, which is its first recommedation recommended the removal of automatic pistols and revolvers from the category of military weapons?

Mr. PUGSLEY. Mr. Beebe was on that committee.

Senator CLARK. I have no objection to these exhibits.

RELATIONS BETWEEN MUNITIONS MAKERS AND WAR DEPARTMENT AND WAR DEPARTMENT OFFICIALS

The CHAIRMAN. The committee desires to turn, for a moment, to the question of relationship between the munition manufacturers with the War Department and with the officials of the War Department. I want to direct my questions mostly to Mr. Hadley.

The committee has before it a letter dated October 25, 1933, signed by Mr. Frank J. Kahrs, promotion and advertising manager for the Remington Co., addressed to Lt. Col. Townsend Whelen, headquarters Seventh Corps Area, Corps Area Ordnance Office, Omaha, Nebr., which I offer for appropriate number.

(The letter referred to was marked "Exhibit No. 1257" and appears in full in the text.)

The CHAIRMAN. That letter states:

> My Dear T. W.:—

Is Lieutenant Colonel Whelen still in the service, Mr. Hadley?

Mr. HADLEY. I have the impression that he is.

The CHAIRMAN. Colonel Harris, are you aware?

Lieutenant Colonel HARRIS. That is Lieutenant Colonel Whelen. He is still in the service; yes, sir.

The CHAIRMAN. Lieutenant colonel.

Lieutenant Colonel HARRIS. Yes, sir.

The CHAIRMAN. I read from "Exhibit No. 1257":

> Our foreign department would like us to furnish them with an article dealing with the subject of what the United States Government is doing in training marksmen with .22 rifles and ammunition.
>
> Along the lines we discussed the whole proposition when you were here at the factory some time ago, I wish you would get up something for me that we could furnish some of our foreign publications which would be informative and perhaps furnish the incentive for them to do likewise.
>
> Of course, we are entirely selfish in this because, naturally, we would benefit by the increased sale of our excellent .22 L. R. Kleanbore cartridge to the various countries.
>
> As you know we have two excellent rifles for this purpose, both modeled along military lines, models 33 and 34 N. R. A., and it would give our representatives abroad an opportunity to place these before the various foreign governments who might become interested in training their troops in the same manner as our own Government.
>
> This is just a little more propaganda, of course, and I am sure that you could treat it in a way that would make it very interesting as well as inspirational. I think one fairly long article with complete information would be better than several shorter articles, although I would leave that to you. We could probably do the rewrite stuff here and send out as many articles as we desire from the basic information that you would furnish.
>
> If you happen to have any photographs so much the better.

I will read, also, the concluding paragraph:

> Haven't heard from you in some time. They tell me that you are still on active service, in other words not yet retired.
>
> Hope you will drop me a line when you have the opportunity.

Mr. Hadley, to what extent has Lieutenant Colonel Whelen done propaganda work for you?

Mr. HADLEY. I should say, so far as I am aware, that the work that he has done has been primarily literary—in fact, that he has been writing for certain magazines and thereby aiding in creating an interest in small-bore rifle shooting.

The CHAIRMAN. The article which was referred to, the article which you referred to in this letter, was it ever furnished?

Mr. HADLEY. I am not aware as to whether it was or not.

The CHAIRMAN. The committee is advised by its investigator that it was furnished by Lieutenant Colonel Whelen.

Mr. DAVIS. I do not believe that was ever used, Senator. I am not sure of that. I will check it up, but I do not believe it was ever used.

The CHAIRMAN. Why was it not used?

Mr. DAVIS. I cannot answer the question.

The CHAIRMAN. But it was furnished?

Mr. DAVIS. I am not sure of that, either. I would be glad to check it up.

The CHAIRMAN. In the article which was furnished, did it specifically mention your brand, your line of ammunition?

Mr. DAVIS. I did not see the article. I am sorry to say.

The CHAIRMAN. Mr. Wohlforth, what reference does the article which was prepared by Lieutenant Colonel Whelan make to this matter?

Mr. Wohlforth. I requested that article, Mr. Senator, and on page 3 of the article which was supplied to me by Mr. L. K. Larson, the assistant treasurer of the Remington Arms Co., the following paragraph is included, and this is from the article which Lieutenant Colonel Whelen furnished [reading]:

> Another matter which has operated for the economy of this system of training with a .22 caliber rifle is the noncorrosive ammunition which was first developed by the Remington Arms Co. The United States Government purchases only noncorrosive ammunition.

The Chairman. Very well.

Mr. Handy. I am sure, Senator, that that article was not used.

The Chairman. Why was it not used?

Mr. Handy. I do not know. We just got it from the colonel.

The Chairman. It was available for use, if you wanted it, was it not?

Mr. Handy. Yes, it was.

The Chairman. Have there been other articles written by him which were not used?

Mr. Handy. I think he has written a handbook on small-bore shooting, which has not been used either.

The Chairman. At whose request did he write that?

Mr. Handy. I believe at Mr. Kahrs'.

The Chairman. Is there a regulation against Army officers making statements on the method of service and supplies for advertising purposes?

Mr. Handy. I do not know, I am sure.

The Chairman. Colonel Harris?

Lieutenant Colonel Harris. I do not know whether there is a written regulation, but I should be glad to look into it.

The Chairman. I have before me a letter written by Major Gatchell to the Remington Arms Co. on April 27, 1931, which I offer as an exhibit.

(The letter referred to was marked "Exhibit No. 1258" and is included in the appendix on p. 3875.)

The Chairman. I read from it:

> In reply, you are informed that there is an Army regulation forbidding the officers or other agencies of the War Department from making statements on the merit of services or supplies furnished for the Army for use in advertising by commercial firms. This would clearly prevent this office from authorizing you to use either Colonel Whelen's or Colonel Schull's letter in full or in part in any advertising.
>
> It would not, however, in the opinion of this office, prevent you from incorporating in the advertisement a statement as to what accuracy figures were obtained in the official test of the 40,000,000 rounds of caliber .22 long rifle Kleanbore ammunition recently furnished to the Government. The statement of the accuracy figures should appear as your own statement and not as the statement of a Government official.

Does that, Colonel Harris, coincide with your own thought as to the regulation?

Lieutenant Colonel Harris. Yes, sir.

The Chairman. Does this state the reason why you have not used Lieutenant Colonel Whelen's article that he furnished you with?

Mr. Davis. I do not think so, Senator. I did not know that there was any such regulation.

Mr. Hadley. Senator Nye, it may well be that that is a reason why it has not been used in that particular form. This particular letter that you read, signed by Gatchell, referred to a certain specific statement which was made to us after the test of this 40,000,000 rounds by the commanding officer at Springfield Armory, who was charged with the test of that ammunition. The results that he obtained were so satisfactory that he freely mentioned them to us. It was the possible use of that that we had in mind when we wrote the letter to which this is a response. But, of course, this precluded the possibility of our using that information or that statement, so that we were guided by this letter and never made use of it.

The CHAIRMAN. The fact remains, does it not, that this kind of work done by Lieutenant Colonel Whelen is of great value and service to the country? You do make much use of his studies and his writings?

Mr. HADLEY. We feel that his published writings which create and continue interest in shooting certainly are of benefit to those who make small arms ammunition of .22 caliber. That was the particular thing that he was writing about.

The CHAIRMAN. Whelen is recognized as something of a writer, is he not?

Mr. HADLEY. I should say that he is decidedly recognized as a person of not only Army experience but also extended experience in hunting, also in target shooting of this nature, .22 caliber target shooting.

The CHAIRMAN. Relative to his response, I have before me a confidential memorandum supplied to me to J. B. Smiley.

Who is Mr. Smiley?

Mr. HADLEY. He was a former president of Remington Arms Co.

(The letter referred to was marked "Exhibit No. 1259", and appears in full in the text.)

The CHAIRMAN. This is by Pete Carney, manager of the advertising department:

> Attached find Whelen's letter in reference to Kleanbore and my answer to him.
>
> Whelen is a real high type of writer who can be trusted in every way. It is just such things as Whelen wants to do that I would like to do because what he can do for us we could not buy for many thousands of dollars and a written article by Whelen in an honest-to-goodness magazine will bring us more return than any amount of paid advertising.

So you do recognize in Lieutenant Colonel Whelen's writings a large degree of authority, and when you can quote him or when you can use his writings, it reverts to your very decided advantage, does it not?

Mr. HADLEY. As an authoritative writer on the subject; yes.

The CHAIRMAN. What does Lieutenant Colonel Whelen receieve from your corporation for such services as he performs?

Mr. HADLEY. I am not aware that he has received anything.

The CHAIRMAN. Mr. Davis?

Mr. DAVIS. I think he has been paid a small hourly rate. I do not know what it is.

The CHAIRMAN. He has been paid a small hourly rate?

Mr. DAVIS. I think so. That is my understanding.

The CHAIRMAN. What do you mean by "an hourly rate"?

Mr. DAVIS. So much per hour for his writing.

Senator CLARK. You mean he writes by the hour?

Mr. DAVIS. In his spare time.

The CHAIRMAN. Are you prepared to say in the aggregate what has been paid to Lieutenant Colonel Whelen for his writings?

Mr. DAVIS. No, sir; but I think it is a very small sum indeed.

The CHAIRMAN. Do you pay him anything in any other than that manner for his service?

Mr. DAVIS. No, sir.

The CHAIRMAN. Have you given him rifles and ammunition as gifts?

Mr. DAVIS. Not to my knowledge. I do not know.

The CHAIRMAN. Mr. Hadley?

Mr. HADLEY. I am not aware of any rifles that have been given to him as gifts. I can say that certain new rifles have been put into his hands for test, so that we could perhaps gain the benefit of his opinion on the subject.

Senator CLARK. Is he still testing them?

Mr. HADLEY. I should say that the test was only as a new product.

Senator CLARK. Is he still testing them or does he return them after he has tested them?

Mr. HADLEY. I have no information on that.

Mr. WOHLFORTH. There is a letter here that may be marked as an exhibit, and I would like to read an excerpt from it.

(The letter referred to was marked "Exhibit No. 1260", and is included in the appendix on p. 3875.)

Mr. WOHLFORTH. It is dated November 17, 1933, to Lt. Col. Townsend Whelen, from Mr. Kahrs.

In part it says:

> I have the story that you wrote for the export department. It is fine. I have turned it over to them. I don't think I want to accept this without compensating you in some form. Isn't there a rifle or a shotgun that you need? Let me know about this.

The CHAIRMAN. How have you accounted for the payments that have been made to Colonel Whelen?

Mr. DAVIS. I cannot answer that question.

The CHAIRMAN. You are quite confident he has been paid?

Mr. DAVIS. I think he has; yes, sir.

The CHAIRMAN. The only information our agents are able to ascertain on that score involved the payment of $100 to him at one time, but it was made to appear that this $100 payment was to cover expenses that he had been put to in bearing witness in a lawsuit in which your company was interested. That lawsuit was known as the Hoen case.

What was the Hoen case?

Mr. DAVIS. What was the date of that, Senator?

The CHAIRMAN. In 1930.

Mr. DAVIS. That was before my time with the Remington Arms.

Mr. HADLEY. I can answer that. The Hoen case was one in which .22-caliber cartridges were used in a gallery in New York—that is, one of these galleries that you walk into from the street. There was an injury that was caused to Hoen. It was either in one of these galleries or else it was in some performance, some stage performance; I am not sure which. He suffered an injury, I believe, to his eye. The cartridge which caused it was the subject of the discussion, whether that was because of defective manufacture or possible carelessness in manufacture or whether it was simply an act of God.

The Chairman. What testimony could Lieutenant Colonel Whelen have borne in such a case?

Mr. Hadley. I do not know specifically what he would have done, except such evidence as his long experience in shooting might have shown.

The Chairman. A memorandum before me indicates that though Lieutenant Colonel Whelen went to New York twice on this case, he never was called upon to testify. You are not prepared to know just what it is that he might testify to in that case?

Mr. Hadley. No; I do not know specifically, but my recollection is that the case was compromised rather than brought to a final trial in court. It may have started, but it seems to me there was a compromise of some sort, as the result of which it was dropped without there being any conclusion in the court.

The Chairman. Mr. Hadley, has Lieutenant Colonel Whelen's service in the way of writing for your company been very large?

Mr. Hadley. I am glad you asked that question because I wanted to perhaps clarify it, or at least I feared there might be a misunderstanding in respect of what has been said on his writing. He has written quite a good deal, as has been stated heretofore. My impression is that any writing that he has done for us specifically has been very small in quantity compared with his general writings. I recall one writing in connection with a sporting-rifle stock, and I believe that in our book of instructions on how to assemble and disassemble, there is something that was written by him. But certainly the major part of his writings I should say we have nothing to do with whatever.

Incidentally, I should perhaps remark in respect of that rifle which he tested, or ammunition which he tested, that that is not something that is peculiar to him, as far as our company goes, nor yet as far as other companies are concerned, because the practice is when a new product is brought out for different companies to supply those who write in different magazines with those new products so that their opinions on the subject may appear simultaneously, more or less, in the magazines with the bringing out of the article in question.

Senator Clark. Did you pay Lieutenant Colonel Whelen for going to New York on these two occasions to testify as an expert witness in this lawsuit?

Mr. Hadley. The Senator stated something about that. I do not know myself.

The Chairman. The record reveals that he was paid $100 to cover his expense on those two trips to New York.

What, in addition to money, if anything, has been used to reward Lieutenant Colonel Whelen for the services that he performed for your company, Mr. Davis?

Mr. Davis. I know of nothing, Senator.

The Chairman. Has he ever been offered a position in the company?

Mr. Davis. Yes, sir; he was. We established in the Empire State Building an exhibit of all of our arms and ammunition. We were looking for a man to take charge of that exhibit, also take charge of our rifle promotional work. His name was suggested to us. We wrote to him, and he informed us——

The CHAIRMAN. By whom was his name suggested?

Mr. DAVIS. I think it was Mr. Kahrs that suggested it. We received a telegram back from Lieutenant Colonel Whelen as follows:

> Retired officers employed by firm doing business with Government cannot draw retired pay. Sorry cannot draw. Letter follows.
>
> TOWNSEND WHELEN.

The CHAIRMAN. Let us turn to that letter that followed. The reasons that he ascribes for his refusal to accept the position rather interest me, and I am sure they will the committee.

I offer this letter of February 9, 1934, as an exhibit.

(The letter referred to was marked "Exhibit No. 1261", and is included in the appendix on p. 3876.)

The CHAIRMAN. I read the letter not in its entirety, but almost. The letter is written from Omaha, Nebr., to Mr. Frank J. Kahrs, Remington Arms Co., Bridgeport, Conn.

> DEAR FRANK: I have your letter of February 6 relative to the position in your New York office. It sounds very attractive and a splendid opening, and I wish so much that I could accept it, but, unfortunately, I cannot do so.
>
> About 10 years ago, when General Harbord retired from the Army to accept the position as president of the Radio Corporation of America, certain soreheads in Congress, peeved because he was bettering himself so much, introduced and passed a law which provides that if a retired officer is employed by any firm which does business with the Government, that officer cannot draw his retired pay. This position which you have in view would prevent my drawing my pay, which, in event of retirement, would be $375 a month, and, of course, I could not therefore consider it.
>
> Perhaps I had better tell you just how I am situated. I had planned to retire last fall after my daughter's marriage, but the expense of the wedding and the general financial depression at that time made me hesitate. Just now I am approaching my promotion to full colonelcy, and should get it within 8 months, perhaps a little less. It seems wise to wait until that time, when I will then be entitled to slightly more retired pay, and will also have the satisfaction of retiring with the highest rank which I can normally expect. Mrs. Whelen and I have practically made up our minds that we will then retire—that is next fall or early winter.
>
> When I do retire I have been planning that I would go back to Washington where I own and home and there hang out my shingle as a consulting ordnance engineer, specializing on design, publicity, and selling counsel. In this way, being in business for myself, I shall be free to work for Remington, or for any other individual or company, billing them in the usual manner for the work done.
>
> In the eyes of the law I will not then be employed by any firm doing business with the Government or otherwise. I will simply be selling my own product as any other business man might. In fact, I have already done a little of such work. Recently, you will remember, I did work of this kind, and sold my own product to you for the Remington Arms Co. I have also done a small amount of work for other companies from time to time.
>
> It seems to me that I might do work for the Remington Arms Co. from time to time under such conditions in a way that would be very satisfactory to you, and also more economical to you than under the conditions you suggest. I will be a free lance, and I can go anywhere, or do anything that you might wish, merely billing you for the services on completion of the project. I have no idea of charging exhorbitantly, as you already know.

It strikes me, Mr. Davis, that Lieutenant Colonel Whelen here is saying in effect, "I cannot work for you but I can work for you." What are we to make of this?

Mr. HANDY. Our understanding, Senator, is that an Army officer while in the service is permitted to write and sell his articles. I was wondering if Colonel Harris could answer that point for us.

Lieutenant Colonel Harris, what thought do you have on it?

Lieutenant Colonel HARRIS. An officer is permitted to write on his own time and sell his articles subject to written Army regulation limitations.

The CHAIRMAN. Here we have a man who serves in a rather dual capacity. He is in the Ordnance Department and at the same time he is an ammunition expert. That opportunity which the Government has given him makes him one whose service can be extremely valuable to a company like the Winchester Co.

Lieutenant Colonel HARRIS. I would say that he is a hunting ammunition arms expert rather than a military arms ammunition expert.

Mr. DAVIS. I think that is correct.

The CHAIRMAN. What is he doing in the Ordnance Department, then?

Lieutenant Colonel HARRIS. He is an officer. All officers in the Ordnance Department are not necessarily expert on all matters. He gives satisfactory service in the Ordnance Department. But my statement was that as to being an expert, I thought with his long hunting experience and long interest in shooting, he would qualify more as an expert on sporting types of arms and ammunition than on military.

Senator CLARK. That is no part of his duties in the Ordnance Department, is it, Colonel?

Lieutenant Colonel HARRIS. He has been on duty at Frankford Arsenal, which manufactures small arms and ammunition. He came into the Ordnance Department right after the war. He was an Infantry officer. All this shooting was with the background of Infantry service.

Senator CLARK. This .22 caliber ammunition that you have been talking about is considered an adjunct to military service, is it not?

Lieutenant Colonel HARRIS. It is a training ammunition.

Senator CLARK. It is a training ammunition. In other words, you can teach a man the position, the handling of his piece, the trigger squeeze, the use of the sights, and everything else on a miniature range with .22 ammunition just as well as, in fact, better than you can with a high-powered Army rifle on a regular Army range, is not that true?

Lieutenant Colonel HARRIS. That is true. In that respect, he is an expert on that phase of it.

The CHAIRMAN. Mr. Davis, what utility would these articles which Lieutenant Colonel Whelen wrote be to you except as he could be advertised as being of the Ordnance Department and an expert on ammunition in the Army? Supposing he had never had those Army contacts, would his service have been of the value to you that it was?

Mr. DAVIS. Just as much.

The CHAIRMAN. Just as much?

Mr. DAVIS. Yes, sir.

Mr. HANDY. There are quite a few writers, Senator, on the same subject, who have no connection with the Army; quite a few sporting writers around the country.

Mr. DAVIS. He is an expert on small-bore shooting, and one of the most outstanding experts in the country. Regardless of whether he was attached to the Ordnance Department or not, his opinion would be very valuable to us.

The CHAIRMAN. In the conclusion of his letter, "Exhibit No. 1261", Colonel Whelen says:

> Under these conditions I do not see why I cannot do any work that the Remington Arms Co. desires, and it will be the greatest pleasure to cooperate with them. Indeed, I have always tried to do so in the past, and I think that from time to time I have been of some little help. Of course, until I am actually retired I cannot travel, but my pen is at your service now as always. After retirement I am a free lance.

I want to go back to that again. Does not the fact that Colonel Whelen is connected with the Army lend considerable weight to his request?

Mr. DAVIS. I do not think so, Senator; no. I think his knowledge of small-bore rifle shooting and——

The CHAIRMAN. What is the writing that has been published?

Mr. DAVIS. I do not know.

Mr. HADLEY. He has written a book. I think it is entitled, "The American Rifle." In this he treats of all the sporting rifles at length of all different makes. My impression is that that was published about 15 years ago—some time ago. His interest in sporting rifle shooting is clearly shown there.

The CHAIRMAN. I suppose that when his articles are published they are published as coming from one Townsend Whelen, without any reference to his Army connection?

Mr. HADLEY. I cannot say as to that. My observation is that most Army officers use their titles day in and day out, as it were. But I do think that his reputation as a writer is sufficiently broad to stand on its own, even though he had no connection with the Ordnance Department.

The CHAIRMAN. But it would be pretty safe to declare that there have been no articles published by him or no articles published which he has written without drawing attention to the fact that he was connected with the Army?

Mr. HADLEY. I could not speak with finality on that.

Mr. WOHLFORTH. Lieutenant Colonel Whelen's reputation is founded upon his skill and knowledge as a military shot, is it not, rather than as a hunter and on revolver shooting?

Mr. DAVIS. I do not think so.

Mr. WOHLFORTH. Can you answer that?

Mr. HADLEY. I should say that from our point of view his interest is a twofold one; primarily that is the .22 caliber shooting, and also the big game shooting that he has done, as I recall it. He has shot big game in various countries as well as the United States. He has had a broad experience in that way.

The CHAIRMAN. I want to digress from that for just a moment long enough to make reference to a solicitation which was made of the Remington Arms Co. for an advertisement in the Army and Navy Journal. Colonel Harris, is the Army and Navy Journal privately owned?

Lieutenant Colonel HARRIS. It is.

Senator CLARK. General Reilly's?

Lieutenant Colonel HARRIS. I do not know.

Senator CLARK. Formerly with the Thirty-third Division?

Lieutenant Colonel HARRIS. He had some connection with it at some time.

Senator CLARK. He owned it?

Lieutenant Colonel HARRIS. I do not know whether he does or not, now, Senator.

The CHAIRMAN. You do not know where the ownership rests?

Lieutenant Colonel HARRIS. No. The reputation is as of a privately owned magazine.

The CHAIRMAN. This evidence to which I refer is a letter dated January 4, 1934, addressed to Mr. E. E. Handy, vice president of the Remington Arms Co., Inc., Bridgeport, Conn.

(The letter referred to was marked "Exhibit No. 1262", and appears in full in the text.)

The CHAIRMAN (reading):

> DEAR MR. HANDY: Colonel O'Laughlin has written to me from Washington stating that the Remington Arms contract for the Army-Navy Journal has expired.
>
> Ed Ferriday has already undertaken to get for us the 28 half-page du Pont contract. I know how busy you are so I shan't take any more of your time than to wish you a most successful 1934. The rest I'll leave to your inference. Can we count on you?
>
> Yours very respectfully,
>
> LT. B. R. CHADWICK.

Who is Lieutenant Chadwick?

Lieutenant Colonel HARRIS. I do not know, Senator. I can find out.

The CHAIRMAN. Mr. Handy, who is Lt. B. R. Chadwick?

Mr. HANDY. I do not know him, Senator, other than that. That is all I know about it.

The CHAIRMAN. This letter soliciting this advertising was written on War Department stationery. Is Lieutenant Chadwick by any chance stationed in the War Department here?

Mr. HANDY. I am certain I do not know.

The CHAIRMAN. I will read that part of the letter again [reading]:

> I know how busy you are so I shan't take any more of your time than to wish you a most successful 1934. The rest I'll leave to your inference.

What is the rest that is left to your inference?

Mr. HANDY. I do not know. We had a request to take an ad in the Army and Navy Journal, as I recall it, some time during 1933. I think we did so at a cost of around $100 or such a matter.

Senator CLARK. Did you infer that this lieutenant was asking you to take an ad? He said he left it to your inference. Did you infer that he was asking you to put an ad in the Army and Navy Journal when you got this letter?

Mr. HANDY. Yes. I think that was the request. I do not think there was any inference with respect to that.

Senator CLARK. He says he leaves it to your inference.

The CHAIRMAN. He reminds you that your contract has expired, and the inference, of course, would be in part at least that you renew that contract for the new year.

Mr. HANDY. That is right. I think that Remington had previously taken ads in the Army and Navy Journal.

The CHAIRMAN. Lieutenant Chadwick in a postcript to his letter, which is "Exhibit No. 1262", says [reading]:

> Thank you very much for your help last year. We appreciate it very much.

I assume that means your help in the way of advertising in the Army and Navy Journal.

Mr. Handy. I presume it does. That was just prior to the time, Senator, that du Pont took control, or about the time.

The Chairman. Who is Ed Ferriday, who is referred to in the letter?

Mr. Handy. He has charge, or formerly had charge of the contractors section, I believe, of the explosives department of the du Pont Co.

The Chairman. Do you know Mr. Ferriday very well?

Mr. Handy. Quite well.

The Chairman. Does he not have a very high regard for Lieutenant Chadwick?

Mr. Handy. That I do not know. I presume he does.

The Chairman. He wired you, Mr. Handy, on January 6 of this year as follows [reading]:

> Would appreciate very much if you would give Lieutenant Chadwick Army-Navy Journal same advertising space as last year, or more if possible, as we have wonderful contact with U. S. Engineers, from General Markham, Chief, down the line, great friends of ours, and du Pont will sell plenty of dynamite on projects under their direction. Please go as far as you consistently can. Regards and happy New Year.
>
> E. C. Ferriday.

(The telegram referred to was marked "Exhibit No. 1263", and appears in full in the text.)

The Chairman. Mr. du Pont, what contracts with General Markham or the engineers have you or your company had?

Mr. Irénée du Pont. I really do not know, sir. I do not know.

Mr. Lammot du Pont. I do not know of any, Senator.

Senator Clark. What is Mr. Ferriday's position?

The Chairman. Mr. Casey?

Mr. Casey. That is a commercial proposition with which we have nothing whatsoever to do. The only contact that we have with the engineers is the development of a special demolition bomb.

Senator Clark. When you say "we", you mean your department of the du Pont Co.?

Mr. Casey. Yes.

Senator Clark. Mr. Ferriday is also connected with the du Pont Co., is he not?

Mr. Casey. Yes.

Senator Clark. In what capacity?

Mr. Lammot du Pont. Mr. Ferriday is in charge of the contractors division of the explosives department, commercial explosives. Of course, contractors have worked with the United States Government and for the United States Government, and we frequently furnish powder for those purposes.

Senator Clark. Apparently very wonderful contacts, too, according to this telegram.

The Chairman. Your man Ferriday's telegram says [reading]:

> We have wonderful contact with United States Engineers from General Markham, Chief, down the line—great friends of ours—and du Pont will sell plenty of dynamite on projects under their direction.

Mr. Lammot du Pont. If General Markham is the Chief of the United States Army Engineers, I can understand how Mr. Ferriday might have contact with him. I didn't know that was the gist of your first reading.

The CHAIRMAN. What is General Markham at the present time?

Mr. LAMMOT DU PONT. I understand the United States Engineers have charge of these river and harbor projects for the Government and large quantities of explosives are used in those projects.

The CHAIRMAN. In order to stand in with the Engineers, is it necessary to advertise in the Army and Navy Journal?

Mr. LAMMOT DU PONT. I would not think so.

The CHAIRMAN. It would seem to be a part of the program and his work, inviting that cooperation, is it not, from this correspondence?

Mr. LAMMOT DU PONT. I do not think that is correct, Senator.

Mr. CASEY. I think it would be more pertinent to advertise in the United States Engineers Journal.

The CHAIRMAN. What was that, Mr. Casey?

Mr. CASEY. I would think it would be more pertinent to advertise in the United States Engineers Journal, which is a private publication.

The CHAIRMAN. That you do as well; don't you?

Mr. CASEY. No.

Senator CLARK. Apparently Mr. Ferriday does not agree with you, Major. He says [reading]:

> Would appreciate very much if you would give Lieutenant Chadwick Army Navy Journal same advertising space as last year or more if possible as we have wonderful contact with United States Engineers.

In other words, he assigns some wonderful contact with the Corps of United States Engineers for du Pont to sell plenty of dynamite for projects under their direction as a reason for giving Lieutenant Chadwick of the Army and Navy Journal the same space as last year, if possible.

Mr. CASEY. I do not know what contact Mr. Chadwick had with the Army and Navy Journal. That is a very old publication. It was published by Church in New York for a great many years.

Senator CLARK. Yes; I know.

Mr. IRÉNÉE DU PONT. Mr. Chairman, isn't this another sales letter? Mr. Ferriday wanted to get a little advertising out of the Remington Co.

The CHAIRMAN. Why is it, Mr. du Pont, every time we get a communication here that affords the least bit of embarrassment, it becomes a sales letter?

Mr. IRÉNÉE DU PONT. Mr. Chairman, I didn't say it was a sales letter. I asked you the question, doesn't it seem so? I never heard of it before.

The CHAIRMAN. It does not seem that way at all, for we find Mr. Ferriday of your company telling Mr. Handy of the Remington Arms Co. that—

> We have wonderful contact with United States Engineers from General Markham, Chief, down the line. Great friends of ours, and Du Pont will sell plenty of dynamite on projects under their direction; please go as far as you consistently can. Regards, and happy New Year.

Senator CLARK. Considering that this is a telegram sent from an official of a company which controls the Remington Arms, it seems to me it gets somewhat out of the category of a sales letter.

The CHAIRMAN. I was just going to ask Mr. Handy, what does it mean to you to know that the Chief of Engineers and the Engineering Department are going to purchase large quantities of dynamite.

Mr. HANDY. From the standpoint of Remington it did not mean anything. We merely continued our advertising in the Army and Navy Journal, as I recall it. Remington had been accustomed to do it in the past.

The CHAIRMAN. Why did Mr. Ferriday feel that you ought to be advised of what the du Pont Co. was going to get?

Mr. HANDY. I assume he was soliciting the continuation of that advertising, Senator. It must have been the case.

The CHAIRMAN. And he realized that if you could be made to realize how large a contract for explosives was in the offing, you would be more inclined to renew your advertising contract; is that correct?

Mr. HANDY. That might have been the way he felt about it.

Senator VANDENBERG. Mr. Chairman, you said this was written on War Department stationery. I call your attention to the fact that it is written on War Department stationery and also the United States Engineer's Office of the War Department.

The CHAIRMAN. I am glad the Senator calls attention to that fact.

Senator VANDENBERG. I think it is quite pertinent to find out whether Lieutenant Chadwick was in active service at the time he wrote this letter making this solicitation.

The CHAIRMAN. Colonel Harris, will you ascertain for us just what Lieutenant Chadwick's status is?

Lieutenant Colonel HARRIS. I will, sir.

The CHAIRMAN. At the present time, and what it was in January of this year.

Lieutenant Colonel HARRIS. B. R. Chadwick, is that the name?

The CHAIRMAN. B. R.; yes. This letter was written from Detroit, engineer's office in Detroit.

Lieutenant Colonel HARRIS. I will be prepared at the next session to give you that information.

The CHAIRMAN. Now, Mr. Davis, has Lieutenant Colonel Whelen performed any services for you beyond those that have already been referred to?

Mr. DAVIS. I know of none, Senator.

The CHAIRMAN. Hasn't he been more or less of a contact man for you in the War Department?

Mr. DAVIS. No, sir; not to my knowledge.

The CHAIRMAN. Hasn't he interested himself in matters of legislation, matters in which you have had an interest?

Mr. DAVIS. I do not know as to that. Not for us.

The CHAIRMAN. Here is a letter dated April 27, 1929, by Mr. Kahrs, the assistant advertising manager at that time, to Mr. Saunders Norvell, who was president of the corporation at the time. The letter has reference to one which was written by Lieutenant Colonel Whelen on the subject of legislation having to do with the sale of firearms. I will offer that for the record for appropriate marking.

(The letter referred to was marked "Exhibit No. 1264" and is included in the appendix on p. 3877.)

The CHAIRMAN. I read from Mr. Kahrs' letter to Mr. Norvell:

> Colonel Whelen's letter is the result of one I wrote at the suggestion of Mr. Strugnell that we try to get the War Department on record as being opposed to legislation of this type, as it affects the War Department's plans for mobilizing industrial and manufacturing concerns in time of peace for war service.
>
> The thought was inspired by a telegram sent by the War Department to the Legislature of Massachusetts early in the present legislative session, requesting that certain stringent firearms bills before the Massachusetts Legislature be not passed. My purpose in bringing this to your attention is to recommend that you write the letter to the Assistant Secretary of War, recommended by Colonel Whelen, and, knowing the colonel as I do, I am sure that he has everything prepared in Washington so that favorable action will be taken.

What possible interest could Lieutenant Colonel Whelen have in this controversy?

Mr. DAVIS. I cannot answer that.

The CHAIRMAN. This legislation?

Mr. DAVIS. I cannot answer that. It is the first time I have known anything about it.

The CHAIRMAN. Doesn't it begin to look as though possibly Lieutenant Colonel Whelen was something of a contact man for your corporation here?

Mr. DAVIS. I cannot answer that.

The CHAIRMAN. In the War Department?

Mr. DAVIS. I cannot answer that.

The CHAIRMAN. It seems, in the light of what further evidence is to be offered, that he was at least in the position of paving the way for the accomplishment of things that the company wanted. You notice that language there that Mr. Kahrs was sure that Colonel Whelen has everything prepared in Washington so that favorable action will be taken, providing, of course, the War Department can be prevailed upon to ask for the thing that has been prepared.

Mr. DAVIS. I know nothing of this case, Senator, but is it criticism of our bringing matters to the attention of our legislators?

The CHAIRMAN. No; I am trying to bring out how through devious paths, perhaps, there is accomplished through the War Department things that might not be so readily accomplished but for the fact that there were those within it ready to pull the strings, and that maybe Lieutenant Colonel Whelen was one of those pulling the strings.

Mr. DAVIS. We have always felt if there is any prospective legislation detrimental to our industry that we certainly have the right to bring it to the attention of our legislators. If we cannot go to them with our problems and our difficulties, to whom can we talk?

The CHAIRMAN. But in this case you were asking or your company was asking the War Department for a service that would be forthcoming if the War Department decided to afford the service, and Colonel Whelen would have everything ready when the War Department so decided.

Senator CLARK. More than that, this letter indicates that you were suggesting that the letter be written on the suggestion of Colonel Whelen. In other words, Colonel Whelen suggests to Mr. Kahrs and Mr. Kahrs suggests to the president of the company, Mr. Saunders Norvell, according to this here, that Colonel Whelen will have the whole thing prepared in the War Department so that the

Secretary of War will accede to the request made by the Remington Co.?

Does that seem to you to be the ordinary course of business for an officer in the Army, to be recommending to a manufacturer of munitions that he write a letter to the Secretary of War and preparing the War Department to have the Secretary accede to that request?

Mr. Davis. Senator, I know nothing except what is in this letter. I have never seen it before.

The Chairman. To indicate that Colonel Whelen is something of a contact man for you in the War Department, I am going to read a letter written by the president of the Remington Arms Corporation to Hon. Patrick J. Hurley, Assistant Secretary of War, on April 30, 1929, which I will offer as an exhibit.

(The letter referred to was marked "Exhibit No. 1265", and is included in the appendix on p. 3877.)

The Chairman. I will start reading with the third paragraph:

> In these two connections we find that our business throughout the country is being constantly jeopardized and in some cases injured by injudicious legislation which is introduced and sometimes passed in the legislatures of the various States. We refer particularly to legislation to curb the use of firearms in the commission of crimes. Some of this legislation is good, some of it we realize is necessary, but the great mass of bills so introduced will, we believe, not accomplish the results desired and they interfere with the legitimate use of firearms in the promotion of rifle practice and of healthy sport. It is necessary for this company to combat such unwise legislation or matters would soon reach such a state that our company would be obliged to discontinue the manufacture of arms and ammunition, which in turn, would be very detrimental to national defense, as we believe our own company, together with other manufacturers of arms and ammunition, form a very considerable asset to the United States Government in the event of war.

What was the occasion for this letter, Mr. Davis, in the light of the evidence already before us?

Mr. Davis. I cannot answer the question, Senator. I was not there at that time and I have never seen it before.

The Chairman. Was it not a suggestion that if a letter of that kind were written to the Secretary of War, everything would be ready to accomplish an expression from the War Department, that the expression would be ready?

I am going to read on, the next paragraph in that letter:

> We have found that one of the best ways to combat such legislation in the various States is to have it done by our traveling representatives and our salesmen, who bring attention of the legislatures to the unwise character thereof. In this connection our own standing and that of our representatives would be very greatly strengthened if we could have from you, as representative of the War Department, a statement as to the War Department policy regarding such legislation. I hope you will understand that we do not complain about that legislation which is wise and necessary and well thought out to curb the use of firearms in the commission of crimes, but we do consider that our work could be very greatly assisted could we have from you a statement that the War Department is opposed to any legislation which would restrict legitimate use of rifles and shotguns in target practice and in proper sport, or any legislation which would seriously interfere with the properly controlled manufacture of arms and ammunition in this country.

That was written on April 30, 1929. May 15, 1929, brings a response from W. P. Wooten, colonel, Corps of Engineers, Director of Procurement, written on War Department stationery, from the office of the Assistant Secretary. The letter is addressed to Mr. Saunders

Norvell, president, Remington Arms Co., Inc., which letter will be offered as an exhibit.

(The letter referred to was marked "Exhibit No. 1266", and appears in full in the text.)

The CHAIRMAN. This letter reads:

> Your letter of April 30, addressed to The Assistant Secretary of War, in which you ask for a definite expression of the policy of the War Department with regard to legislation concerning the manufacture of small arms and small-arms ammunition, has been received and has been handed to me for reply.
>
> During the World War privately owned arms and ammunition plants produced approximately 95 percent of our small-arms ammunition, about 50 percent of our rifles, and almost all of our machine guns and our pistols. In a future war they would be absolutely essential for the production of about 90 percent of our small-arms ammunition and a large percentage of our machine guns and pistols, as our arsenals do not have a productive capacity sufficient to fill more than a small percentage of our requirements.
>
> It is, therefore, regarded as essential to our proper national defense that private manufacturers be in a position to undertake the production of these items. Because of the fact that it is not possible to produce small arms in quantity from newly created facilities where highly trained personnel is required in less than a year to 18 months, it is vitally important that the small-arms industry be continued in existence in peace time.
>
> Although the maintenance of our munitions industries is highly important, it cannot of course be stated, in advance, what position the War Department will take in regard to any specific legislation affecting the manufacture of small arms and ammunition. That can only be determined after the Secretary of War shall have had an opportunity to study the particular measure proposed.

Mr. Davis, that letter was a very valuable one, was it not, to you, from the standpoint of the call that was upon the company to combat legislation pending in certain State legislatures?

Mr. DAVIS. I don't know what use was ever made of this letter, Senator, if any.

The CHAIRMAN. This letter which your representatives and your agents whom Mr. Kahrs had declared did a great deal of work with legislatures in setting them right and letting them know what the facts were—a letter like this would be a great asset, wouldn't it, to them? Did not the company consider it that at the time?

Mr. DAVIS. I do not know.

The CHAIRMAN. The facts are that President Norvell lost only 1 day in replying to this letter. This letter is dated May 15, 1929. On May 16, 1929, Mr. Norvell wrote, mind you, not to Colonel Wooten, but wrote to Lieut. Col. Townsend Whelen, office of the Chief of Ordnance, Washington, D. C., which I will offer as the next exhibit.

(The letter referred to was marked "Exhibit No. 1267" and appears in full in the text.)

The CHAIRMAN. This letter reads:

> We are this morning in receipt of a letter from Col. W. P. Wooten, Corps of Engineers, Director of Procurement, copy of which is attached.
>
> This letter is just what we need, to use against all this legislative effort against arms and ammunition. We will, of course, use this letter in such a manner as to stir up just as little animosity as possible.
>
> Our Mr. Dodge tells me of his interview with you in Washington. Allow me to thank you for your interest in this situation.
>
> I trust when you visit New York that you will be sure to call on us.

Who is Mr. Dodge?

Mr. DAVIS. Mr. Dodge was formerly a president of the Remington Arms Co. and I think chairman of the board at that time.

The CHAIRMAN. Can we draw any other conclusion, that there was a very close contact afforded for you in the War Department through Lieutenant Colonel Whelen?

Mr. DAVIS. Senator, I cannot say that there ever was.

The CHAIRMAN. What would you say on the face of the evidence that we have just gone over?

Mr. IRÉNÉE DU PONT. Mr. Chairman, I would like to answer that question if you will permit me. I never saw any of these letters before. My mind is just as open to it as anybody's. It seems to me that this gentleman who is being criticized is a fan on ammunition, small-arms ammunition, small-arms shooting. He is naturally interested in the thing, and I think is doing a public service in his interest. It is perfectly natural for an industrial company to utilize as best they can those things.

The CHAIRMAN. Why don't they go direct to the Secretary of War and state what they want? Why do they work around through those who are employed and paid out of the treasury of these companies for service that they render?

Mr. IRÉNÉE DU PONT. Now, Mr. Chairman, I don't think that is fair. This man is evidently a fan on small-arms shooting. I never heard of him before. I may have, but I have forgotten about him if I did. But we did write a letter—I say " we "—I mean the former president of the Remington Co. wrote a letter to the Secretary of War telling him what they wanted. There is nothing sinister in that.

Senator CLARK. Why did the president of the Remington Co. thank Colonel Whelan for a letter that had been written to him the day before by Colonel Wooten?

Mr. IRÉNÉE DU PONT. You ask why that is?

Senator CLARK. Yes; why did he thank Colonel Whelen for a letter written to him the day before by Colonel Wooten?

Mr. IRÉNÉE DU PONT. If I knew an expert who is a fan in the game, I would like to give him information to help him along, and help us too.

Senator CLARK. But that wasn't it. He wrote back the next day to Colonel Whelen thanking him for Colonel Wooten's letter.

Mr. IRÉNÉE DU PONT. Thanking him for it?

Senator CLARK. Thanking him for Colonel Wooten's letter.

Mr. IRÉNÉE DU PONT. I didn't get that, then.

The CHAIRMAN. Let us get this again. Colonel Wooten had written this letter which was so much desired, and Mr. Norvell, instead of thanking Colonel Wooten, thanks Lieutenant Colonel Whelen.

Mr. IRÉNÉE DU PONT. I don't see anything like that. What is that?

The CHAIRMAN. That is a letter of May 16.

Mr. IRÉNÉE DU PONT. Where is the word " thanks," sir? I didn't get it.

The CHAIRMAN. Well, there isn't any " thank you " in it.

Mr. IRÉNÉE DU PONT. That is the point. He was not thanking him. He was simply telling him that——

The CHAIRMAN. Could he explain his thanks any more keenly than he did in this letter?

Mr. IRÉNÉE DU PONT. He was thanking Mr. Wooten for getting it. He is not thanking Mr. Whelen. I think you are reading all sorts of sinister things in this.

The CHAIRMAN. Why did he write to Colonel Whelen?

Mr. IRÉNÉE DU PONT. Because Colonel Whelen is a fan on small arms shooting. He is interesting himself in stopping the prohibition on the use of small arms. Here is some valuable aid to him in his effort. Senator, I would have written just such a letter.

Mr. DAVIS. He is quite a sportsman. He is trying to protect the interests of 15,000,000 sportsmen in America, the same as we are.

Mr. LAMMOT DU PONT. It occurs to me if you saw a copy of the bill in question, you would better understand the position of the War Department and the Remington Co. opposing such legislation. Have you a copy of that bill?

Mr. WOHLFORTH. But, Mr. du Pont, that is not the point, as I get it. Colonel Whelen is in the office of the Chief of Ordnance. A letter was written to the Assistant Secretary of War. The reply comes back from the office of the Chief of Ordnance, and then the president of the Remington Co. thanks, not the writer, but Colonel Whelen. The reply acknowledges the letter.

Mr. IRÉNÉE DU PONT. He does not acknowledge it, sir.

Lieutenant Colonel HARRIS. The letter did not come back to the Chief of Ordnance.

The CHAIRMAN. Let us go back to the letter of April 27, 1929, "Exhibit No. 1264", which Mr. Kahrs, assistant advertising manager, wrote to Mr. Saunders Norvell, telling him just how to proceed. [Reading:]

> My purpose in bringing this to your attention is to recommend that you write the letter to The Assistant Secretary of War, recommended by Colonel Whelen, and, knowing the colonel as I do, I am sure that he has everything prepared in Washington so that favorable action wil be taken.

Evidently he did have everything prepared.

Mr. IRÉNÉE DU PONT. What is the date of the letter?

The CHAIRMAN. April 27. And the letter from Mr. Norvell to Colonel Whelen is May 16, only a matter of 18 days intervening.

Mr. IRÉNÉE DU PONT. But the April letter was certainly written before the May letter.

The CHAIRMAN. Oh, yes, but I am trying to show you here how Colonel Whelen had engineered the whole thing.

Mr. IRÉNÉE DU PONT. That is the point I have been trying to make. He is a fan on small arms, small shooting arms, and he is interested in it, and the Remington people evidently knew it.

Senator CLARK. They must have known it, because Whelen suggested to the Remington people that they write a letter to the Assistant Secretary of War. Then the president of the Remington Co. wrote the letter suggested by Colonel Whelen, the recommendations being transmitted through Mr. Kahrs. Then in answer to that there is a letter to the Remington from Colonel Wooten. Whereupon the proposition is again stated to Mr. Whelen, who has been stated in the Kahrs' letter to have fixed things in the War Department in the first place.

The CHAIRMAN. I can imagine Colonel Wooten, if called on the stand, would have a hard time admitting he had ever written the letter, and would probably admit he never had written it. Mr. Davis, did Colonel Whelen perform any service beyond those we have been discussing, for your corporation?

Mr. Davis. I know of no service. In fact, I do not know Colonel Whelen. I have never met him.

Mr. Hadley. Mr. Senator, may I interpose a remark there. Before Mr. Davis came with the company there was one occasion when there was some consultation with Whelen on the shape of the stock for high-power sporting arms. We had had one on the market for some time and we had had some criticism of it, and thought to change it, and Colonel Whelen at that time consulted with us a bit as to the shape which we had in mind for the modification of that rifle.

The Chairman. Back there in 1929 there were certain regulatory bills pending in the House of Representatives, bills having to do with the regulation of arms manufacture and sales. Did Colonel Whelen perform any service for your corporation at that time?

Mr. Hadley. I am not aware of any, sir.

The Chairman. He appeared before the Ways and Means Committee, didn't he?

Mr. Hadley. I don't know.

The Chairman. Mr. Wohlforth, will you state for the information of the committee from the record of the hearings before the Ways and Means Committee just what Colonel Whelen's attitude was?

Mr. Wohlforth. On page 2317 of the hearings before the Committee on Ways and Means of the House of Representatives, Seventieth Congress, second session, volume 3, there was a statement by Lt. Col. Townsend Whelen, Ordnance Department, United States Army. The gist of it is this: That the Secretary of War asked Colonel Whelen to present to the committee the matter of the value to the United States of our existing arms and ammunition manufacturers from the point of view of national defense, and then Colonel Whelen goes on and in substance tells the story about the same as it was in the letter of Colonel Whelen, referring to the number of rounds produced and the importance of the private manufacturers in the last war.

Mr. Irénée du Pont. May I see that, sir?

Lieutenant Colonel Harris. May I make a remark there, Mr. Chairman?

The Chairman. Yes, Colonel.

Lieutenant Colonel Harris. In this connection, I believe the Remington Arms could have gotten that letter from the Secretary of War by just writing to him, without all of this.

The Chairman. That may well be.

Mr. Wohlforth. That is right.

The Chairman. That may well be.

Mr. Irénée du Pont. Mr. Chairman——

The Chairman. But evidently, Colonel Harris, there were those in the fraternity in the industry who did not want to take any chances on a thing like that. They had other ways of getting it.

Mr. Irénée du Pont. Mr. Chairman, this testimony of Mr. Whelen or Lieutenant Colonel Whelen starts off:

> Colonel Whelan. The Secretary of War has asked me to present to the committee the matter of the value of the United States existing arms, etc.

The Chairman. I wonder if the Secretary of War's interest in this was occasioned or was brought about in the same manner that the interest in obtaining the letter we have just had so much discussion about was put forth.

Mr. Irénée du Pont. You may have that information. I know nothing about it, but I rather gathered you were planning something else.

The Chairman. The chairman of the board, Mr. Dodge, seemed to have a pretty high opinion of Lieutenant Colonel Whelen and thought he might be of some value as a lobbyist when issues were pending before the House and Senate here in Washington. I have a letter here written by Mr. Dodge, who was chairman of the Board, to Mr. Norvell, dated June 14, 1929, which I will have marked with the appropriate number.

(The letter referred to was marked " Exhibit No. 1268 ", and appears in full in the text.)

The Chairman. This letter reads:

> I had a telephone call from Walsh yesterday and he gave me this idea. It seems to me very important.

Who is Walsh?

Mr. Davis. Walsh was one of the company's attorneys.

The Chairman (continuing reading):

> He says that Senator Reed, who is chairman of the subcommittee which decides paragraph 365 of the arms tariff, is also chairman of the Military Affairs Committee of the Senate.
>
> He suggests that we get someone from the War Department to inform him of the great importance to the Government of keeping those who are familiar with automatic machinery on arms at work, and to state how important this industry is to the Government.
>
> I am wondering what is the best way to do this. Colonel Whelen who helped us with the tariff is most familiar but he is not big enough to speak to a United States Senator or does he have the authority to do so unless the Secretary of War directs him.

Mr. Casey. He is at least 6 foot 1, and he still isn't big enough.

The Chairman. I wonder if Mr. Dodge or if Mr. Norvell found anyone who was bigger in the way of rank than Lieutenant Colonel Whelen to perform service of that particular character. Does anyone know?

Mr. Davis. I do not know; no, Senator.

The Chairman. Colonel Harris, do you have knowledge of efforts that are made to win officials or officers in the Army over to the status of lobbyists for private interests or corporate interests that are removed from the issue of national defense?

Lieutenant Colonel Harris. I have no knowledge of anything of the kind. Nobody has ever attempted to use me in that regard.

The Chairman. Mr. Davis, have you tried to have lobbyist representation before Congress?

Mr. Davis. We certainly have not, Senator.

The Chairman. Mr. Casey, when the du Ponts took over the Remington control, I think we have in evidence some assertion as to what you advised Mr. Davis and the corporation to do in the way of making themselves serviceable to the Government.

Mr. Casey. Yes, sir.

The Chairman. It was language to the effect that they should consider themselves, consider the corporation, a subdivision of the War Department.

Mr. Casey. Right.

The CHAIRMAN. In the light of what transpired just before that, they did not need much coaxing, did they, to make themselves such a subdivision?

Mr. CASEY. I did not know exactly what their contact was before.

Senator CLARK. You did not know how close akin they were, did you, Major?

Mr. CASEY. Maybe not. But what I wanted them to do was to get the people in the Ordnance Department to realize that under du Pont management they must "play ball" with the Ordnance Department the way the Ordnance Department wanted them to.

Senator CLARK. Major, I will read you from the minutes of a meeting held at Bridgeport, Conn., on September 7, 1933, at which there were present: C. K. Davis, E. E. Handy, W. U. Reisinger, D. F. Carpenter, J. H. Chasmar, E. C. Hadley, H. J. Strugnell, F. J. Monaghan, H. A. Brown, L. Reed, and L. K. Larson.

This was an excerpt from the minutes of the meeting of the Remington Co., was it not, Mr. Hadley?

Mr. HADLEY. Very possibly. I cannot identify it as yet.

Senator CLARK. Paragraph 3 states [reading]:

> Mr. Hadley stated that Major Casey at Wilmington had informed the United States Ordnance Department that it was our wish that they would consider the Remington Co. in the same light as they consider the du Pont Co.—that is, almost a subdivision of their own Department.

What did the Ordnance Department say to you when you made that representation, that you desired the Remington Co. to attain the status of the du Pont Co., the status of a little brother of the du Pont Co.?

Mr. CASEY. I took Mr. Hadley around the Ordnance Department.

Senator CLARK. What did the Ordnance Department say when you said you wanted them to be a subdivision of their Department?

Mr. CASEY. I did not use that language.

Senator CLARK. Mr. Hadley, did you quote Major Casey's conversation?

Mr. HADLEY. I do not know whether it is the verbatim language used, but the principle, I think, is clear enough, that du Pont had relations with the Ordnance Department, in a much broader way than we had had in the past, because of the diversity of things where they had occasion to contact the Ordnance Department. Our field was more limited. Major Casey took me around, as he has just stated.

Senator CLARK. What I am trying to get at is, Mr. Hadley, in this report of September 7, 1933—

> that Major Casey, at Wilmington, had informed the United States Ordnance Department that it was our wish that they would consider the Remington Co. in the same light as they consider the du Pont Co.—that is, almost a subdivision of their own Department.

Did the officials of the Ordnance Department seem to be startled at this characterization that the du Pont Co. is almost a subdivision of the Ordnance Department?

Mr. HADLEY. I am not aware of that.

Senator CLARK. You used that language.

Mr. HADLEY. Did I say he used those express words?

Senator CLARK. I will read it again: This is an excerpt from the minutes of the staff meeting, Mr. Hadley [reading]:

> Mr. Hadley stated that Major Casey at Wilmington had informed the United States Ordnance Department that it was our wish that they would consider the Remington Co. in the same light as they consider the du Pont Co.—that is, almost a subdivision of their own Department.

That is your language and not mine, Mr. Hadley.

Mr. HADLEY. I should say that represents substantially the thought, but unless it is in quotation marks, Senator, I should say that there was no inference that he had used that language in speaking to them.

Senator CLARK. What did he say to them? You were with him, according to Major Casey.

Mr. HADLEY. Yes; I was with him.

Senator CLARK. Did he tell anything to the officials of the Ordnance Department about the du Pont being almost subdivision of their own Department?

Mr. HADLEY. I do not recall that expression. I do not recall he used the expression quoted.

Senator CLARK. What did he say?

Mr. HADLEY. I do not recall his exact words, but, nevertheless, the substance of it was in it.

Senator CLARK. You mean the substance of it was that the du Pont Co. was almost a subdivision of the War Department?

Mr. HADLEY. No; I should not put it that way, in that language, perhaps.

Senator CLARK. That is the language you did put it in in reporting to your own staff meeting.

Mr. CASEY. Senator, let me report what I did say. I said I wanted the Ordnance Department to feel that they can look to the Remington Co. the way they looked to du Pont; that is, they would consider du Pont the same as they would consider a Government arsenal, to be depended on to give them what they wanted when they needed it.

Senator CLARK. Mr. Hadley, is that your recollection of what Major Casey said?

Mr. HADLEY. I do not remember his exact words.

Senator CLARK. At any rate, the impression that Major Casey's language made on your mind is what you reported to this staff meeting, the du Pont Co. is almost a subdivision of the War Department. Is that true?

Mr. HADLEY. In the matter of cooperation and service, I believe that is true.

Senator CLARK. You did not put any qualifications in your report.

Mr. LAMMOT DU PONT. He said "almost".

Senator CLARK. You are standing on the word "almost", are you Mr. du Pont? [Laughter.]

Mr. CASEY. Senator, I can readily see that somebody might take what I did say and interpret it in another way.

Senator CLARK. What I was really trying to find out, Major, is the impression that this language on your part made on the officers of the War Department, and what response there was.

Mr. CASEY. Why not ask them?

Senator Clark. As to whether they agreed to bring in the Remington people.

Mr. Irénée du Pont. Senator, he made the suggestion, why not ask some of the men he talked to what their impression was.

Senator Clark. If I knew the War Department Official to whom Major Casey was talking about that I would be very glad to find out his reaction.

Mr. Casey. I can tell you, sir.

Senator Clark. Then we can find out about that.

Mr. Casey. Major Hatcher.

The Chairman. What is his capacity?

Mr. Casey. He was in charge of small arms and anti-aircraft in the general manufacturing division.

Senator Clark. Of what? The Ordnance Department?

Mr. Casey. Of the Ordnance Department.

Senator Clark. We will try to see what the major had to say.

Mr. Casey. And Major Glen P. Wilhelm.

Senator Clark. Maybe you were conducting a conversation we can find out about. Do you recall whether in fact they were to be made a subdivision of the War Department?

Mr. Casey. They stated they were glad to feel that they could dependent on Remington the way they always felt they could depend on du Pont.

The Chairman. Even when the Government requested Old Hickory to be built?

Mr. Casey. And a lot of other things. They asked us to make smokeless powder, load tracer, and incendiary bullets, when we did not know one end from the other, bag loading, shell loading; anything they wanted during the war they stated, "Let du Pont do it."

Mr. Reisinger. Mr. Chairman, you stated that the President did not reply to Lieutenant Colonel Whelen's letter of May 15 but replied to Colonel Wooten's letter.

The Chairman. Did not reply to Wooten's letter?

Mr. Reisinger. Did not reply to Wooten's letter, but replied to Whelen.

The Chairman. The committee did not have a letter written to Colonel Whelen. It did not seem very material. If you want the record to show a letter written, all right. What is the date?

Mr. Reisinger. May 16.

The Chairman. The same day one was written to Lieutenant Colonel Whelen?

Mr. Reisinger. I would like to read this into the record [reading]:

Colonel W. P. Wooten,
Corps of Engineers, Director of Procurement,
War Department, Office of The Assistant Secretary of War,
Washington, D. C.

Dear Sir: Your letter of May 15 received and is just what we needed. We, of course, will use this letter with discretion, as it is not our desire to stir up any more controversy than is necessary. However, there undoubtedly is a great deal of ignorance among our legislators in the various States as to the general situation of arms and ammunition. This letter will help us do a little educational work and, of course, is from the very highest authority.

Again thanking you, I am,
Yours,

Saunders Norvell.

Mr. Davis. Senator, that letter was pulled by the investigators, I think.

Mr. Hiss. There was some testimony, you will remember, Colonel Harris, yesterday, as to the 6-percent return as a fee under the adjusted compensation contract on the estimated valuation of that part of the plants engaged in carrying out the proposed adjusted compensation contract. Do you remember that particular testimony?

Lieutenant Colonel Harris. Yes, sir.

ADJUSTED-COMPENSATION CONTRACT FORM—ACCEPTABILITY TO CONTRACTORS OF 6 PERCENT FEE

Mr. Hiss. There was some testimony from various of the witnesses, other than the representatives of the War Department, as to whether on behalf of their companies they could state that they considered a 6-percent fee a sufficient fee. Mr. Lammot du Pont was not present, and, consequently, no direct testimony from the present executive head of the du Pont Co. was possible. Mr. Pierre du Pont said he could not speak on behalf of the company, and I believe Mr. Irénée du Pont spoke in a similar vein.

Mr. Lammot du Pont, are you familiar with the proposed adjusted compensation contract, included in the mobilization plan or procurement plan of the War Department, which Colonel Harris has testified would be used primarily in ordnance purchases?

Mr. Lammot du Pont. I am not familiar with it; no, sir.

Mr. Hiss. It provides, according to evidence introduced yesterday, a fee of 6 percent on the estimated valuation of the contractor's plant, or, rather, that part of the plant used in complying with the contract. In your opinion——

Lieutenant Colonel Harris. May I interrupt?

Mr. Hiss. If that is not accurate, please correct me.

Lieutenant Colonel Harris. There is a little bit more to be added. If there is an estimated cost of the work to be performed, and if there is a saving on that estimated cost of the material, there is a fee in addition to the 6 percent of one-fourth of the difference in percentage. And if there is a failure to meet the estimated cost by exceeding it, there is a penalty of 1 percent for each percent of failure. So that the 6 percent has slight adjustments.

Mr. Hiss. Just limiting the question to the 6-percent valuation—Colonel Harris is perfectly correct; there is a bonus for bettering cost, and there is a penalty for exceeding estimated costs—but, leaving that part of it aside, and limiting yourself to the 6-percent compensation, in your opinion is that an adequate compensation for war-time contracts, Mr. Lammot du Pont?

Mr. Lammot du Pont. May I ask what the 6 percent is applied to?

Mr. Hiss. Six percent of the estimated valuation of that part of the contractor's plant utilized in fulfilling the particular contract.

Mr. Lammot du Pont. I would say that might not be fair.

Senator Barbour. Mr. Hiss, I do not know that I know exactly what you mean by "that part of the plant." As a manufacturer myself, that would be a very ambiguous designation unless I know what you have in mind.

Mr. Hiss. Lieutenant Brannon, will you read the exact language, and then explain it?

I find the same difficulty.

Mr. Irénée du Pont. Mr. Secretary, might I correct something in my answer yesterday? I did not understand that it was only the plant. I should think the materials provided by the contractor should also get some return. For instance, if you are manufacturing white lead, you might have 3 months' output tied up in the process, and if you had to take 3 months in addition to the flat 6 percent, that might be very inadequate. I thought you said the capital engaged in that particular branch of the business.

Mr. Hiss. Lieutenant Brannon, have you the specific provision?

Lieutenant Brannon. Yes, sir.

Mr. Irénée du Pont. Also the land on which the plant is located might have some value.

Mr. Hiss. I understand the land would be included.

Lieutenant Brannon. Yes, sir.

Mr. Irénée du Pont. Is the working capital included?

Lieutenant Brannon. Yes, sir. In the first place, the Government pays the cost of manufacture, which includes direct labor, direct materials, overhead, salaries of officials of the company; it pays the cost of new facilities; it pays an amount agreed to in advance for depreciation; it pays an agreed amount for rehabilitation at the end of the contract in case the plant has had to be converted; and pays, first, the figure—and reaches an agreement with the contractor as to the estimated value of the buildings, machinery, and facilities owned by the contractor and to be used in connection with the work.

Then the estimated percentage of the buildings, machinery, and facilities required in performing the work.

In other words, an agreed value as to the plant and then if only a part of the plant is used an agreed percentage for the part of the plant which is to be used.

That cost is determined. To that is added an estimated amount to be provided by the contractor, and that is the current payments plan, reimbursed by the Government.

In other words, the value of the plant devoted to the Government work, and the value of the amount of capital which the contractor will have to use in order to get advance payments.

Mr. Hiss. May I interrupt there, Lieutenant Brannon?

Lieutenant Brannon. Yes, sir.

Mr. Hiss. That capital means the capital throughout any average period, does it not?

Lieutenant Brannon. The estimated amount of cash, and I take it it would be an average for meeting pay rolls and interest payments.

Mr. Hiss. You would not add the first, second, and third months?

Lieutenant Brannon. No; that is estimated average amount of capital.

Mr. Hiss. The estimated amount at any one time?

Lieutenant Brannon. Yes, sir. That is, of course, subject to agreement. This is agreed to: The agreed payments to the plant, the agreed percentage of the plant which will be used in case the contractor gets his material.

Senator CLARK. When is that agreement to be made, Lieutenant? After war starts?

Lieutenant BRANNON. There is a provision for a preliminary estimate to be submitted by the contractor as a part of procurement planning.

Senator CLARK. How many of the preliminary estimates are on hand down there now?

Lieutenant BRANNON. None that I know of, sir.

Then a rate of 6 percent per annum on the value of the plant, and the amount of cash capital which is agreed upon.

Senator CLARK. That is an ordinary cost-plus contract, is it not, Lieutenant?

Lieutenant BRANNON. I would not say ordinary. It is a cost-plus contract, but not a cost-plus percentage of cost, which is the objectionable form of contract, as I understand it.

Senator BARBOUR. That is true. There is that difference.

Mr. HISS. Mr. Lammot du Pont, addressing yourself to the fee as described by Lieutenant Brannon, in your opinion is that a fair fee or a sufficient fee for war-time procurement, so far as your company is concerned, in your opinion?

Mr. LAMMOT DU PONT. I think that it is fair to the company, to the contractor; yes, sir.

Mr. HISS. Colonel Harris, have you found unanimity of opinion on the question from the other manufacturers; that is, manufacturers other than those present here today, or whose representatives are here present today?

Lieutenant Colonel HARRIS. This contract has been in the course of preparation for a number of years and has been discussed with, I should think, hundreds of contractors on the various stages of its development, and many think that it is not liberal enough and many think that it is satisfactory. So that there is a difference of opinion; but as to how many, I do not know.

Senator CLARK. You do not profess to have there anything but a tentative plan, do you, Colonel?

Lieutenant Colonel HARRIS. This contract is in tentative form.

Senator CLARK. I mean, you do not undertake to fix the percentage of profit which they are going to get, do you? I notice in the excerpts from the mimeographed memorandum, dated February 20, 1934, headed "War-time Contracts Forms and Emergency Codes", page 5 says [reading "Exhibit No. 1225"]:

> The question of the amount of profit to be allowed the contractor is one of the most critical in any form of cost-plus contract. The fee adopted should be fair alike to the producers and the Government. In the adjusted compensation contract the fee is based primarily upon the rental value of the facility. It is true that the contractor assumes few of the risks of an entrepreneur for which profit is paid. He does, however, have certain risks of management and certain expenses for which no compensation is made. The committee believes that some increase in the present figure might well be made, but doubts the advisability of attempting to determine the exact amount until war is imminent. It can then be decided on the basis of then-existing conditions.

Having in mind, as Lieutenant Brannon states, you have in your approximation of value of new facilities to be employed at the present time, that simply means if war were declared you would go back to the old system of scuffling around as to how much profit was to be made and straighten it out after the declaration of war by agreement.

Lieutenant Colonel Harris. I would like to state, Senator, I felt somewhat as you express yourself, and am responsible for the recent activity to try to straighten out the thing and bring it to some reasonable conclusion.

Senator Clark. I think that is very desirable, Colonel. We have been going along for 15 years and it seems to me we ought to be getting somewhere.

Mr. Hiss. Colonel Harris, have you a copy of the excerpt I gave you yesterday?

Lieutenant Colonel Harris. Which one?

Mr. Hiss. Excerpts from a mimeographed memorandum dated February 6, 1934, headed "Comments, criticisms, and proposals on the adjusted-compensation contract form, approved December 20, 1931", which was introduced as "Exhibit No. 1227."

Lieutenant Colonel Harris. Yes, sir.

Mr. Hiss. Will you turn to the second page of that, at the top of the second page, under the general heading on the first page, Boston Ordnance District. Colonel Harris, will you explain what ordnance districts are, please?

Lieutenant Colonel Harris. The territory of the United States is divided into geographical districts for decentralized procurement in war. There are 14 ordnance districts and a lesser number of districts for the other supply branches, the minimum number being four. In each one of these districts' headquarters there is a skeleton organization engaged in the field development of industrial planning. This Boston district represents one of those districts.

Mr. Hiss. And the contract forms have been submitted to the various ordnance districts? Is that correct?

Lieutenant Colonel Harris. Yes, sir; that is true, and in each one of the ordnance districts a board has been assembled to analyze some of the recommendations as to the matter of this contract form.

Mr. Hiss. The contract forms have been discussed within each district with some of the major industrial companies that might be involved in procurement. Is that correct?

Lieutenant Colonel Harris. That is true.

Mr. Hiss. Referring again to "Exhibit No. 1227", under the heading Boston Ordnance District, it states [reading]:

> The cost-plus contract offers the ideal conditions for profiteering. It seems to the writer questionable whether the Government would have received such whole-hearted cooperation from manufacturers during the World War had all opportunity for profiteering been eliminated. In other words, it seems that there are incentives to the best efforts of the manufactures in both the fixed price and the cost-plus contracts which are absent from the adjusted-compensation contract.

Then, again, at the top of page 3 of "Exhibit No. 1227"—this being an excerpt from the Cincinnati ordnance district—it states [reading]:

> We note from the contract that the War Department does not propose to have included in the cost of producing War Department material any charges for interest on funded and other debts. However, this expense of doing business must be covered in some way, so we will assume it is to be taken care of in the profit allowed the contractor.

Then, again, on the fourth page, it states—and this is a comment from the St. Louis ordnance district—[reading]:

> It is the general concensus of opinion among owners and executives of industrial plants in this vicinity that the adjusted-compensation contract, while getting away apparently from the cost-plus contract, still retains some features highly objectionable and subject to prolonged argument. Some of the firms are frank to state it would be extremely difficult for them to voluntarily enter into such a contract in either peace or war time. * * *
>
> There is no question but that the proposed contractors in this vicinity think the reward inadequate and unjust. This is particularly true of companies having a large bond issue and an issue of preference accumulative stock whereby the fee and the uncertain bonus would not be sufficient to protect the company and the investors of the preference stock.

Then at the bottom of the page it states [reading]:

> It is the opinion of this office, based on the discussions at the various conferences held on this subject, that the present form of adjusted-compensation contract includes a number of fundamental objectionable features and is not satisfactory to the contractors in general.

Now, under the San Francisco ordnance department, on the next page, it states [reading]:

> After careful perusal of the Bridgeport district report on the adjusted-compensation contract, it is believed that the contract is impracticable, and that its use would involve intolerable delay in the initiation of procurement.

That memorandum referred to the report of the Bridgeport district? Do you know what that was?

Lieutenant Colonel HARRIS. I have an idea they are talking about this contract.

Mr. HISS. You think it is the present form of contract?

Lieutenant Colonel HARRIS. I think it refers to this contract, but I am not sure.

Mr. HISS. And instead of that suggested some alternative forms. In the third paragraph of their alternative suggestion the following appears:

> It should be expected that the set price will permit of a profit of at least 10 percent on the gross price to the average bidders.

By "gross price" under the cost contract that must mean 10 percent of cost. Do you not think so, Lieutenant Brannon?

Lieutenant BRANNON. I was trying to see the entire part of that San Francisco observation, Mr. Hiss.

Mr. HISS. That appears at page 10 of the memorandum, I think, lieutenant. I think I quoted the entire part of that.

Senator BARBOUR. Colonel Harris, I was wondering if it would be a practical suggestion—I make this only as an individual and not officially—to try to work out several different cases with respect to materials that you are interested in with that manufacturer, what the cost would be, and what the problem would be in relation to this contract which you have made. In other words, to get examples as to what this problem is going to be. I do not mean for publication, necessarily, but in relation to some actual production problem. If you work out a few of those examples, in my judgment, you would find very valuable experience.

Lieutenant Colonel HARRIS. I think your suggestion is a good one, Senator, and we will endeavor to follow it out. I am perfectly willing to confess that I see lots of things wrong in this situation, lots of causes for delay, argument, and confusion, but I do not know how to take the profits out of war and get the material we have to get.

Senator BARBOUR. We certainly want to limit them and get them out as much as we can.

Mr. HISS. Colonel Harris, we cannot be sure at the present time that the present 6-percent provision in the adjusted-compensation contract can, as a matter of practical necessity, be retained in the event of war?

Lieutenant Colonel HARRIS. To be perfectly frank, I am very doubtful.

EXAMPLES OF SCOPE OF ACTIVITIES OF WAR INDUSTRIES BOARD

Mr. HISS. Turning to the topic that we were discussing just before recess, relating to the understanding of the problems arising during the World War, before the War Industries Board, I show you, Colonel Harris, some excerpts from minutes of meeting of the Council of National Defense held July 28, 1917, which I offer for appropriate number.

(The excerpts referred to were marked "Exhibit No. 1269" and are included in the appendix on p. 3878.)

Mr. HISS. That reads:

> All members of the Council and the Director were present.
>
> There ensued a discussion of the reorganization plan, which was finally approved and released for the press in the following form:
>
> "The Council of National Defense today decided, with the approval of the President, to create a small body to be known as the War Industries Board."

Then, jumping to the second page, the second full complete paragraph reads:

> Of this Board, Mr. Baruch will give his attention particularly to raw materials; Mr. Brookings, to finished products; and Mr. Lovett, to matters of priority. These three members, in association with Mr. Hoover, so far as foodstuffs are involved, will constitute a commission to arrange purchases in accordance with the general policies formulated and approved.

Colonel Harris, what was the duty, in your opinion, so far as you can remember it, of the War Industries Board in connection with the arrangement of purchases?

Lieutenant Colonel HARRIS. At this time the War Industries Board was still a part of the Council of National Defense, and their relation was more of an advisory one. They were exerting influence on agreed prices for raw materials. They were finding new facilities for production, and they were advising on overloading certain geographical districts, and in other ways assisting the procurement program, but, generally speaking, in an advisory capacity.

Mr. HISS. So that the statement that the "three members" mentioned, "in association with Mr. Hoover, so far as foodstuffs are involved, will constitute a commission to arrange purchases" is perhaps an overstatement of the case, in your opinion?

Lieutenant Colonel HARRIS. I think they were looking ahead, to getting more authority or taking more authority. I do not know which. I think they could have probably taken the authority, if they had gone ahead and done it.

Mr. HISS. Referring to the last paragraph on the page, Colonel Harris, it states [reading]:

> The purpose of this action is to expedite the work of the Government, to furnish needed assistance to the Departments engaged in making war purchases, to devolve clearly and definitely the important task indicated upon direct representatives of the Government not interested in commercial and industrial activities with which they will be called upon to deal, and to make clear that there is total disassociation of the industrial committees from the actual arrangement of purchases on behalf of the Government.

On the next page, Colonel Harris, it states [reading]:

> It was voted that the five civilian members (exclusive of the two Army and Navy representatives) of the War Industries Board should receive a salary of $400 per month.

Do you know whether that resolution was ever carried out? It is my understanding that the members of the War Industries Board served without compensation. Do you have any information on that?

Lieutenant Colonel HARRIS. I have the same information as you have.

Mr. HISS. Would it be possible for you to attempt to find out about that?

Lieutenant Colonel HARRIS. I will try to find out.

Mr. HISS. I show you a further set of excerpts, Colonel Harris, Which I will ask be appropriately numbered.

(The excerpts referred to were marked "Exhibit No. 1270" and are included in the appendix on p. 3879.)

Mr. HISS. Will you turn to page 5? Excerpts from a Meeting of the Price Fixing Committee, March 20, 1918, subject, Steel Prices. Reading from the verbatim statement of Judge Gary:

> We are anxious to get at facts and figures, and to arrive at some conclusion that is fair and reasonable to all concerned. If it was a question of bargain only, then the manufacturers would be trying to secure as much as possible for their product, and your board would be endeavoring to secure as low prices for the Government, its Allies, and the general public as possible. But we don't feel like approaching the subject from any such point, and I am sure you don't.

Then, turning to page 10, Mr. Brookings' statement [reading]:

> We appreciate the attitude the steel people have always shown. We are in entire sympathy with practically all of the things you have stated.

Then on page 11 it states [reading]:

> None of us are steel people and therefore we have been perfectly willing to be more or less guided by you, and I think we have been wisely guided.

Do you know whether the price-fixing committee and the War Industries Board dealt with the whole range of industries vital to the Government in time of war, Colonel Harris?

Lieutenant Colonel HARRIS. At this time, March 20, 1918, the final War Industries Board had been constituted under the authority of the President of the United States and in charge of all of the industrial field except that portion for which there were other corporations, such as food, fuel, and transportation, for which other organizations were organized.

Mr. HISS. Was it not an extremely difficult, almost superhuman task for a board of five men, exclusive of the Army and Navy representatives, to be expertly familiar with all the industries that came before them and with which they had to deal?

Lieutenant Colonel Harris. Please understand that was a governing board. They had an organization of many hundreds of people assisting them, and in their organizations they did have men of experience covering each sector of the field.

Mr. Hiss. I call your attention to a collection which has been prepared by the committee's staff, showing a sample of the work which the War Industries Board had to take up in a single month. This is by no means complete, and they had undoubtedly other duties in addition to this. This is for December 10, 1917, to January 10, 1918, consisting of excerpts from the minutes of the War Industries Board.

(The document referred to was marked "Exhibit No. 1271" and is included in the appendix on p. 3885.)

On December 10, 1917, there was a meeting called to consider steel prices with representatives of the steel industries.

The War Industries Board personnel attending this conference were Mr. Willard, chairman, Mr. Baruch, Mr. Brookings, Mr. Frayne, Judge Lovett, Col. P. E. Pierce, and Mr. Bingham, secretary; also Mr. Legge, Mr. Replogle, Mr. Davies of the Federal Trade Commission, Mr. Blavalt representing the Fuel Administrator; also the following representing the steel industry:

F. N. Beegle, president, Union Draw Steel Co., Pittsburgh, Pa.
James B. Bonner, representative, American Iron & Steel Institute, Washington.
James A. Burdon, president, Burdon Iron Co., Troy, N.Y.
E. A. S. Clarke, president, Lackawanna Steel Co., New York, N.Y.
A. C. Dinkey, president, Midvale Steel & Ordnance Corp., Philadelphia, Pa.
James A. Farrell, president, United States Steel Corp., New York, N.Y.
W. J. Philbert, comptroller, United States Steel Corp., New York, N.Y.
Judge E. H. Gary, chairman, United States Steel Corp., New York, N.Y.
F. H. Gordon, general manager of sales, Lukens Steel Co., Coatesville, Pa.
E. G. Grace, president, Bethlehem Steel Co., South Bethlehem, Pa.
W. S. Horner, president, National Association of Sheet and Tin Plate Manufacturers, Pittsburgh, Pa.
A. F. Huston, president, Lukens Steel Co., Coatesville, Pa.
Eli Joseph, member of firm, Joseph, Joseph & Brother, New York, N.Y.
Willis L. King, vice president, Jones & Laughlin Steel Co., Pittsburgh, Pa.
W. Vernon Phillips, president, F. R. Phillips & Sons Co., Philadelphia, Pa.
Karl C. Roebling, general manager of sales, John A. Roebling's Sons Co., Trenton, N.J.
Charles M. Schwab, chairman, Bethlehem Steel Co., South Bethlehem, Pa.
John A. Topping, president, Republic Iron & Steel Co., New York, N.Y.
Roy A. Rainey, Rainey Coke Co., New York, N.Y.
Scott Stewart, assistant to Roy A. Rainey, Rainey Coke Co., New York, N.Y.

Mr. Willard, chairman, explained that while the cost data in course of preparation by the Federal Trade Commission was not yet at hand it had been felt advisable to call the representatives of the steel industry to Washington to discuss the general situation as brought about by the prices fixed and by general conditions in order that the Board could approach the subject more intelligently and a decision be arrived at more expeditiously when the Federal Trade Commission data came to hand, it being understood that in the terms of the previous price agreements it had been stipulated that prices would be reconsidered prior to January 1, 1918.

Then on December 13 there was a meeting at which were considered chemicals—plan from War Minerals Committee to increase supply of pyrites; and machine guns—arrangements covering royalties for Lewis machine gun patents; and chemicals—compact for power for Muscle Shoals nitrate plant.

On December 14 there was a special meeting of the copper industry to consider conditions in the copper industry as bearing on possible revision of prices. There were present the same members of the War Industries Board as referred to in the meeting of December 10, plus Prof. Walter M. Adriance, representing the War Trade Board, and Mr. Sidney H. Solomon, representing the War Trade Board; also Mr. Lewis A. Haney representing the Federal Trade Commission, Mr. Eugene Meyer, Jr., of the raw materials division, and Mr. Pope Yeateman, of the raw-materials division.

There were also present representatives of the following copper interests:

C. F. Kelley, Anaconda Copper Co.
Joseph Clendennin, American Smelting & Refining Co.
R. Agassiz, Calumet & Hecla Mining Co.
S. Rosenstamm, Miami Copper Co.
T. Wolfson, United Metal Selling Co.
James MacNaughten, Calumet & Hecla Mining Co.
P. Todd, Copper Range, Quincy Copper Co.
N. L. Amster, Shannon Copper Co.
James A. Nelson, Cuba Copper Leasing Co., Norfolk Smelting Co.

Then on December 20 they considered TNT—royalty agreement with Flurscheim for manufacture of TNT.

On December 21 they considered chemicals—order for smokeless powder with Aetna Explosives Co.

December 22 they again considered fixing steel prices.

December 24 they considered the fixing of steel prices.

December 28, the fixing of steel prices.

Then there were present in addition to the men named representing the Government at the meeting of December 10, Judge Gary, Mr. Farrell, Mr. Topping, Mr. Clark, Mr. Burden, Mr. Grace, Mr. Dinkey, Mr. Dalton, Mr. Filbert, Mr. Bonner, and Mr. King.

On January 2 they considered the question of an order for 30,000,000 pounds of smokeless powder from the Hercules Powder Co.; considered action to secure necessary raw materials for explosives program; they considered a request for assistance in securing explosives from the Ordnance Department; and they also considered cooperation with the Allies.

On January 4 they considered the subject of crude TNT as explosives, and the fixing of prices for nickel.

On January 9 they considered the fixing of copper prices and the fixing of aluminum prices.

On January 10 they again considered the fixing of aluminum prices.

That is a pretty full month's outline, is it not, Colonel Harris?

Lieutenant Colonel Harris. It seems so.

The Chairman. Mr. Harris, how good and how thorough a job could men, however industrious and intelligent they might be, do with great problems like these many that were being thrown on their desks day after day?

Lieutenant Colonel Harris. They were worn out. It was just a stupendous burden to carry.

The Chairman. But could they do a thorough job?

Lieutenant Colonel Harris. At the end of the war, toward the end of the war when the War Industries Board was fully developed, they did have a grasp of the situation and were prepared then to carry the load. But this is early in the game when everything was in much confusion, and they themselves were not very well organized and had not worked out a smooth working arrangement. I think in the latter part of the war, the last 2 or 3 months of the war, the War Industries Board was capable of functioning properly.

The CHAIRMAN. But certainly the experience was such that we ought to want to be better prepared at another time than we were at that time and have as many of these controverted matters out of the way as we can.

Lieuenant Colonel HARRIS. Entirely so, sir. I must say that our industrial planning is in the hope of commencing the next war somewhat as we were performing at the end of the last war, due to the experience; but there will be many confusions.

Mr. IRÉNÉE DU PONT. Mr. Chairman, I would like to ask if it is proper that Colonel Harris give his views on what the effect would be of nationalization of industry, which I understood had been advocated as a substitute for the past method. I think that might be rather important testimony here.

The CHAIRMAN. Mr. Du Pont, we are going to have sessions devoted to that phase under the resolution at which Colonel Harris and many other technical advisers will be asked to offer testimony.

Mr. IRÉNÉE DU PONT. That will be before the committee, not before Congress?

The CHAIRMAN. Assuredly before the committee.

Mr. HISS. Colonel Harris, will you explain the nature and the functions of the war service committees during the war?

Lieutenant Colonel HARRIS. The war service committees started off with each committee being composed of a group of men familiar with the subject. The different situation between the Government side and the industries side was not so well marked, and there was objection naturally to that situation and a desire on the part of those operating the system to get away from that. Toward the end of the war they developed a system of a commodity committee composed of a financially disinterested membership familiar with the subject, and in contact with them a war service committee that was avowedly on the side of industry. Here you had a Government group with an industry group, each one knowing exactly what the other one stood for. That is the system that we are carrying over into our industrial plans that we now have.

Mr. HISS. What was the function of the war service committees in their later phase?

Lieutenant Colonel HARRIS. There were some 54 commodity committees covering most of the raw materials and many of the finished and some unfinished commodities. On the opposite side of each of these commodity committees was the war service committee.

The function of the war service committee was to give information on new sources, rates of production, and any other pertinent data that industry could furnish. It was the duty of the commodities committee on the Government side to use that information, analyze it, weigh it, and come to a conclusion for the Government. The war service committee did not take part in the conclusion except in an advisory, data-furnishing capacity.

Mr. HISS. Were they regarded as representing industry, the specific industries to which they were assigned?

Lieutenant Colonel HARRIS. Generally speaking, they were; yes.

Mr. HISS. Did they undertake to estimate for the Government whether or not certain policies should be carried out within their respective industries?

Lieutenant Colonel HARRIS. They were asked by the commodities committees for their opinions on these subjects, and gave them.

Mr. HISS. I would like to read in just for the record certain personnel of some of these committees which appear in appendix 44 of the report heretofore referred to by Mr. Baruch, on page 395.

The war service executive committee had as its chairman Mr. Harry A. Wheeler.

Do you know who Mr. Wheeler was?

Lieutenant Colonel HARRIS. I am afraid I do not.

Mr. HISS. The automobile committee had Mr. Chalmers, Mr. Willys, Mr. Rice, Mr. Graham, and many others.

The iron and steel committee, appearing on page 402, had Mr. Gary, Mr. Farrell, Mr. Burden, Mr. Dinkey, Mr. King, Mr. Grace, Mr. Schwab, Mr. Topping, Mr. Dalton, and Mr. Huston. They were the names that appeared previously in the price-fixing meetings. Undoubtedly that was a meeting with that particular war service committee. Is that correct?

Lieutenant Colonel HARRIS. Yes. These committees you are naming now are the committees representing industry.

Mr. HISS. Right.

I call your attention to further excerpts from meetings of the Price-Fixing Committee.

(The memorandum referred to was marked " Exhibit No. 1272 " and is included in the appendix on p. 3887.)

Mr. HISS. Meeting of June 1. It does not appear whether it is 1917 or 1918. This is under the heading of " Lumber."

> At this point Mr. Brookings surrendered the chair to Dr. Taussig, as he had an interest in this industry and did not wish to take part in the committee's deliberations.
>
> Copper: At this point Mr. Brookings took the chair.
>
> Mr. Brookings read a letter from M. R. L. Agassiz, of the Calumet & Hecla Mining Co., taking issue on several points which occurred in the meeting of the representatives of the copper industry on May 22.

On June 21, 1918—page 3 of the memorandum—a meeting of the price-fixing committee with representatives of the iron ore, pig iron, and steel industries. That is presumably the war service committee that we referred to, is it not, Colonel Harris, that you see there listed on the first page, the names that have been read in from the report plus certain additional representatives here?

Lieutenant Colonel HARRIS. Yes. This has both the commodity committee and the industry committee.

(The minutes of June 21, 1918, referred to was marked " Exhibit No. 1273 ", and is included in the appendix on p. 3888.)

Mr. HISS. Quoting from the third page, statement of Judge Cary:

> Our committee does not appear here as an advocate, but more as a judge or as an advisory committee, having in consideration the interests of the Government and the interests of the steel-producing and the iron-producing fraternity.

Would you say that these conferences with the various war service committees were as Judge Gary described them in that particular passage, in your opinion were those meetings in the nature of discussions across the table as to reasonable prices to be fixed, or did they constitute what Judge Gary here refers to, a meeting at which the committee appears as a judge?

Lieutenant Colonel Harris. I do not know what he could mean by that. Certainly the detailed negotiations of that particular conference would show that Judge Gary was not a judge on that occasion.

Mr. Hiss. Quoting from minutes of a meeting of the War Industries Board with representatives of the automobile industry for the determination of what action is to be taken with regard to the situation, dated May 7, 1918, I read the following:

(The memorandum referred to was marked "Exhibit No. 1274", and is included in the appendix on p. 3893.)

Mr. Hiss. (reading):

> Mr. Durant. Can we increase the supply of pig iron and what would it be necessary for us to do to obtain the increase?
>
> Mr. Baruch. Those suggestions are referred to us daily; we have made every move possible to increase pig-iron capacity. It has been a matter of fuel and transportation; all of those things have occurred to us, and, no doubt, have occurred to you, because you have perhaps made a more intensive study of the situation. We don't approach this subject any different from any one of you; I realize this is a mutual problem and we have to look to you to help us, and we don't take from the producer of steel a market of steel. We don't want to take from the consumer of steel his ability to use it; but it wouldn't be well to have this production of steel lie around for no purpose. We want suggestions from you as to how we are going to meet the problem.

Lieutenant Colonel Harris. I may state, Mr. Hiss, that to my mind that is the proper procedure on that sort of negotiation.

Mr. Hiss. Then on May 9, 1918, there was a conference regarding fixing aluminum prices. This is the stenographic transcript of the conference.

(The memorandum referred to was marked "Exhibit No. 1275", and is included in the appendix on p. 3895.)

Mr. Hiss. On page 4 of this memorandum Mr. Brookings made this statement:

> After arguing the matter for some length, we fixed the price at 32 cents, which seemed to be fair and seemed to offer Mr. Davis and his people an opportunity to make a fair profit, a liberal profit. We recognized the fact, however, that there was more or less a monopoly, and we felt that he met us not in the spirit of a monopolizer at all but a good American citizen who wanted to be a patriotic citizen; in fact, he had shown that disposition in the price he made the Government, and the supplies he had furnished the Government, and we recognized it when we adopted that price. We felt, after hearing all Mr. Davis had to say about it, and taking into consideration the probable increase as raises [wages] were going up, and we fixed the price at 32 cents.

Then on page no. 10 at the top, Mr. Brookings later in the same memorandum said:

> Mr. Yeatman, in order to enable these gentlemen to maintain a monopoly I think it would be a very healthy thing to keep the price down. Don't you? Keep these other fellows from getting in—that is the best way to promote a monopoly. What do you think about a 25-cent price?—that was your old price.

Lieutenant Colonel Harris. May I make a remark there?

Mr. Hiss. Yes, sir.

Lieutenant Colonel Harris. I have not seen this report, but I think that the subject matter must have been the high-cost producers of copper, trying to get greater production and bring in high-cost producers.

Mr. Hiss. On page 14, marked at the top, next to the last page of the memorandum, Mr. Brookings said:

> Frankly, Mr. Davis, we don't understand that. We wanted to give you something to take care of this advance in labor since March. We won't send you out again. We have reconsidered this and we have made up our minds to advance the price of ingots a pound, so that you will get something, making it 33 cents instead of 32 cents, and still leave these differentials as they are, which you apparently get very little of; and to give you in addition to that—we want to be fair—while I told them at the time we fixed the 32-cent price—it was a battle royal! Judge Lovett and some of us thought that 30 cents was an awfully big price and we stood and worked on 30 cents for a long time. I don't know but I had that too much in my mind at that time. Whether you got too much then or not, it is perfectly evident that there has been or will be certainly some advanced costs in labor. While labor is a small part of your costs, as compared with some other things we deal with—we thought in giving you the differential we were giving you nine-tenths of a cent a pound or 1 cent a pound on your product. We want to make it good and we will fix it at 33 cents, and we hope you will be perfectly satisfied.

Mr. Hiss. Turn to the second page of this memorandum of the meeting of the price-fixing committee with representatives of the nickel men.

(The memorandum referred to was marked "Exhibit No. 1276", and is included in the appendix on p. 3904.)

Mr. Hiss. Mr. Brookings said:

> All morning we have kept you waiting because the history of the industry's costs at different periods of time have not been available until this morning and we had to look them over and discuss them before we saw you. We have not had time to do them justice really, but some of the committee felt that so long as we have brought you here we ought to explain to you why we brought you here and ask you whether you have given any thought to the question of prices and whether you have any figures of your own as to any additional cost of producing nickel during the past 6 months or a year. Of course we know that our war needs have enormously increased the consumption of nickel. The Navy program and the Army program have required nickel for alloying certain steel and has doubled your production and has, of course, enormously increased your profits. We are not in an attitude of envying you your profits; we are more in the attitude of justifying them if we can. That is the way we approach these things.

Please turn now to pages marked 9 and 10 of this document.

(The memorandum referred to was marked "Exhibit No. 1277", and is included in the appendix on p. 3905.)

Mr. Hiss. This is a meeting of the price-fixing committee on April 3, 1918. This relates to fixing the price of copper.

Mr. Brookings said:

> You complain that you are unfortunate for having made contracts for a long period of time. We would have to take into consideration two things. One, the fixing of the price of copper, and, two, the fact that contracts made by you which you haxe expected to be profitable contracts have become unprofitable contracts. Have we not all been in that position in our lives? On the best judgment we have, feeling that the average over a period of time is going to be a profitable one, have we not all made contracts? As a matter of fact, I made some contracts with your father 40 years ago.

Did not the price-fixing committee and the War Industries Board, in general, have continually before them the manifold complicated questions of prices, costs, and all the matters that were so difficult of determination in any one industry? Did not they have them continually before them in almost all industries?

Lieutenant Colonel Harris. They did.

Mr. HISS. On July 2, 1918, Colonel Harris, page 26. This is a meeting of the price-fixing committee with representatives of the copper industry for the purpose of fixing prices.

(The memorandum referred to was marked " Exhibit No. 1278 ", and is included in the appendix on p. 3911.)

Mr. HISS. Quoting a statement of Mr. Brookings:

> We have made the statement that any shipments, any deliveries, made after the date at which the price was fixed was subject to the revision of price by the Government. Just as soon as this information commenced to come in on increased cost, we did try to protect the producer in asking the Government not to place any large orders of copper with the producer, because we would be responsible for that, and having it in mind, we feel that we ought to at least spare you all that.

How long after the armistice had been signed, Colonel Harris, did the War Industries Board continue in existence, do you know?

Lieutenant Colonel HARRIS. Mr. Baruch resigned very shortly. The organization continued on for a longer period. I have not the date when they were actually discontinued.

Mr. HISS. Do you know what their duties were after the war ended?

Lieutenant Colonel HARRIS. I have the impression that they turned over the settlement of the war to other agencies and got out.

Mr. HISS. Did they continue in the price-fixing field even after the war had ended?

Lieutenant Colonel HARRIS. I cannot say.

Mr. HISS. Were there not problems of readjustment back to peacetime levels which required Government control over prices for some time after the war, Lieutenant Brannon?

Lieutenant BRANNON. I think I can find in the book where Mr. Baruch says that due to the lack of authority the Board did not have control of that transition period from war to peace. He intimates. I believe, in his book—I think I can find it—that he thinks it would have been very desirable had the War Industries Board had that authority.

Mr. HISS. Do you know whether it continued to function informally?

Lieutenant BRANNON. As I remember, some of these from the record. some of these agreements, and so forth, were for a definite period of time. several months in advance, and as I remember there was some clearing up to do. Of course, the Government attempted some later price fixing.

Mr. HISS. I offer two letters for the record, a letter of November 9, 1918. just before the armistice, and a letter of November 11.

(The letters referred to were marked " Exhibit No. 1279 ", and are included in the appendix on p. 3911.)

Mr. HISS. The letter of November 9 is from Mr. Clarke, secretary of the American Iron and Steel Institute, to Mr. Brookings:

> Articles appear from time to time in the newspapers in regard to the fixing of price on rails, but naturally we do not know whether they are authoritative. The price of rails ought, in justice to rail manufacturers, to be determined very shortly.

The reply is dated November 11, 1918:

> The fixing of a price on rails, of course, mainly involved the interest of the Railroad Administration, and, as you probably know, they have felt that as the rails they buy are, by the nature of their leases, a matter of interest to

each of the railroads, they could not justify themselves in paying the price which the price-fixing committee recommended. As we had never fixed the price of rails, and as the Railroad Administration was so overwhelmingly the largest interest involved, we submitted the question to the President for his determination.

While I saw the President in person regarding the matter, and have had some little correspondence with him since, he has been so occupied with weighty matters of state recently that I hated to bother him further about it for the present. However, I realize the importance to the rail manufacturers, and while I presume you are collecting for rails furnished at the prices you mention; i. e., $55 and $57 per thousand, as long as it is simply a tentative price, subject to our final ruling, you naturally feel that the matter should be settled without any unnecessary delay. I am called to St. Louis for 2 or 3 days, and on my return, the middle of next week, I will take the matter up with the President again.

Please consider this for the information of those only who are interested, as we are in no way responsible for the newspaper articles you mention, and will trust to your seeing that nothing of this kind gets into the press.

If you are likely to be in Washington any time soon, after Thursday of next week, I wish you would let me know, as I think the problem which we discussed at our meeting a few days ago has been anything but exhausted, and it seems to me that, without reducing labor, there might be some adjustments on two or three articles that would satisfy the Navy and the Railroad Administration, and yet leave the steel industry a fair profit.

You have probably noted in this morning's press that McAdoo recommends the wiping out of all excess-profit taxes on next year's business. I think we will all agree that this is wise.

Lieutenant Colonel Harris. Mr. Hiss, are you interested in the developments of the War Industries Board after the War?

Mr. Hiss. Yes.

Lieutenant Colonel Harris. There is a paragraph here that might be of interest.

Mr. Hiss. Will you please read that, Colonel Harris?

Lieutenant Colonel Harris. Perhaps Lieutenant Brannon will read it.

Mr. Hiss. Will you just read that, Lieutenant?

Lieutenant Brannon. This is from the preface of Mr. Baruch's book, "American Industry in the War."

Lieutenant Colonel Harris. It is a letter to the President.

Lieutenant Brannon. It is in the form of a letter to the President in submitting a statement of the activities of the Board.

Mr. Hiss. Just give the page, please.

Lieutenant Brannon. It is on page 8. [Reading:]

Between the time of the signing of the Armistice and the discontinuance of the War Industries Board, the problem was faced of reversing the Board's machinery in order to demobilize from war service and assist it back to its normal channels. The German collapse had been spectacular in its suddenness. When fighting ceased war production in the United States was reaching its peak. Every unit of the vast machinery was keyed up to high speed. There is no doubt but that knowledge of this fact contributed materially to Germany's sudden realization of the hopelessness of her position. The Board did all that was possible to prevent any injury to industry as it was put back on a peace basis. The price-fixing committee of the Board determined as a general policy that price agreements should continue for the period originally fixed. The President directed the various departments of the Government not to market, in competition with private producers, materials in which there was no shortage and which were not of a perishable nature. The Board, through recommendations and advice, aided in cancelation of contracts so as to stabilize as far as possible the flow of materials, labor, and plant facilities back to peace channels. It was arranged with all of the war-making agencies of the Government that the Board should be advised of revisions and adjustments of all Government contracts in excess of $100,000. The Board's facilities section, for a brief time, remained as the clearing house for all information relating to contract adjustment. Contact also was maintained with the Labor Department, so that as labor was released from war work it was distributed to peace-time industries needing it. If the proper authority had been at hand, it would have been possible for the War Industries Board to have continued its functions during the period of readjustment. Much good could have been accomplished. But with the signing of the Armistice, the purchases by the Allies and our own great departments coming to an end, the power of the Board, without further additional legislative authority, ceased and it was possible to do only what was done—to wind up its work as quickly as possible.

Mr. Hiss. Colonel Harris, I show you another collection of excerpts. These are from a meeting of the price fixing committee of the War Industries Board with the representatives of the steel industry, December 11, 1918, for the purpose of considering the advisability of discontinuing the existing maximum prices on steel.

(The minutes of meeting referred to were marked "Exhibit No. 1280" and are included in the appendix on p. 3912.)

Mr. Hiss. On page 2 Mr. Brookings said:

> Now it simply leaves us nothing to do at this meeting but to express, in words that I should like to have the privilege to compile more at leisure for our records, the earnest appreciation which the price fixing committee have of the manner in which the steel industry has met us more than half way in doing practically everything that we have asked them to do in the way of not only allocating their production, but in increasing their production and investing their funds in additional capacity at a time when costs were probably double normal; and I wouldn't care to have what I say informally here now to fully express our appreciation of that; I can do it very much better by taking a little time and formulating it for our records and we may have something which we would be glad to send you a copy of.

Judge Gary replied:

> We have no disposition to return to this Board the beautiful bouquet of flowers that has been bestowed upon us by the chairman in his words of praise and appreciation for we cherish their possession. We would, if capable, fully reciprocate, though we have no disposition to resort to fullsome praise. A mere statement of the facts uppermost in our thoughts concerning the Board in its treatment of us would be praise enough for anyone.

On the next page:

> In order to secure the largest production of steel—to permit the operation of all of the facilities of all the companies, and firms—it was necessary to arrive at a basis of prices which, as applied to many of the corporations, yielded large profits, yet at the same time did not permit an unreasonable profit to many of the high-cost mills. Therefore we need not be especially grateful because you permitted profits which seemed to be large in many instances, but rather because we know that your motives were right, that you recognized your obligation to your country, and still at the same time in the performance of your duties you were always considerate, friendly, and fair, and were as liberal in your conclusions as your duty to the Government you represented permitted. We have reason to be grateful that the Board has consisted of men who had not only the disposition but the intelligence to rise to a plane of action where exact justice could be done to all concerned.

Colonel Harris, does not this refer to one of the difficulties experienced during the war, namely, the fixing of prices so as to encourage maximum production, so that the prices would have to be high enough to permit high-cost producers to produce at a profit so as to be able to continue in business, which means for the low-cost producers rather high returns?

Lieutenant Colonel Harris. Yes.

Mr. HISS (continuing reading):

> To come in contact with Government officials, dealing at arm's length, and to get through with all our work with the belief that our intercourse has been satisfactory, agreeable, and pleasant, is a most remarkable thing.

Mr. IRÉNÉE DU PONT. Mr. Chairman, is it essential if you pay a high-cost producer a rate that you have to pay a lower-cost producer the same rate, because my impression was that the Aetna Powder Co. got a very much higher price for powder than we got at the same time?

Mr. HISS. Mr. Irénée du Pont, this relates to the fixing of prices in industries throughout the country, not those set by contract.

Mr. IRÉNÉE DU PONT. Not dickering for prices?

Mr. HISS. Not contract.

Lieutenant Colonel HARRIS. This is not contract work. This is basic prices.

Senator CLARK. Is it not a fact, Colonel, that in the case of steel, for instance, the great bulk of steel produced in this country was produced by the low-priced factories or low-priced steel mills? In other words, the United States Steel Corporation and some of the big ones were able to produce steel much more cheaply, so I have understood, than the smaller mills, which did not have the facilities and did not own their own coal mines and iron and transportation facilities, so that the fixing of this uniform price throughout the country on a basis to allow a margin of profit to the small and relatively inefficient producer did result in enormous profits to the biggest producers and to the bulk of the production. Isn't that true?

Lieutenant Colonel HARRIS. The low-cost producers made much higher profits than the high-cost producers.

Senator CLARK. Yes; and that represented the great bulk of steel production in the country, didn't it?

Lieutenant Colonel HARRIS I don't know. I imagine it did.

Senator CLARK. I am not certain of that, but that is my information.

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. On page 9 of this memorandum of excerpts, Colonel Harris, Mr. Replogle has this to say:

> As director of steel supply, I want to express my appreciation for the 100 percent cooperation which we have gotten on all occasions. It has been perfectly wonderful, and one of the delights of my life has been to work with you, and I thank you from the bottom of my heart—all of you.

I have next to present for the record a report of the meeting of the price-fixing committee on December 20, 1918, with representatives of the copper industry, which I offer as the next exhibit.

(The report of meeting referred to was marked "Exhibit No. 1281", and is included in the appendix on p. 3917.)

Mr. HISS. Mr. Brookings has this to say, on the first page:

> As the price fixing committee has always functioned through the commodity section of the War Industries Board, it goes without saying that the necessity for fixing future prices has ceased and that we are allowing all prices fixed heretofore to expire by limitation and as the copper prices expire by limitation at the end of this month, about the only business that justified our holding this meeting today was the desire of meeting the copper people again and to express to them the Government's appreciation of the splendid spirit with which they have assisted us in solving next to the most important problem we have had to solve in connection with out war needs. Steel and copper, of course. have

been fundamentally the few industries that were most directly concerned in our war needs in everything pertaining to stimulating production and in agreeing with us upon what was a fair price for the Government and our Allies and the public, we feel that while we have endeavored to agree with you upon a price that was fair and profitable and sufficiently profitable to maintain a maximum production, it was not very profitable to some concerns and rather more than normally profitable to others; but we recognize through efforts made to stimulate production and through excess-profit prices——

That should be "excess-profit taxes", should it not, Colonel?

Lieutenant Colonel HARRIS. I assume it is "excess-profit taxes."

Mr. HISS (continuing reading):

and through excess-profit taxes none of the industries have profited beyond what seems to be perfectly fair and reasonable.

Mr. ROSENSTAMM. It is permissible for me to ask what the Government proposes to do with the surplus of copper in the hands of the consuming interest?

Mr. BROOKINGS. We have never had anything to do with the Government's orders, the commodity sections representing contracting departments of the Government have submitted price-fixing problems to us and we fixed the prices and passed them back for administration of the department and we have absolutely no knowledge or connection with them.

Mr. SUSSMAN. The thought Mr. Rosenstamm wished to ask you was if you could enlighten us as to the copper that the Government has on hand. You did express yourself as to that last week, as to whether they were going to throw that on the market or whether it is going to further assist the trade by withholding it for a while until it is stabilized. I don't ask this as an authoritative matter but as general information.

Is that not one of the problems that must be faced at the termination of any war, Colonel Harris? That is, the disposal of surplus stocks that the Government has on hand, without upsetting prices to too great an extent?

Lieutenant Colonel HARRIS. It is.

Mr. HISS. Then Mr. Brookings says [reading]:

I don't remember having expressed an opinion on that. I am perfectly willing to express a personal opinion growing out of the knowledge that we all have in the War Industries Board. The general policy of the Government seems to be that as far as it can it is going to protect the industry against competing with anything which they have on hand or accumulated in large quantities and by advice and cooperation with the industry would endeavor to prevent the sale of their stuff, demoralizing the market. That has been given out publicly and I believe has been pretty widely published as the policy of the Government.

I next refer to the meeting of December 10, 1918, of the War Industries Board, page 3, the last page. I will offer this document for appropriate exhibit marking.

(The document referred to was marked "Exhibit No. 1282", and is included in the appendix on p. 3918.)

Mr. HISS. After the war, I think you have already stated, Colonel Harris, there was considerable difficulty with reference to many contracts, which were regarded, for one reason or another, as outside the power of the War Department or as having been improperly executed, is that correct?

Lieutenant Colonel HARRIS. Please state that over. I don't think I quite got that.

Mr. HISS. I say during the war there arose a number of cases of contracts which were deemed by the War Department or some other agency to have been improperly executed or not finally executed or for one reason or another imperfect, although production had gone ahead at cost to the producer under those contracts.

Lieutenant **Brannon**. There were two general classes of cases, Mr. Hiss. Under Revised Statute 3744, the contract has to be signed at the end by the contracting parties. A number of contracts in the heading stated that they were contracts made between such and such contractor and such and such officer as the contracting officer of the Government. Due to pressure of business a number of those contracts were signed by subordinates. The Comptroller of the Treasury ruled that they did not comply with Revised Statute 3744.

Another class of cases was where contractors had been given what are called "procurement orders", that is, orders to go ahead, which fixed the amount and the price and ordinarily the drawing of specifications, but not a complete contract with the understanding that a contract would be executed as soon as it could be worked out, the general details being fixed in advance. But after the armistice the Comptroller again ruled that due to the fact the Government no longer needed the supplies contracted for, a contract could not be entered into merely to protect the contractor.

That was cared for by the Dent Act.

Mr. **Hiss**. At this meeting of December 10, 1918, there is the following statement under "Legislation" [reading]:

> Mr. Peek and Mr. Ritchie submitted draft of a bill which, after several conferences with the War Department, they had prepared to legalize war agreements and orders which had not been executed or drawn in compliance with legal requirements.

That is probably what is referred to, is it not?

Lieutenant Colonel **Harris**. I have not found the reference, Mr. Hiss.

Mr. **Hiss**. It is on the third page.

Lieutenant Colonel **Harris**. December 10?

Mr. **Hiss**. Yes. It is on the third page under the heading of "Legislation."

Lieutenant Colonel **Harris**. I see; yes.

Mr. **Hiss**. (reading):

> Mr. Peek and Mr. Ritchie submitted draft of a bill which, after several conferences with the War Department, they had prepared to legalize war agreements and orders which had not been executed or drawn in compliance with legal requirements.

Lieutenant Colonel **Harris**. That unquestionably must be it.

Mr. **Hiss**. Lieutenant Brannon can possibly explain it.

Lieutenant **Brannon**. I do not remember which one that was, but the Dent Act was the final one.

Mr. **Hiss**. This continues [reading]:

> and which draft, they thought, should be submitted to the War Department, and then to the Military Committees of the Senate and House, with the recommendation that it be substituted in place of the bill on the same subject now pending before them. The draft was approved, and the chairman was requested to send the same to the said committees, and also to the United States Chamber of Commerce, which was interested in the subject.

The **Chairman**. The committee will be in recess until 10 o'clock tomorrow morning.

Mr. **Irénée du Pont**. Mr. Chairman, I would like to ask on behalf of the company whether we could find when a hearing is going to take place on the operations under Government ownership and what might be expected of it. I think possibly we might have some witnesses on that, if we are permitted, and if we have notice.

The Chairman. Mr. du Pont, you will surely have notice of it in due time.

Mr. Irénée du Pont. Thank you.

The Chairman. Ten o'clock tomorrow morning, gentlemen.

(Whereupon, at 4:45 p.m., the committee recessed to 10 a.m. of the following day, Wednesday, Dec. 19, 1934.)

This concludes that part of the testimony known as "Part XV, Old Hickory Contract (continued) and Industrial Organization in War (examples in World War and plans for next war)." At this point the committee continued with the subject of Industrial Organization in War. (See Part XVI.)

APPENDIX

Exhibit No. 1197

All communications should be addressed to "The Gun Division, Office of the Chief of Ordnance, U. S. A., 1330 F Street, Washington, D. C."

[ajh/ig]

War Department,
Gun Division, Office of the Chief of Ordnance,
1330 F Street, Washington, October 3, 1917.

In replying refer to no.

(Memorandum for Colonel Buckner.)

1. Referring to our conversation of this morning and to the urgent need for an increase in the capacity of this country for the manufacture of smokeless powder, I will be pleased to have you take up with your company the following:

(a) Would your company be willing to create additional capacity for the manufacture of smokeless powder to the extent of 500,000 pounds of finished powder per day; also, would they be willing to create new capacity for twice that amount; the plants to be the property of the United States?

(b) The principle is appreciated that this increased capacity should in some form or other be paid for in its entirety by the United States, as it will have practically no value except its salvage value at the conclusion of the war. I would, therefore, like to know under what terms the company would be willing to undertake the design and erection of these new plants, as well as their operation. This will probably involve the selection of sites, the purchase of the land, as well as the procurement and erection of a plant complete in all respects for the manufacture of finished powder.

(c) The plan would be for the Du Pont Company to operate the plant as the agent of the United States Government, either on a cost plus profit basis, a flat fixed price basis, or on a flat price basis adjustable to the fluctuating prices of certain raw materials.

2. It is evident that, if such an agreement is entered into, it would be necessary for the Government to do everything in its power to assist the company in procuring all the material needed, as well as the necessary labor, and, furthermore, it is conceded that the contract could extend no further than binding the company to use its best endeavors to erect the buildings and to operate them in the manner contemplated by the agreement.

Exhibit No. 1198

Washington, D. C., *Oct. 4, 1917.*

(Construction of smokless powder plants.)

Chief of Ordnance, U. S. A.,
Washington, D. C.

Dear Sir: In accordance with your request of October 3, E. I. du Pont de Nemours & Co. beg to present the following propositions for your consideration:

1. The Du Pont Co. offers to select two or more sites, prepare necessary plans and erect plants capable of producing 1,000,000 pounds per day of water-dried smokless cannon powder, with all possible dispatch.

2. For this service the Du Pont Co. request that the U. S. Government pay to it monthly the exact cost of such construction work, including cost of the land, all materials and equipment purchased for the plant, all labor (including superintendence on the ground), insurance, both fire and personal liability, plus 15% of the total of the foregoing to cover the cost of preparing the plans, main office supervision, purchasing expense, and the company's profit on this work.

3. The U. S. Government to audit the accounts each month as rendered, which audit must be completed by the 15th of the following month, at which time payment shall be made.

4. The Government to place in the Du Pont Company's hands full control of the character of the design and quality of the construction work, as the Du Pont Co. cannot otherwise be held responsible for the operation outlined below.

5. The Du Pont Company's estimate, based on past experience with its best knowledge as to the allowance that should be made for increased cost of construction work, is that the necessary plans to manufacture 1,000,000 lbs. per day of water-dried smokleess cannon powder will cost approximately $90,000,000, which would include sulphuric and nitric acid manufacturing and recovery plants, cotton purification, guncotton, water supply, waste disposal, power, land, lines of communication and transmission lines, storehouses, freight yard with broad gauge tracks, plants for the manufacture of ether and diphenylamine, and water-dried cannon powder manufacturing facilities, houses for workmen to the extent which we have found at our existing plants, administrative building, laboratories, shops, etc., but would not include a box factory.

The above proposition is made only upon the understanding that the following proposition for the operation of the plants is accepted at the same time:

1. That the Du Pont Co. be appointed agents to operate the above plants for a period for not less than one year, provided their operation is necessary, in which event the Du Pont Co. proposes to agree to manufacture up to 1,000,000 of water-dried smokeless cannon powder per day at these plants on the following basis.

2. The Government to pay monthly the entire mill cost of the powder manufactured during the previous month on the same terms of payment and audit as in the foregoing proposition for construction of the plants, plus 5¢ per lb. to cover main office supervision, purchasing expense, administrative and profit. Should such mill cost of water-dried smokeless cannon powder, exclusive of boxes, be less than 44½¢ per lb. in any month the difference will be divided equally between the Government and the Du Pont Co., which would result in the cost to the Government and compensation to the Du Pont Co. as per the following table:

Mill cost of powder	Cost to Government	DuPont's compensation
Cents	*Cents*	*Cents*
44. 5	49. 5	5
42. 5	48. 5	6
40. 5	47. 5	7
38. 5	46. 5	8
36. 5	45. 5	9
34. 5	44. 5	10

Should the Government desire a part of the powder to be air-dried a sliding scale of payment would be increased by 2½¢ per pound as follows:

Mill cost of powder	Cost to Government	DuPont's compensation
Cents	*Cents*	*Cents*
47	52	5
45	51	6
43	50	7
41	49	8, etc.

3. It would be our intention that these plants would be erected in units of 100,000 pounds, so that the first might be expected to begin operation in about 8 months from the time the land is secured, additional units to follow monthly, so that the full output would be obtained in about 18 months, which is equivalent to the 10 units starting operation in 13 months. The time of completion would depend very largely upon the extent of the help that the Government would give us in obtaining early deliveries of essential building materials, equipment, and workmen.

In both parts of the foregoing proposition the du Pont Co. would be acting purely as the agent of the United States Government and any expenditures thereunder would be for the Government's account.

If it is desired by the Government, the above proposition could be amended to provide for plants with an output of 500,000 pounds of water-dried smokeless cannon powder per day.

Yours very truly,

E. I. du Pont de Nemours & Co.,
By ——— ———,
Vice President.

Exhibit No. 1199

STATEMENT BY DU PONT ENGINEERING COMPANY OF THE FACTS CONCERNING THE AUDIT OF EXPENDITURES UNDER THE CONTRACTS BETWEEN THE UNITED STATES GOVERNMENT AND THE DU PONT ENGINEERING COMPANY

The contracts are as follows:

Penniman Shell Loading contract, P 2337–1228–A.
Old Hickory Smokeless Powder Plant, P 4755–711–E.
Seven Pines Bag Loading Plant, P 9050–960–E.
Tullytown Bag Loading Plant, P 3509–643–E.
Ives T. N. T. Plant, P 15271–1433–E.

Accounting and auditing system during operating period.—Prior to the starting of operations by the contractor, the Ordnance Department provided inspection and auditing units consisting of inspectors and auditors in charge of commissioned officers and civilians at the main office of the contractor and in the field at the site of each operation.

The following plan for making, checking, and recording disbursements and keeping a record of the contractors' business, approved by the representatives of the United States in charge at the time, was modeled on the system which has been followed by the E. I. du Pont de Nemours & Company, and found by experience to be satisfactory.

Certain proficient employees were appointed to direct and supervise the work of the several departments retained for the purpose of constructing and operating the plants. Whenever the procurement of material or equipment was necessary, requisitions were issued by the departments responsible, and forwarded to the purchasing agent in Wilmington, unless the need was sufficiently urgent to necessitate ordering direct by telegraph or otherwise. In all cases, however, requisitions were sent to the purchasing agent for record. Orders for materials specified on such requisitions were issued by the purchasing department, and numbered in series, copies being sent, respectively, to the vendors, plants, and accounting department, one being retained by the purchasing department for comparison with the vendors' invoices.

Vendors were required to show the order number on the face of each invoice for identification. Each invoice, after receipt at the home office was compared with the orders, and checked as to terms, quantity, and price by the purchasing department; forwarded to the plant which issued the requisition, where certification was made as to receipt of material, and the approval of the plant representative affixed; then returned to the home office. The vouchers were then approved by the departmental director responsible for such expenditures, and the charge distribution noted thereon, after which the accounting department functioned, checking extensions, recording, and issuing checks in payment therefor.

When vouchers had been audited, recorded, approved and paid by representatives of the contractor, they were transmitted to the contracting officer of the United States, who checked and verified the expenditures until satisfied that the requirements of the contracts had been fulfilled. He then indicated his approval on each voucher, and forwarded all vouchers applicable to construction projects to the disbursing officer, who recorded the approved expenditures on public vouchers, and issued instructions for the contractor's reimbursement.

Whereas vouchers applicable to the operating projects were checked and approved in the manner described above, the contractor was reimbursed as provided by the several contracts in accordance with bills rendered to the United States for the cost and profits agreed upon under each contract. The cost of manufactured products in total is equivalent to the cost of the materials and labor utilized or consumed in production, and was verified in total by checking the material cost with the cost of the materials used and on hand at the close of operations.

In connection with the above statements, certain exceptions to the system described were found necessary as the work proceeded; viz, invoices were sometimes paid prior to certification for receipt of material in order to obtain cash discounts, which otherwise would have been forfeited. Pay rolls, which had been held up for reimbursement on account of delays on the part of the United States auditors, were reimbursed for 90% of the total in certain instances prior to complete audit, with the understanding that the completion of the audit would be made in regular routine, in order that the contractor might be placed in possession of funds necessary to carry on the work.

Under normal conditions it was the practice of the purchasing department, prior to placing orders for materials in quantity, to request vendors to submit bids or quote prices for comparison; but throughout the war period, this procedure was not always followed, as the interests of the United States were frequently best served by securing the materials required in the shortest possible time. The saving of a few dollars on the price of materials at the expense of delay meant loss of time in the production of the munitions urgently needed. Whereas it was the policy of the contractor to consider the factor of price, and the prices paid for materials and equipment were fair and equitable under the conditions then existent, ability to furnish materials when required on the part of the vendor was also a paramount consideration.

After shipments arrived at the plants, a record was made of the materials in each consignment as promptly as possible by employees of the contractor assigned for the purpose. This record, however, was not in all cases perfect, owing to the impossibility of avoiding errors in counting, weighing, and computing measurements of the vast quantities of materials of various kinds arriving at the plants during periods of congestion. The cars, however, had to be unloaded, as the contractor was under threat of embargo by the Railroad Administration if held longer than a specified time, regardless of the practicability of immediately checking and recording the contents.

The recording and distribution of materials received at the plants was a stupendous task, as the work was progressing with such speed that usually the workmen were ready to utilize any materials available immediately upon arrival; therefore in addition to the difficulties described above in securing sufficient labor to unload cars and record shipments it was difficult to prevent the removal of such materials by overzealous employees before checking and recording could be completed.

When field work was at its peak at Old Hickory, cars were arriving at the rate of 300 per day, and as many as 800 cars have been held on the sidings at one time due to the inability of the contractor to obtain sufficient laborers and checkers to unload cars as rapidly as they were received.

The United States also provided inspectors and auditors who checked and verified the contractors receiving records and whose reports were available to the contracting officer in charge for the verification of invoices. The pay-roll departments, located for convenience at the several plants, were divided, respectively, into three units, each under the direction of a chief clerk or supervisor as follows:

Pay-roll department which recorded time, prepared pay rolls, recorded deductions to be made from employees' wages, and prepared and signed the checks for payment of wages.

The paymaster's department, which functioned in the actual paying off of employees, kept a record of the pay-roll receipts, unclaimed wages, etc.

The auditing department, which maintained a checking system over the other departments and carefully investigated all complaints by employees or others.

The United States Government also provided a force of accountants at each plant under the direction of an auditor which maintained a rigorous supervision and check of the contractor's pay-roll records. The work of the Government auditing staff was carried on concurrently with the work of the contractor, and owing to the vigilance and close cooperation between the Government auditing staff and auditing staff of the contractor, losses on account of errors, fraud, or dishonesty were reduced to a minimum.

It is estimated by the contractor that the cost to the United States for maintaining the inspection and auditing system carried on throughout the period of construction and operation, excluding the cost of the contractor's office personnel, prior to October 1919 was approximately $1,000,000.00.

In the manner described above 76% of the disbursements made by the contractor under its several contracts with the United States had been approved for reimbursement by the War Department prior to the beginning of the reaudit authorized by the Philadelphia Claims Board in October 1919.

Reaudit.—When the negotiations were in progress, which culminated in the cancellation of the agency contracts, and the execution of the contracts which superseded the cancelled contracts, the United States was confronted with the necessity of promptly providing plants and facilities for the manufacture of munitions which were essential for the protection of the lives of its citizens and the successful prosecution of the war.

These contracts with the Du Pont Engineering Company were unusual; but unusual methods were necessary to cope with an unusual condition; and the War Department was cognizant of the fact that the Du Pont Engineering Company was competent to build such plants and manufacture the munitions specified in the several contracts, provided it was not hampered by the necessity of following the usual War Department procedure, and was allowed to use its discretion and initiative as to ways and means.

After the armistice, however, when the munitions then being produced in quantities exceeding the most optimistic anticipations of the War Department officials, were no longer required, and field operations under the several contracts were terminated, the persons designated by the War Department to succeed the representatives in charge of the audit of the contractors accounts during the operating period for the purpose of completing the audit, were unwilling to recognize the authenticity of the approvals of their predecessors, and consequently a complete reaudit was ordered by the Philadelphia Claims Board in October 1919.

The vouchers, cancelled checks, and other records used during the reaudit were in the possession of the United States auditors, or were made available and accessible to them, and most of the primary records were held by them from sometime prior to January 1919 until June 1, 1922.

Notwithstanding the fact that the audit was from 75 to 80 percent complete prior to the beginning of the reaudit, for nearly three years a large staff of men were intensively engaged in making this reaudit at a cost, which the contractor estimates was not less than $500,000.00, including the cost of maintaining the contractor's office force employed in furnishing information in connection with the audit.

Throughout the progress of this reaudit, the contractor was the recipient of hundreds of questionnaires listing thousands of vouchers, which indicated an exhaustive attempt on the part of the auditors to obtain evidence and information. There is no doubt that all of the primary vouchers and cancelled checks were examined and passed upon during this period. The present condition of some of the vouchers is mute testimony that they were handled and rehandled many times. Many are nearly worn to shreds, and nearly all are marked up with notes or have attached checking memoranda.

Powder produced and delivered to the United States at Old Hickory was attested by acceptances signed by a representative of the United States.

The United States was not billed with shells or loaded bags, as the essential materials were furnished by the United States and the bills rendered were for the cost of loading.

Production records were kept at the plant, and the United States Government inspectors kept their own records in addition thereto. The cost is substantiated in total by the contractor's record of disbursements. Materials procured for conversion into finished products, other materials acquired for operating purposes, and semifinished products on hand at the close of operations were recorded on inventories which were signed by representatives of the United States and the contractor.

Prices.—With the exception of prices on certain specified component materials, the contractor was not limited under the terms of its several contracts as to the prices which were to be paid for materials or equipment required in the construction and operation of the several projects and whereas the contractor was enabled to save the United States a considerable sum on account of availing itself of the services of the organized purchasing department of the E. I. du Pont de Nemours & Company and the experience of its employees, it should be borne in mind that throughout this period the prices of all commodities including such commodities as were regulated by the various price-fixing bureaus of the United States, were unusually high, and frequently materials were very difficult to obtain regardless of prices offered. Prices of the principal materials purchased were compared with the prevailing market prices by the contractor and also by the United States Government contracting officer throughout the progress of the original audit.

While the reaudit was in progress the contractor was occasionally requested to explain prices which were alleged to be excessive, which is an indication that such prices had been compared with standards of some kind, and if this was done in the instances mentioned it would be fair to infer that the prices were to some extent subjected to scrutiny and audit.

Materials purchased from E. I. du Pont de Nemours & Co. and subsidiaries.—Certain component operating materials approximating $2,000,000.00 in value were purchased from E. I. du Pont de Nemours & Company which could not be procured advantageously from other sources, and it was the intent of the vendor to bill the contractor with such materials at cost. However, through an error in the purchasing department in omitting to adjust the cost of linters and shavings, the contractor was charged in excess of actual cost the sum of approximately $300,000.00. This overcharge was promptly refunded to the United States when the error was located and brought to the attention of the contractor. Although a rigid investigation was prosecuted by the Government auditors for further errors of this nature, no additional discrepancies in the prices charged by the E. I. du Pont de Nemours & Company for such materials were brought to the attention of the contractor.

Certain special materials and equipment aggregating in value approximately $7,600,000.00 were purchased from E. I. du Pont de Nemours & Company under a contract which provided that E. I. du Pont de Nemours & Company would bill same at cost plus a profit of 10%. E. I. du Pont de Nemours & Company, however, waived this profit and billed the material at cost including amortization of certain facilities which were installed for fabricating the equipment.

The total profit which would have accrued to E. I. du Pont de Nemours & Company on account of this contract would have been $760,000.00, whereas the charge made by E. I. du Pont de Nemours & Company for amortization of additional facilities aggregates approximately $475,000.00.

Automobiles manufactured by General Motors Corp., in which E. I. du Pont de Nemours & Company is financially interested, were purchased from dealers in the vicinity of the several plants, but a greater number of cars of other makes were specified in our requisitions. Automobile and accessory bills were all carefully audited by the United States as indicated by the questions on record pertaining thereto.

Paints and varnishes were bought to some extent from the Harrison Paint Works, a subsidiary of the E. I. du Pont de Nemours & Company, as deliveries were assured.

No considerable purchases other than above were made from subsidiaries or companies in which the E. I. du Pont de Nemours & Company was financially interested, nor was any preference given to such corporations.

Substantiation and proof of expenditures.—The several contracts entered into between the United States and the du Pont Engineering Company contained practically the same fundamental provisions which may be stated as follows:

The contractor was authorized to do all things necessary or convenient in connection with the work.

The contractor was to be reimbursed for all expenditures of every character and description upon presentation of satisfactory proof of disbursement.

The contractor was to be protected from any and all liabilities arising out of or in connection with contracts.

All vendors' invoices were numbered in series and entered on registers, the total of which were periodically posted to a controlling account on the general ledger as a credit. All disbursements in payment of invoices were recapitulated from check stubs and posted periodically to the same controlling account as a debit. The balance in this account at the end of any period indicating the total of unpaid vendors' invoices. This balance was reconciled periodically by comparison with the total of unpaid invoices entered on the registers, thus mathematically proving that the disbursements were in accord with the invoices recorded as paid.

The Government auditors, during the progress of the audit and also during the reaudit, "substantiated" disbursements by comparing canceled checks endorsed by the vendors with the invoices.

Law courts regard an endorsed, paid check, after identification with a specific invoice, as conclusive evidence of payment, consequently it would appear that the paid canceled checks of the vendor are "satisfactory" evidence of disbursement.

Authority.—Under the terms of the contract the Du Pont Engineering Company was authorized to do all things necessary or convenient in connection with the construction or operation of the plants, therefore, no further Government procurement orders or further Government authority was required or obtained for making specific expenditures.

The contractor delegated, to direct various departments, certain experienced employees, whose duty it was to know the requirements of such departments and procure such materials, labor, supplies, etc., as might be required for the prosecution of the work, and when invoices were received the departmental directors' approvals thereon indicated that the said materials, supplies, etc., were necessary and were for use in connection with the projects specified.

The United States Government, as herein above stated, maintained a staff of men at the plants who were instructed to check up and to audit bills in connection with materials received, and inspectors to report any delinquincies which might have existed on the part of employees of the contractor.

Applicability to contract.—Throughout the progress of the reaudit thousands of vouchers were returned to the contractor with requests from the United States contracting officers to establish "applicability to the contract". Applicability to the contract, the contractor assumes, is proof that the materials in question were for use in constructing the plants or for the purpose of producing finished products. Preceding paragraphs relate the methods adopted and used by the contractor for procuring materials and certification of expenditures therefor.

Materials purchased were either utilized in construction, consumed in the production of manufactured products, or left on the premises at the several plants and turned over to the United States property custodian with the plants, with the exception of certain waste products and salvage, which were sold in accordance with Government orders. No history was written or certifications recorded regarding the utilization or final disposition of the specific materials billed on each invoice, consequently the approvals or accredited representatives of the contractor and the United States are the only available proofs of "applicability". It is obviously impracticable at this date to identify any purchase of specific material with the actual material in its present location and condition, and any number of audits would prove futile in the production of supplementary proofs of "applicability".

Receipt of material.—All vouchers transmitted to the contracting officers of the United States were approved by the contractor's representative for receipt of material, and inasmuch as no further certification was required under the terms of the contracts, which provided that the contractor should do all things necessary or convenient in connection with the construction and operation of the plants. However, it was noted that most of the vouchers suspended by the auditors for alleged lack of proof as to receipt of materials were supported by the plant receipt of material records, most of which had been approved by representatives of the United States, and by transportation companies receiving records.

Major R. R. Farr, special representative of the Assistant Secretary of War, delegated to supervise the audit of the Du Pont Engineering Company contracts, investigated the conditions asserted by the contracting officer in reference to receipt of material, and issued a decision accepting the existing proofs as evidence that such material was received, with exceptions as to known shortages, which subject was acted upon later by supplementary decisions supporting the contractor's position.

Losses on account of miscounts, errors, goods lost in transit, etc., were recouped whenever possible by instituting claims and other methods of procedure usually practiced in such cases. In this manner a considerable amount was collected and refunded to the contractor. There were, however, losses which could not be recouped on account of the inability of the contractor to produce evidence of loss and in some cases alleged losses were undoubtedly the result of errors on the part of receiving clerks in properly recording and counting material arriving at the plant. Such losses are unavoidable in the carrying on of operations of great magnitude in times of stress and the contracts provide for such contingencies, stipulating that the contractor was to be reimbursed for all expenditures of every character and description.

Commissary losses.—Losses consequent to the establishment and maintenance of stores, restaurants, cafeterias, etc., usually referred to as commissary losses, in connection with contracts whereunder both construction and operating projects were involved, were distributed between construction and operation costs in the ratio of the respective total labor cost. This method and ratio having been agreed to by the contracting officer in charge at the time. Charges and credits to this account in the form of vendors' invoices, cash vouchers, etc., were checked by the United States Government auditors, who also familiarized themselves with the method and ratio used, but made no objections during the original audit or throughout the reaudit to the procedure or ratio used in distributing commissary losses.

Comptroller's decision.—The contracts provide that all matters in dispute between the United States and the Du Pont Engineering Company shall be adjudicated by the Secretary of War, consequently Major Farr, who had been delegated by the Assistant Secretary of War to act as his representative, was apparently acting within his rights in disregarding the alleged decisions of the Comptroller relating to certain vouchers, which had been presented to him by the contracting officer.

General.—Throughout the reaudit the contracting officers ignoring the approvals on the face of the vouchers establishing authority and applicability, and the canceled checks "substantiating" the disbursements, returned thousands of such vouchers with requests for information or evidence to establish authority, applicability, substantiation, receipt of material, etc.

Most of the recommendations for disallowance and suspensions made by the contracting officer were disposed of by Major R. R. Farr, who was appointed to act as special representative of the Assistant Secretary of War in directing the contract unit employed in auditing the accounts of the Du Pont Engineering Company. In some instances, however, appeals from Major Farr's decisions were made to the War Department Claims Board and the Assistant Secretary of War.

The persons who supervised and directed the reaudit of the Du Pont Engineering Company at the beginning were apparently obsessed with the idea that they expected to find something which the contractor was desirous of concealing and consequently an air of secrecy and mystery prevailed for several months thereafter. Employees assigned by the claims board to carry out this audit refused to consult with employees of the Du Pont Engineering Company or to disclose their objects in seeking various records and in certain instances made statements to the effect that they had been instructed by their superiors not to discuss anything with employees of the Du Pont Engineering Co. as all matters requiring discussion would be presented to the Du Pont Engineering Company through the proper channels. Thus a great deal of time was lost by the Government employees in vainly seeking for facts or information which the employees of the contractor could have furnished in a very much shorter time. No record of hidden transactions existed and obviously the persons who had expected to find "something big" were disappointed.

Later a different line of tactics was tried out, viz. the listing of thousands of vouchers and appending at the bottom of such lists indefinite questions, followed by a statement that the contractor was invited to submit any information or evidence which it desired to substantiate disbursements. Inasmuch as the contractor considered that the evidence already presented was sufficient to comply with the requirements on the contracts it was practically impossible for it to determine from such questions the specific information which the auditors desired, but nevertheless all such questions were answered by the contractor to the best of its ability. This course was pursued for approximately a year when it became obvious to all parties concerned that no great progress was being made toward bringing the reaudit to an end. Every invoice apparently was subjected to a microscopic examination in an effort to find something lacking, which was technically required by such rules and definitions as had been adopted for carrying on the reaudit.

Vouchers were not checked by one set of accountants only, but were apparently rehandled by different persons and if any stone was left unturned in the effort to discover dishonesty, fraud, or wilfull negligence on the part of the contractor or its employees, it must have been an exceedingly small pebble and so thoroughly hidden that a microscope would not reveal its presence. Whereas thousands of vouchers were suspended by the auditors, erroneously in some instances, on account of their failure to locate offsetting entries, or to observe attached papers and approvals, most of the disallowances were the result of the contractor's inability to produce, several years after the completion of the work, certain kinds of technical evidence which were required under their interpretations of certain rules and definitions which had no part in the contracts between the United States and the Du Pont Engineering Company.

EXHIBIT NO. 1200

[Reprinted from the New Republic of Oct. 3, 1934]

OTHER PEOPLE'S MONEY

THE DU PONTS ARE LESS THAN FRANK—A SUCCESSFUL REORGANIZATION—WHEN ARE WAR PROFITS NOT WAR PROFITS?

At the hearings of the Senate Committee on Munitions, Senator Gerald P. Nye sought to show that the foundation of the great Du Pont industrial empire was the profits made from the war. This Mr. Pierre du Pont flatly denied and later Mr. Lammot du Pont energetically explained away by saying that the vast acquisitions made by the Du Pont company since the war were made, not out of profits, but chiefly by absorption of other companies through an exchange of stock involving no cash outlay whatever. In this I think the Messrs. du Pont were less than frank. And I shall try to prove it.

First let me preface this with the statement made by Mr. Pierre du Pont that at the conclusion of the war the Du Pont company booked its surplus as $71,000,000 and that though this was a goodly sum, it represented all that the company had to show for the so-called "vast war profits."

I shall put aside for the moment the simple arithmetical calculation that this is the sum required to pay 200,000 men in the trenches for a full year. It is not to be supposed that these 200,000 men have $71,000,000 left at the end of a year of fighting. The entire amount is consumed in caring for the families or in meeting the simple wants of the soldier himself. This $71,000,000 was what the Du Pont company had left, over and above all salaries, outlays, expenses, at the end of the war. If this were all, it seems to me it would be quite enough.

But the facts are something different. I beg the reader to follow these figures closely in order to see how well the carefree statements of great financiers will stand examination.

At the end of 1913 the Du Pont company had assets amounting to $74,816,826. Against these, however, there were outstandng bonds, preferred stock, bills payable, deferred liabilities, etc., amounting to $39,708,437. The common stock, therefore, had a valuation on the company balance sheet of $29,426,100. To this must be added the surplus of $5,682,289. Thus the free assets, the value allocated to the common stockholders, was $35,109,389.

Then came the war in Europe. The Du Ponts began to make enormous sales to the Allies. In the year before the war the net profits were $5,769,132. In 1915 they were $57,840,788. This only partly states the fact. Huge sums in cash were advanced by the Allies to the company to enable it to make plant expansions. In each year, these expenditures, made out of these advances, were written off gradually.

Then in 1915 a new company was formed. I will not befuddle this account with names. The new company, which really represented only a slight change of name, bought out all the assets of the old company for $120,000,000, which it paid for in stock. When this was over, the new company had the business. The old company had all the stock issued by the new company, amounting to $120,000,000.

Then the old company proceeded to call in the preferred stocks and the bonds standing against the old company. These were valued at $33,990,801. (There may be a discrepancy of a few thousand dollars in these figures.) They were exchanged for stock. After buying them up, therefore, and canceling them, the common stockholders of the old company had for themselves $120,000,000 of stock paid to them by the new company, less the $33,990,801 paid for retiring the preferred and bonds. This left them debenture and common stock valued on the new company's balance sheet at $86,009,199.

This, then, was the first gain of the Du Pont common-stock holders. They gained in this reorganization the difference between the old $29,000,000 of common and the new $86,000,000 of common and debenture stock which they retained. I assume they continued to hold it.

At the end of the war, then, they had this $86,000,000 of common and debenture stock plus the $71,000,000 of surplus which had been piled up.

But they had a good deal more. They had the approximately $141,000,000 in cash dividends which had been declared.

In those war years they bought powder factories, chemical factories, paint and lacquer companies, and other related industries and all out of earnings. There were no exchanges of stock. Moreover, they bought a one-fourth interest in the stock of the General Motors Corporation, and this was bought with earnings. How much this is worth to the company may be seen from this simple fact. In 1929, the last big year, the dividends from the General Motors stock amounted to over half of all the earnings of all the extensive Du Pont enterprises. That stock is now carried at a book value of $147,000,000 on the company's books and in the six years up to and including 1929 brought into the du Pont company $142,000,000 in earnings.

After the war, with this vast foundation, these huge earnings, the immense power and prestige of the company, it was able to acquire a large number of industries by an exchange of stock. But to say that they made only $71,000,000 out of war, that the swollen war profits are not the foundation of their far-flung interests of today, is to impose on the credulity and common sense of their listeners.

Mr. Irénée du Pont made another remark over and over again. He insisted that his company had made no profit out of its American war orders. It had made profits, of course, but these profits were less than the taxes the Government took back from the company during the war. Here again Mr. du Pont was less than frank. In those two war years the Du Pont company made enormous profits out of its sales to the Allies and to the United States Government. On those total sales it paid income taxes. It may be that the total income taxes were more than the profits made from the United States. But all the income taxes paid out were not paid on the profits made from America. If the taxes allocated to the American profits are measured against the American profits then it will be seen that the Du Ponts did make a handsome profit out of this Government during the war. They should not be allowed to do that again.

John T. Flynn.

Exhibit No. 1201

War Department,
Washington, Dec. 10, 1934.

Honorable Gerald P. Nye,
Chairman Special Committee Investigating the Munitions Industry,
United States Senate.

Dear Senator Nye: Reference your letter dated November 30, 1934, pertaining to War request no. 31, there is inclosed herewith two photostatic copies of records of this office, indicating the experience of George R. Foulke, Jr., prior to his commission in the ordnance department.

A statement of total advances to the du Pont American industries and the purposes of such advances has not as yet been located, but will be supplied as soon as possible.

Copy of letter from Major Booton to Arthur Carnduff, special assistant to the Attorney General, dated June 15, 1923, is inclosed herewith.

In accordance with telephonic request from Mr. Higgins, there is also inclosed twenty photostatic sheets from the records at Frankford Arsenal indicating the papers withdrawn from the files stored there pertaining to the du Pont Engineering Company and turned over to James H. Fortune, accountant of the Department of Justice, in connection with an investigation being made approximately ten years ago.

Very sincerely yours,

Geo. H. Dern,
Secretary of War.

23 Incls.

FRANKFORD ARSENAL,
Philadelphia, Pa., September 18, 1924.

Received from Mr. F. K. Wildermuth the following cost-summary sheets:

du Pont Engineering Company—Seven Pines operation

Summary no.	Amount	Description
1	$471,761.88	Direct labor.
1	166,058.20	Administrative and general.
2	9,983.99	Do.
3	28,157.37	Do.
4	3,322.10	Do.
5	79.20	Do.
6	21,131.61	Do.
7	236.21	Do.
8	1,648.97	Do.
9	3,146.85	Do.
10	17,402.32	Do.
91	7,069.59	Do.
12	17,512.43	Do.
1	28,675.55	Direct material.
1	383.30	Do.
2	16,189.37	Indirect material.
2	26,700.84	Do.
3	3,234.34	Do.
4	$2,223.07	Indirect material.
5	50,674.41	Do.
6	173,708.64	Do.
7	7,131.91	Do.
8	285.65	Do.
9	222.56	Do.
10	3,251.73	Do.
11	178.66	Do.
1	62,567.09	Increased facilities.
2	739.87	Do.
3	507.57	Do.
4	290.31	Do.
5	779.27	Do.
6	52.86	Do.
7	144.50	Do.
8	400.00	Do.
	1,125,852.22	

JAMES H. FORTUNE,
Accountant, Department of Justice.
Per B. P. WHEATLEY.

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du Pont Engineering Company—Tullytown

Summary no.	Amount	Description
20	$10,797.81	Factory overhead.
21	9,197.84	Do.
22	3,362.31	Do.
23	26,986.17	Do.
24	909.48	Do.
25	871.15	Do.
20	62,601.50	Administrative and general.
21	34,069.76	Do.
22	8,449.53	Do.
23	47,747.72	Do.
24	44,545.38	Do.
25	46.96	Do.
26	16,349.58	Do.
27	13,621.85	Do.
28	3,017.21	Do.
29	168.78	Do.
30	383.38	Do.
31	25,936.02	Do.
20	17,661.93	Indirect material.
21	$68,568.42	Indirect material.
22	19,608.10	Do.
23	12,078.97	Do.
24	None.	Do.
25	320.17	Do.
20	50,270.00	Direct material.
21	74,748.39	Do.
22	32,195.27	Do.
23	502.50	Do.
20	849,460.46	Direct labor.
21	57,769.52	Do.
20	61,830.87	Special purchases.
21	51,872.85	Do.
22	817.58	Do.
23	762.63	Do.
24	1,436.34	Commissary.
25	----------	Do.
26	7,850.71	Undistributed.
27	16,350.21	Power, heat and light.

JAMES H. FORTUNE,
Accountant, Department of Justice.
Per B. P. WHEATLEY.

Office of the Director of Accounting Investigation,
War Transactions Section, Department of Justice,
150 Old Land Office Building, Washington, D. C., May 12, 1924.

Du Pont Engineering Company

Received from Colonel Odus C. Horney, commanding officer, Frankford Arsenal, Philadelphia, Pa., the following photostatic copies of contracts and audit report:

CONTRACTS

Old Hickory:
- Supplemental contract dated April 1, 1918, War Ord. P4755–711–E.
- Supplemental articles of agreement dated Nov. 2, 1918 War Ord. P4755–711–E.

Penniman:
- Articles of agreement dated Dec. 31, 1917.
- Articles of agreement dated Mar. 27, 1918.
- Contract dated April 12, 1918.
- Supplemental agreement dated April 19, 1918.
- Supplemental agreement dated May 23, 1918.
- Supplemental articles of agreement dated Oct. 9, 1918.
- Procurement order dated Jan. 25, 1918, War Ord. 2337–1228–A.

Tullytown and Seven Pines: Contract dated March 2nd and June 1, 1918, respectively (one contract covering operation of bag-loading plants).

Ives: Articles of agreement dated Oct. 2, 1918.

Supplemental report of audit review, Seven Pines Contract, P–9050–960–E, dated August 15, 1921.

James H. Fortune.

Not to be returned by Mr. Fortune. F. K. Wildermuth, 5/13/24.

Frankford, Arsenal
Phila. Pa., September 18, 1924.

Received from Mr. F. K. Wildermuth the following cost summaries:

Du Pont Engineering Company (Ives)

Summary number	Amount	Summary number	Amount
1	$61, 475. 90	17	$735, 407. 23
2	22, 681. 17	18	138, 996. 72
3	104, 102. 71	19	27, 979. 31
4	89, 550. 45	20	98, 965. 13
5	----------	21	70. 16
6	----------	22	21, 032. 62
7	----------	23	6, 738. 49
8	----------	24	39, 234. 13
9	----------	25	67, 247. 52
10	128, 602. 28	26	27, 460. 43
11	----------	27	14, 485. 46
12	214, 507. 60	S. O. 1–R	110, 118. 21
13	87, 518. 30	S. O. 2–R	51, 065. 21
14	98, 318. 10		
15	319, 508. 46		2, 639, 150. 14
16	174, 084. 55		

Approved cost on Ives, applied on advances.

James H. Fortune,
Accountant, Department of Justice.
Per B. P. Wheatley.

[1st Ind., AWH/amh, Tel. War Br. 2031, B–2–302]

August 16, 1919.

FCA 160/37269 du Pont Eng. Co.

From: Ordnance office, Administration Division, Cost Accounting Section,

To: Mr. C. H. Hartman, Cost Accounting Section, U. S. Ordnance Office, du Pont Engineering Company, Wilmington, Del.

1. All papers listed in cover letter are forwarded herewith.
2. The decision of the contracting officer will enable you to dispose of the extra compensation.

C. L. Tewksbury,
Major, Ord. Dept., U. S. A.
By E. A. Jones,
Chief Statistician.

Incs.

Frankford Arsenal
Phila. Pa., Sept. 18, 1924.

Received from Mr. F. K. Wildermuth the following cost summary sheets:

Du Pont Engineering Company (Penniman construction)

Summary number	Amount	Summary number	Amount
224	$664, 294. 06	232	262, 091. 39
225	7, 875. 32	233	[1] 504, 064. 01
226	35, 949. 97	234	165, 393. 01
227	223, 245. 75	235	14, 357. 91
228	100, 625. 26	236	95, 319. 59
229	105, 143. 13	1–R	406, 008. 61
230	[1] 425, 587. 10	2–R	13, 446. 54
231	45, 531. 66	3–R	451. 68

James H. Fortune,
Accountant, Department of Justice.
Per B. P. Wheatley.

Wilmington, Delaware, *July 15th, 1919.*

From: Cost accounting branch, accounting section, ordnance department, Du Pont Engineering Company.

To: Ordnance office, administration division, cost accounting section, Washington, D. C.

Subject: Extra compensation to employees—Du Pont Engineering Company.

1. Attention is invited to letter addressed to this office dated May 2nd, FCA 2488/177 Miscl., Finance Division, O. O., War Department.

2. Under this cover please find all inclosures accompanying letter of May 2nd, and in addition thereto letter addressed to the writer under date of June 4th, 1919 by Mr. Wm. Coyne, vice president, E. I. du Pont de Nemours & Company.

Report of findings is made as follows:

Proposed extra compensation to employees for meritorious service on construction; proposed extra salary compensation to employees discharged due to cessation of war work; proposed moving and travelling expenses paid to employees discharged due to cessation of war work on contracts as follows: P–4755–711–E, Old Hickory smokeless powder plant; P–2337–1228–A, Penniman shell and booster ld. plant; P–15271–1433–E, Ives T. N. T. plant; P–3509–643–E, Tullytown bag-loading plant; P–9050–960–E, Seven Pines bag-loading plant.

3. The principle upon which bonus for meritorious service was based is explained in Mr. Coyne's letter of June 4, 1919, attached, which conforms with the general policy of E. I. du Pont de Nemours & Co.

4. Attention is directed to the detail schedule on which is shown salary received by each employee interested as of January 1918, March 1918, August 1918, and May 1919, as well as the date of his transfer from the parent company, as well as the extra compensation which he received on account of his being released from the service of the contractor, due to the cessation of work. The point is raised as to whether in the case of an employee receiving both extra compensation and a meritorious bonus there was not dual payment. Contractor holds, however, that such is not the case, and that the meritorious bonus was granted for signal services rendered during the time of employment, and that the extra compensation was in lieu of a formal notice usually given an employee dropped through no fault of his own.

5. It is the opinion of this office that in no case should an employee be eligible for more than one month extra salary compensation under the ruling of E. I. du Pont de Nemours & Company's executive committee, as the contract was in force less than one year. The term of service is shown on the detail schedule, so that the contracting officer may be guided in making his final decision.

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[1] Credit.

6. This office deemed it necessary to establish the fact as to whether the proposed meritorious bonus was more liberal than those established in previous years, and the audit of this office discloses the following facts:

Du Pont Engineering Company		E. I. du Pont de Nemours & Co.		
Name of dept.	Extra compensation as percent of salaries paid 1918	B bonuses paid percent of salary 1918	B bonuses paid percent of salary 1917	B bonuses paid percent of salary 1916
Engineering	14.39	47.8	129.8	124.7
Purchasing	20.16	40.48	156.04	146.35
Treasurer's	4.78	24.79	43.19	41.49

7. It might also be mentioned that in quite a number of instances grants of both common and debenture stock have been made to individuals whose names appear on this schedule, increasing the net amount of the bonuses. This may be made more clear by the following explanation: It has been the practice to set aside a certain block of stock each year for an individual, it being understood that he is to receive all the earnings of that stock and to acquire title to one-fifth its value each year, full ownership being vested in him at the end of the fifth year. Therefore, in making our computations for the years 1916, 1917, and 1918, there was taken into account only the amount *earned* i. e., dividends on the full amount of stock, plus one-fifth of its book value at the close of 1916; dividends plus two-fifths at the close of 1917 and dividends plus three-fifths at the close of 1918.

8. It is suggested that this meritorious bonus, if reimbursed, be without profit.

9. Relative to travelling and moving expenses and salaries allowed account of discharge due to cessation of work, schedules are submitted marked respectively a, b, c, and d, covering extra-salary compensation allowed to employees. It is impossible to submit a schedule covering travelling and moving expenses, as these expenses are submitted for reimbursement on individual vouchers, and are scrutinized and passed on their individual merits. Doubtless, however, figures submitted by the contractor as an aggregate represent the amount which he has disbursed, and for which amount he will seek reimbursement, such reimbursement to be made through cost accounting branch on nonquestionable items, and by the cost accounting branch through district claims board on items of dispute.

10. It is also suggested that reimbursement of travelling and moving expenses, if made, be without profit.

11. Attention is also invited to letter written by Mr. Wm. Coyne, dated April 2d, to C. B. Landis on the question of whether employees returning to the parent company were allowed the salaries the same as if they had been discharged. Mr. Coyne's statement while no doubt made in perfectly good faith is not borne out by the facts, as this office finds that in only about twenty-five (25) cases did employees return the difference between their new and old rate, and thereby cure their former employment record. In the majority of cases, in fact, in all of the cases except in the twenty-five (25) just hereinbefore mentioned have the employees retained the amount of extra salary given them for "release on account of cessation of war work", and accepted the status of a new employee with E. I. du Pont de Nemours & Company, or subsidiaries. ,

12. Attention is also invited to a misstatement in letter of January 15tht paragraph 1, written by Mr. Wm. Coyne to Col. R. P. Lammott, Procuremen Division, relative to the item of return transportation. In this letter it is stated that pay rolls employees were to be returned to the place of their being recruited. In actual practice, employees were not only returned to their domicile, but were allowed an amount equivalent to a return to their domicile, and, in some cases were allowed amounts in excess of that figure. These items are being individually and specifically questioned, and wherever the cost accounting branch, as represented by this office, cannot approve for reimbursement, such differences are held as being in "dispute" and will be submitted to the district claims board for final adjudication.

13. Respectfully submitted.

C. H. Hartman,
Supervising Accountant in Charge,
Ordnance Department, U. S. A.

chh;gmt.

Information requested by Mr. J. H. Fortune, visit 9/9-10-12-13/1924.
Old agency contract, Peu, & O. H.

1. Disbursements by various D/O.
2. Details re summaries applied against contractual advances O. H. & Peu.
3. E. I. du P. departmental charges (excluding salaries and travel exp.) $126,071.30.

(over)

4. Bonus for saving transportation of nitrate soda.

(over)

5. Profit adjustments.

(over)

6. Copy of McRoberts' testimony, War Dept. Claims Board meeting March 1920. Pages 233 to 238.
7. Summaries 694 to 752 O. H. construction.
8. Statement of recoupment of advances on Du Pont contracts.
9. Statement of balance of suspended items at clost of audit as at 8/31/22 or 5/31/22.

(over).

Information concerning items 3, 4, 5, 9 will probably be found on U. S. G. records contained in packages which W. G. Kileen and R. R. Farr left with the contractor in Aug. 1922. W. G. Kileen took these papers away from the contractor just before the meeting was called in Wash. of Peebles, Yonmans & Kileen & Farr about December 1923, for information just received from W. A. Shafer, thru J. Fortune, Dept. of Justice. These records were found by J. Fortune in Washington 9/11/24.

FRANK K. WILDERMUTH.

FRANKFORD ARSENAL,
Philadelphia, Pa., September 18, 1924.

Received from Mr. F. K. Wildermuth the following cost summaries:

Du Pont Engineering Company (Penniman operation)

Summary no.	Amount	Description	Summary no.	Amount	Description
R-1	$1,942,857.24	Direct labor.	7	$134.30	Administrative and general.
2	1,074.72	Do.			
3	134.51	Do.	8	1,637.45	Do.
1	138,941.93	Direct material.	9	14,850.91	Do.
2	23,824.37	Do.	1	82.05	Factory overhead.
3	363.58	Do.	2	362.86	Do.
1	815,229.04	Indirect material.	3	84,988.15	Do.
2	72,037.76	Do.	4	8,479.00	Do.
3	53,216.74	Do.	5	75,542.78	Do.
4	9,079.49	Do.	6	5,738.13	Do.
5	2,386.52	Do.	7	224,538.85	Do.
6	14,328.12	Do.	8	15,123.27	Do.
1	236,672.32	Increased facilities.	9	668.98	Do.
2	4,515.65	Do.	10	13,169.03	Do.
3	19,002.64	Do.	11	8,414.37	Do.
4	1,520.87	Do.	12	[1] 1,056,015.56	Do.
5	4,904.23	Do.	13	4,087.46	Do.
1	73,047.45	Administrative and general.	14	86,026.98	Do.
			1-R	11,098.06	Do.
2	242,022.10	Do.			
3	28,712.55	Do.			
4	93,798.97	Do.			
5	23,985.81	Do.			
6	555.71	Do.	Total approved cost (past paid by Finance)	3,302,139.39	

[1] Credit.

Total approved cost (past paid by Finance).

JAMES H. FORTUNE,
Accountant, Department of Justice.
Per B. P. WHEATLEY.

Office of the Director of Accounting Investigation,
War Transactions Section, Department of Justice,
105 Old Land Office Building, Washington, D. C., May 12, 1924.

Du Pont Engineering Company

Received from Colonel Odus C. Horney, commanding officer, Frankford Arsenal, Philadelphia, Pa., the following contracts, in connection with the above company:

1. Typewritten copies of contracts:
   (*a*) Old Hickory, old agency contract, dated Jan. 29, 1918 (printed) (30 pages).
   (*b*) Old Hickory, new contract, dated Mar. 23, 1918 (18 pages).
   (*c*) Penniman supplemental agreement, dated July 17, 1918 (2 pages).
   (*d*) Penniman supplemental articles of agreement, dated Sept. 5, 1918 (3 pages).
   (*e*) Ives supplemental contract, dated Oct. 2, 1918 (2 pages).
   (*f*) Ives subcontract between Dunn-McCarthy Co. and Du Pont Engineering Co., dated Nov. 2, 1918 (7 pages).
   (*g*) Contract between Mason & Hanger Co. and Du Pont Engineering Co., dated March 23, 1918 (subcontract) (9 pages).

James H. Fortune.

The above lists are those of extra copies in the files given to Mr. Fortune for his files.

Philadelphia, Pa., *September 13, 1924.*

Received this date from F. K. Wildermuth, Frankford Arsenal, Philadelphia, Pa., copies of summaries #694 to 752, inclusive, Old Hickory construction, Also copies of summaries of payments made to Du Pont Engineering Co., and direct to vendors in connection with them at Old Hickory powder plant covered by contract 100211, January 29, 1918. Old agency contract.

B. P. Wheatley,
Accountant, Dept. of Justice.

For Mr. J. Fortune, in charge, Dept. of Justice investigation of Du Pont Engr. Co. contracts.

Also received: Copy of statement of recoupment of advances dated Jan. 1923. Copy of pages 233 to 238; testimony of Col. McRoberts, at War Dept. Cl. Bd. Mtg. Information and explanation of summaries applied against contractual advances. Information and explanation of disbursements made on old agency contracts, Penniman, and Old Hickory.

[Copy]

May 22, 1919.

Mr. C. H. Hartman,
Accountant in charge, Ordnance Department, Old Court House.
(Attention Mr. L. W. Koch)

Dear Sir: Our file C-1 and C-5. Du Pont Engineering Company, treatment of employees resigned or laid off on account of cessation of war work. We are enclosing herewith the following for your use in connection with the audit covering the figures given you by Mr. Britton of Mr. Coyne's office in connection with this subject:

1. Old Hickory: Recapitulation—detailed statement of transportation of pay-roll employees.
2. Old Hickory: Details showing individuals for whom transportation was paid, disbursement sheet numbers, etc.
3. Penniman: Copy of letter from Mr. D. D. LeFevre to us dated March 28, subjected "Transportation of pay-roll employees".
4. Penniman: Copy of telegram from Mr. C. H. Trask, resident engineer at Penniman, to us dated March 22.
5. Penniman: Carbon copy of letter from Mr. C. H. Trask, resident engineer at Penniman to us dated March 19, 1919, subjected "Transportation of pay-roll employees."
6. Penniman: Details showing expenditures as covered by disbursement sheets listed in Mr. Trask's letter of March 19, 1919.
7. Ives: Copy of letter from Mr. Lynch to us dated March 19, subjected "Return transportation furnished employees."

8. Ives: Details showing employees, disbursement sheet numbers, etc. from whom transportation was paid.

9. Old Hickory: Memorandum dated March 25, 1919, showing traveling and moving expenses allowed pay-roll and salary-list employees.

10. Old Hickory: Carbon copy of letter from Mr. A. J. Brandt, resident engineer at Old Hickory, to us dated March 22 showing how above details were arrived at.

11. Penniman: Memorandum dated March 25, 1919, showing traveling and moving expenses allowed pay roll and salary list employees.

12. Ives: Memorandum dated March 25, 1919 showing traveling and moving expenses allowed pay-roll and salary-list employees.

The expenditures shown for Penniman and Ives are to February 28 inclusive with the exception of Edward E. Pease and Jud Cleveland listed in the last sheet of details for Ives, which were paid after March 1. The figures for Old Hickory are to March 14, inclusive.

Please return enclosures after they have served your purpose.

Yours very truly,

H. M. PIERCE, *Chief Engineer.*
Per W. J. M.

(Please receipt and return carbon copy.)
WJM:TM

[ACH/mbs, Tel. Br. 1444, B-2-325]

AUGUST 14, 1919.

From: Contract section, administration division, O. O.
To: Cost accounting section, administration division, O. O.

Subject: Du Pont Engineering Company—Extra compensation to employees.

P-4755-711-E, Old Hickory smokeless powder plant; P-2337-1228-A, Penniman shell and booster ld. plant; P-15271-1433-E, Ives T. N. T. plant; P-3509-643-E, Tullytown bag loading plant; P-9050-960-E, Seven Pines bag loading plant.

1. Upon consideration of yours of July 22, 1919 (FCA 160-36763), the undersigned, as contracting officer, under date of July 24, 1919, gave contractor a letter as follows:

"It is the opinion of the contract section and also of the undersigned as contracting officer, that the above contracts provide for, cover and include payments by the contractor to its employees of bonuses, compensation upon discharge, traveling expenses, railroad fare, etc., according to the general classification of statements furnished by you, the amounts of which bonuses, compensation upon discharge, traveling expenses, railroad fare, etc., to be determined according to the plan in use during the same period and previously by the contractor and contractor's parent organization, E. I. du Pont de Nemours & Co."

2. It is the understanding and interpretation of this section and the contracting officer that all these classes of items used by contractor in statements submitted, and also specifically designated in attached letter, dated at Wilmington, Delaware July 15, 1919.

(F. C. A. 248.8-216 Misc.), by C. H. Hartman, supervising accountant in charge to administration division cost accounting section, namely:

(*a*) Proposed extra compensation to employees for meritorious service on construction,

(*b*) Proposed extra salary compensation to employees discharged, due to cessation of work,

(*c*) Proposed moving and traveling expenses paid to employees discharged, due to cessation of work, are included in and covered by the contracts,

and are obligations of the United States, and that contractor is entitled to be reimbursed on account thereof.

3. The exact amount of the various items to be reimbursed to contractor under the several classes and under the several contracts shall depend on the audit of the cost accounting section.

4. It is understood that your section will function as to items and the determination of amounts, also including the certification of vouchers.

5. Such other action as may be needed or required of the contracting officer to accomplish the above purpose will be furnished.

By order of the chief of administration division.

R. H. HAWKINS,
Lt. Col., Ord. Dept., U. S. A.,
Chief of Contract Section.
By A. C. HINDMAN,
Major, Ord. Dept., U. S. A.

Encls.—Letter 7-15 (F. C. A. 248. 8/216 Misc.). 15 sheets schedule attached. Letter June 4, 1919, contractor to C. H. Hartman. 1 sheet schedule attached. Letter (F. C. A. 248.8-177 Misc.), May 2, 1919. Copy letter April 26, 1919, contract sec. to cost acc. sec. Letter April 1, 1919, contractor to contract section. Letter April 11, 1919, contractor to contract section. Copy letter April 2, 1919, Coyne to Landis. 2 copies, 15 sheets ea. schedule statements by contractor. Letter Jan. 15, 1919 (P248-5) by contractor to Col. Lamont, re meritorious on construction. 2 sheets schedule by contractor attached. Memorandum opinion, Major Hindman. Letter Jan. 15, 1919 (P-248-6), contractor to Col. Lamont, re extra compensation. 3 sheets contractors schedule attached. Letter April 11th, contractor to contract section, enclosing letter from Coyne to Landis. 23 sheets contractor's schedule exhibit A. 35 sheets contractor's schedule exhibit B. 43 sheets contractor's schedule exhibit C. 1 sheet contractor's schedule exhibit D.

Mr. Fortune wants the statements listed hereon if they can be found.

WILDERMUTH.

5/10/24.

EXHIBIT No. 1202

[Copied from File No. P-4755-711E. P-600.1-377. CNB/meb.]

WAR DEPARTMENT PROCUREMENT DIVISION,
OFFICE OF THE CHIEF OF ORDNANCE,
Sixth and B Streets NW., Washington, D. C., April 27, 1918.

To: Hon. Edw. R. Stettinius, Second Assistant Secretary of War.
From: Procurement Division, Ordnance Department.

1. I am handing you herewith printer's proof of contract with the Du Pont Engineering Company for the construction and operation of the Nashville powder plant. I find that the corrected copies have not yet been returned from the printer's office. As soon as we receive these, which will probably be later today or Monday morning, I will send you a clean copy. I am advised, however, that the copy herewith enclosed is correct, and I trust it will answer your purpose for the time being.

2. I regret that there was a mistake made yesterday in sending you the loading contract instead of this powder contract.

SAMUEL McROBERTS,
Col. Ordnance N. A.
By CHAS. N. BLACK,
Lt. Col. Ordnance N. A.

Enc.
1 copy contract.

EXHIBIT No. 1203 [1]

OGDEN L. MILLS,
15 Broad Street, New York, December 14, 1934.

THE CHAIRMAN SENATE MUNITIONS COMMITTEE,
United States Senate, Washington, D. C.

DEAR SIR: The New York press of this morning publishes a list of individuals whose annual income was a million or over during the years 1915 to 1918, reported to have been made public by your committee.

This list includes my name.

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[1] "Exhibit No. 1112", list of individuals reporting net incomes of $1,000,000 or over for any one or more of the years 1917 to 1920. Mr. Ogden L. Mills' name is not included in this list although that of his father, the late Mr. Ogden Mills, is included. See Hearings, Part XIII, p. 2923.

In including my name in this list, your committee has been guilty of an error which I must ask you to correct.

During the years mentioned, my income from all sources averaged approximately $138,000 a year.

No part of this income was remotely connected with the munitions business except, conceivably, dividends received on 250 shares of the Lackawanna Steel Company.

It may be that your committee has confused me with my father, the late Mr. Ogden Mills. If so, may I add that I have examined his books, and that the facts do not justify the implication that his income was in any way connected with the war or munitions business. Except dividends on a comparatively small number of shares of Lackawanna Steel Company, which may or may not have manufactured war materials, his income was totally unconnected with any business engaged in the manufacture of war materials.

Very truly yours,

OLM:T.

Ogden L. Mills.

Exhibit No. 1204

Marine Barracks,
Navy Yard, Phila., Penna., Nov. 17, 1932.

Mr. Walter B. Ryan, Jr.
20 Pine Street, New York City.

Dear Mr. Ryan: I got in touch with Capt. Edson in regard to the Nicaraguan order for 61 guns. He informed me that he considered that the new style compensators would be preferable on this order. I did not wire you for he said that he was getting in touch with you by telephone.

Will you kindly send me one dozen of the new catalogues when they come out? Also send a few copies to the colonel, for he will be able to place them at the War College.

I have been thinking over the foreign sales proposition and I have a proposal to make. I would appreciate it if you could see your way clear to extend the same discounts to me on foreign sales that you extend to Federal Laboratories. It is not our intention to compete with them. However, we also have many contacts and orders are apt to come through us at any time. In all probability, these orders will come from different sources than those available to Federal Laboratories. I am not saying that our contacts are better than theirs, but in some cases it is only natural that this should be so. But, in any case the proposition of commissions is the important point. You are familiar with the fact that these have to be passed around on all foreign sales. Naturally, if Federal Laboratories should figure in on a sale in which they have had no part, there are going to be objections. This is all the more true for in every sale that we make there are going to be more people figuring in on the deal than would be the case if Federal Laboratories were to make the sale direct. This is due to the fact that we have had to first establish our contacts over here, and it will be necessary to take care of these contacts.

Fortunately, or unfortunately, our contacts are all big ones and they just won't be bothered unless the financial return is commensurate. They are not interested in small stuff.

You are out to move guns and I feel confident that we can help you move them just as well as Federal Laboratories; that is, if we can make it worth our agents' while.

I do not see where Mr. Young will have an objection for he has granted us discounts on all of his equipment and gas that we may sell. If an order comes in for guns there will be an order for gas, etc., to go along with it. In other words, he also stands to profit—so it is reciprocal all along the line including compensators.

Next, in regard to Nicaragua. This is a foreign sale and does not come under Federal Laboratories' existing agreement for domestic sales. If you know the history of the T. S. M. G. in Nicaragua you will know that at the beginning the powers that be were against the gun, speaking of the Marines. They did not even wish to give the gun a trial on the trails. Fortunately, we had an active agent who gave many demonstrations and after intensive effort on his part he finally brought the necessary high ranking officers around to his point of view. Then the playing up of the gun in the reports was not accidental. True, the gun did its stuff—but so did the other weapons. Next, our friend was made ordnance officer of the Nicaraguan Government and the initial orders for T. S.

M. G.'s for the Nicaraguan government came through. All the above occurred in Nicaragua.

You are now getting what will probably be the final order before the Marines pull out. A new government, the Sacasa gov. has come into power—a new deal all around. I have asked for commissions on foreign sales in general which we are able to make. But here is what I plan doing specifically. I want Nicaragua. If you can grant this I will have our friend make the necessary contacts probably the minister of war. We will have the commission on this sale of 61 guns to pave the way, and it ought to make a nice incentive for sales to follow. Then, when the Marines pull out, the good work will continue. If this is not done, this order will probably be the last except for replacements. On the other hand, if we have the right party down there working for us and receiving a commission, the situation presents an entirely different picture.

Would you kindly draw up the necessary papers, similar to the ones you are now making out for Young. You see, I really have to have some credentials before I am in a position to go ahead. In this agreement will you kindly include Nicaragua specifically?

Next, if you see what I am working for, and I believe you will, will you kindly let me know what the commission will be on this Nicaraguan order so that I may go ahead and make my plans. The commission should be the same as for other foreign sales.

The time is short before the Marines pull out, and there is much to be done by air mail, so the favor of an early reply is requested.

I am looking into the future on this stuff and I am out to help you sell guns. As you know, our record to date has not been bad, and I am certain that my plan is going to work.

I forgot to mention, but will you kindly let me know what the commission is on spare parts? The best thing, if possible would be to send me the dope on commissions on everything that you handle.

With best wishes, I am

Cordially yours,

(Signed) R. M. Cutts, Jr.,
Cutts compensator.

P. S.—I do not know the price of the last guns that you sold to Nicaragua. If they were $147.50, they were at the U. S. Govt. price and they never should have gone out at this price. It cannot be continued after we withdraw and the time to make the break is now. I feel that this can be done and save face with the new model compensators providing you stamp the guns as per the Army specifications. The new gun could then be called a new model and the price of $225.00 could be charged. If the Marine Corps sold the guns to Nicaragua at the U. S. Govt. price I feel that they had no business doing it. At any rate we must let that pass and build for the future. Please let me know the price you are quoting on these guns and the price quoted on the old guns as soon as possible and I shall see if I cannot arrange things on this end. It may be possible to do so without killing the deal. Of course, I shan't do that.

R. M. C., Jr. (Sgn.)

("Exhibit No. 1205" appears in text on p. 3556)

("Exhibit No. 1206" appears in text on p. 3557)

("Exhibit No. 1207" appears in text on p. 3560)

("Exhibit No. 1208" appears in text on p. 3561)

("Exhibit No. 1209" appears in text on p. 3565)

("Exhibit No. 1210" appears in text on p. 3567)

Exhibit No. 1211

[Copy]

S.E.B.S.,
Paris, le. July 19th 1934.

Lieutenant R. M. Cutts,
Headquarters U.S. Marine Corps,
Washington.

Dear Dick: The clipping from the Washington Post duly received and most hearty congratulations. When will the big event take place?

Your telegram as follows:

Conferring Russian next week. Will "Carnot result. Bigard has 6 rifle compensators. His contract now up for renewal. Writing Hotchkiss. Contact Neuhaus on compensated Schmeisser. Thanks."

has been received, also a copy of the letter which Neuhaus recently sent to you.

The French army is very interested in the application of compensators to submachine guns which they find are practically valueless because of the jump. They are not interested in rifles because of the bayonet, nor are they interested in the larger machine guns because they have very firm basis, and the compensator would interfere with the flash preventer which they use at nighttime and which, they feel, is more valuable than the compensator.

They have at least one or more models of every type of machine guns, so the thing for you to do is to send immediately a compensator for a Thompson or other similar machine gun, properly labelled as to sizes, bullets, etc. . . . and with complete instructions.

The letters of recommendation, etc. . . . which you sent me are being translated by Carnot, and he decided not to remove anything from the War Department until he had heard from you, so that we could not in any way interfere with the business in case Bigard is to handle it.

I am very hopeful that business can be done in submachine guns within six months, and I will try to find out if Bigard was sent any compensators for machine guns, which he did not mention, and he only showed us one compensator which he got out of a cupboard near his desk; perhaps there were others there.

I have spoken about the business of interesting private manufacturers, and a Mr. P. Cunisset-Carnot, cousin of Claude, is interested in approaching some of the manufacturers as he is a well-known hunter and sportsman and feels that, even if not used for regular production, a considerable number of guns could be fitted with compensators each year among the limited number of people who go hunting.

Claude Carnot feels that there is so little busines to be had in the sporting field that it is scarcely worth going after as compared with the introduction of the unit into the army, for, as he says, what is there to hunt and where?

As soon as he hears from you and is in a position to collect the various material scattered around, we will turn the compensated rifles over to Cunisset, as the army will be through with them, and Cunisset will take them around to gun manufacturers, repair shops, etc. . . . .

As to Germany, the Schmeisser gun is in Germany and both Germany and Belgium export rifles. However, as you know, no money in the way of royalty is allowed to be sent out of Germany, and therefore it will not do you much good if they manufacture and you will flood the markets of the world with compensated guns on which you will receive no royalty and which will be sold at prices less than is possible with guns manufactured in U.S.A. and elsewhere on which you will have royalty paid. I will see Neuhaus next week and talk over the matters with him as he cannot or will not see this face of the matters, being such a loyal German. Have you any patents in Japan, for they will probably sell machine guns, compensators and all, for $6 or 7, if they follow their present practices of selling watches for 15 cents, bicycles with tires for $2 and the equivalent of a Ford automobile for $150. . . . .

I may still be here in time to receive the letter which you will write to Claude Carnot and I will be able to help him getting business under way.

With sincere regards,

Ever yours,

George.

EXHIBIT NO. 1212

[Copy]

11 FRANCIS ST., NEWPORT, R. I., *August. 11, 1934.*

MR. BERNARD S. BARRON,
10 E. 40th St., New York City.

DEAR PETE: I am at home as you can see by the heading, for father is quite seriously ill. I expect to return to Washington around the twentieth.

In the meantime the inclosed inquiry came in and was fowarded up here. Needless to say, I am quite helpless at the present time due to force of circumstances. It looks as though it is bona fide.

I would suggest that you get in touch with the quartermaster at Washington and request a list of those firms from whom the Marine Corps purchases khaki, also the name of the company to whom a contract was last awarded. You will then be in a position to get bids. Since you are in the Reserve you should be able to get a line on the price if you request same properly.

As soon as you get this dope shoot it along to me and I'll try to get the interested parties lined up.

Sorry that I am out of the running at this time but I believe you understand.

My very best to you and Pat,

As always,

——— ———,

EXHIBIT NO. 1213

WASHINGTON, D.C.,
2400 16th Street NW., September 5, 1934.

From: R. M. Cutts, Jr.
To: The Special Committee Investigating the Munitions Industry, U.S. Senate.
Subject: The Governmental Service Company.

1. The Governmental Service Company was originally organized on the possibility of acting as purchasing agents for the Government of Santo Domingo.

2. I soon realized that it would not be proper for me to be actively associated with a company engaged in this type of business.

3. It was therefore decided to continue the Governmental Service Company as a "blind."

4. All inquiries on equipment of various kinds that came into the Governmental Service Company have been referred to the proper manufacturing companies. This was necessary in order that the Governmental Service Company would appear to be operating as a company. However, this company has made no sales, nor has it accepted any commissions.

5. A great many "so-called" agents from other countries make inquiries from the Governmental Service Company. During the necessarily involved correspondence resulting therefrom the true status of the agent is generally quickly ascertained.

6. The above method of operation acts as a safeguard to prevent Cutts compensators falling into the hands of irresponsible parties.

7. There is practically no overhead in conjunction with the operation of the Governmental Service Company inasmuch as it operates from the office of Mr. Bernard S. Barron, 10 East 40th St., New York City, and its operation has proved of value to Cutts compensator only along the lines indicated.

R. M. CUTTS, JR.,
Cutts Compensator.

DISTRICT OF COLUMBIA, *ss:*

Subscribed and sworn to before me this fifth day of September, 1934.

[SEAL.]

TROY A. NUBSON,
Notary Public, District of Columbia.

My commission expires November 27, 1935.

Total royalties received December 1926–September 1934:

From Auto-Ordnance Corporation: $2,500.00, $110.00, $200.00, $4,495.00, $5,270.00, $3,650.00, $350.00, $905.50, $752.50, $639.50, $1,040.00, $487.50, $405.00, $510.00, $465.00, $472.50, $1,169.00, $502.50, $115.50, $252.00, $415.20, $372.00, $1,686.00, $273.00, $255.00, $855.00, $939.00, $1,057.05, $1,770.49, $600.00; total $32,514.24.

From Lyman Gun Sight Corporation: $85.25, $312.44, $386.25, $622.32, $105.45, $73.00, $127.54, $95.01, $437.25, $1,048.00; total $3,292.51.

Grand total, $35,806.75.

The above totals are correct to the best of my knowledge and belief.

R. M. CUTTS, JR.,
Cutts Compensator.

DISTRICT OF COLUMBIA, *ss:*

Subscribed and sworn to before me this fifth day of September 1934.

[SEAL.] TROY A. NUBSON,
Notary Public, District of Columbia.

My commission expires November 27, 1935.

Royalties paid from February 8, 1928, to September 5, 1934.

Victor F. Bleasdale: $292, $425, $300, $410, $50, $50, $50; total, $1,577.

Mary E. Quayle: $584, $850, $600, $260, $50, $50, $50; total, $2,444.

Richard M. Cutts, Jr.: $817.60, $1,190.00, $840.00, $915.00, $200.00, $200.00, $200.00; total, $4,362.60.

Richard M. Cutts: $1,226.40, $1,785.00, $1,260.00, $915.00, $200.00, $200.00, $200.00; total, $5,786.40.

A true accounting to the best of my knowledge and belief by the Cutts Compensator to the partners.

R. M. CUTTS, JR.

DISTRICT OF COLUMBIA, *ss:*

Subscribed and sworn to before me this fifth day of September 1934.

[SEAL.] TROY A. NUBSON,
Notary Public, District of Columbia.

My commission expires November 27, 1935.

[Copy]

EXHIBIT NO. 1214

DELAWARE SURETY COMPANY, STATEMENT OF ASSETS AND LIABILITIES, JANUARY 31, 1918

ASSETS

Cash		$454, 738. 87
Accounts receivable		27, 572. 65
Investment securities:		
$68,000 Chicago Rock Island & Pac. R. R. Co. 4½'s	$68, 141. 92	
$50,000 N. Y. C. & H. R. R. 6's	51, 750. 00	
$100,000 Brooklyn Rapid Transit Co. 5's	100, 043. 75	
$42,000 Toronto Rwy. 4½'s	40, 742. 01	
$125,000 General Rubber Co. 5's	125, 010. 38	
$50,000 Cuban-American Sugar Co. 6's	50, 069. 33	
$50,000 Ft. Dodge, Des Moines & Sou. 5's	50, 000. 00	
$92,000 American Thread Co. 4's	91, 264. 65	
$50,000 Manchester Traction L. & P. Co. 5's	50, 000. 00	
$200,000 American Bank Note 5's	200, 000. 00	
$100,000 Cuba R. R. Co. 5's	99, 958. 32	
$50,000 Braden Copper Mines 6's	50, 000. 00	
$50,000 United L. & Rwy. 6's	50, 250. 00	
$50,000 Remington Arms U. M. C. 5's	49, 874. 98	
$50,000 N. Y. Central Equipment 4½'s	50, 134. 18	
$2,000 Shs. E. I. du Pont de Nem. Pdr. Co. Pfd. Stock	200, 000. 00	
$34,000 Todd Ship Yard Corp. 6's	33, 762. 00	
$45,000 American Graphophone 6's	45, 000. 00	
$200,000 Imperial Russian Govt. Loan 6½'s	200, 000. 00	
$300,000 U. Kingdom of G. B. & Ireland 5's	298, 500. 00	
$25,000 Lacledge Gas & Light 5's	25, 020. 85	
$50,000 American Woolen Co. Notes	50, 000. 00	
$100,000 Armour & Co. Notes	100, 000. 00	
$25,000 Arlington Mills, Notes	25, 000. 00	
$25,000 Firestone Tire & Rubber Co. Notes	25, 000. 00	
$50,000 Mt. Vernon Woodbury Mills 6's	50, 000. 00	

Investment securities—Continued.		
$100,000 Bethlehem Steel Co. 5's	$98, 828. 12	
$100,000 Philadelphia Elect. Co. 5's	99, 625. 00	
$100,000 Balto. & Ohio R. R. Co. 5's	99, 750. 00	
$75,000 Hocking Valley Rly. Co. 6's	74, 625. 00	
$100,000 United Fruit Co.'s 5's	100, 012. 50	
$300,000 United States Govt. 4% Bond	299, 600. 52	
$200,000 U. S. Treasury 4% Certificates & Indebitness	200, 022. 21	
		$3, 151, 985. 72
Total assets		3, 634, 297. 24

LIABILITIES

Deferred credit (income tax)	12, 326. 32
Accounts payable	00. 00
Unearned premiums	61, 538. 57
Capital stock	2, 000, 000. 00
Surplus	1, 000, 000. 00
Profit and loss (brought forward)	544, 591. 50
Profit and loss (1 month ending January 31, 1918)	15, 840. 85
Total liabilities	3, 634, 297. 24

(2–28–1918—8 copies.)

Exhibit No. 1215

Memorandum With Respect to the Settlement of Contracts Entered Into by the United States With the Dupont Engineering Company

I

In October 1917 Congress passed an urgent deficiency appropriation bill providing, among other things, for the manufacture, prior to September 1, 1918, of 300,000,000 pounds of powder. At that time the powder situation in this country and abroad had reached a very critical stage. The United States had outstanding orders for 67,000,000 pounds of powder for the Army, and 56,000,000 pounds of powder for the Navy, and practically the entire capacity of the plants in this country was taken up until June 1918.

The situation in France was such that its factories working at their utmost capacity fell short nearly 19,000,000 pounds per month of the quantity required by the French armies, and to add to their troubles, their stock of nitrate of soda would last only until December 1917. Their supply had to be brought from Chile, and the submarine had played such havoc with transportation that the question of securing additional supplies was difficult and uncertain.

General Pershing, in a cable dated August 23, 1917, recommended that the United States furnish all powder and explosives needed for present contracts with the French Government, and further, that the United States Government prepare to furnish by December 1917 three hundred tons per day of explosives and two hundred tons per day of powder for French consumption.

The procurement of powder became one of the pressing problems before the War Industries Board. That Board in its survey determined that the total estimated requirements of powder for the Allies and the United States to be produced in the United States up to November 1, 1918, was 1,016,748,000 pounds and that the capacity of the plants in this country was about 472,000,000 pounds of powder—in other words, that our factories could produce less than half of all of the powder needed.

The powder-making plants of the United States had increased their capacity from slightly over 1,000,000 pounds per month in August 1914 to approximately 35,000,000 pounds per month in October 1917. The increases in plants and facilities of our nationals had been paid for by the Allied Governments, and the President of the United States very properly established the policy that we would assist the Allies in taking full advantage of the facilities they had amortized. To secure the supply of powder needed by this Government and its Allies, it became necessary to construct additional plants, and steps were taken immediately by the Ordnance Department and the War Industries Board to provide these additional facilities.

II

On December 15, 1917, Mr. D. C. Jackling was appointed director of explosives without compensation, and was given a free hand and full authority over the work of constructing and operating powder plants.

Mr. Jackling had been prominently connected with large and successful mining enterprises, but up to that time he had no experience in the construction and operation of smokeless powder plants. Needless to say, he entered into a difficult undertaking.

Upon Mr. Jackling's appointment as director of explosives, he entered into a contract with the Thompson-Starrett Company for the construction of a smokeless powder plant at Nitro, West Virginia, near Charlestown—this plant to be constructed under the direct supervision of the Government. Mr. Jackling soon realized that a difficult task confronted him, and that, in view of the urgent need for powder, it was necessary to secure the assistance of others experienced in the construction and operation of powder plants. He, therefore, solicited the aid of the Du Ponts, as the concern best fitted to construct and operate smokeless powder plants. Mr. Jackling, therefore, entered into negotiations with the Du Ponts and on January 24, 1918, made a tentative agreement, which later became an *agency contract* dated January 29, 1918, under which the Du Pont Engineering Company agreed to construct and operate a smokeless powder plant near Nashville, Tennessee, capable of producing 500,000 pounds of smokeless powder per 24-hour day.

E. I. du Pont de Nemours & Company had not been engaged in the business of acting as an agent, and did not desire to do so. The Du Pont Engineering Company, with all of its capital stock owned by E. I. du Pont de Nemours & Company, had been organized in the fall of 1917, and in view of the fact that E. I. du Pont de Nemours & Company did not desire to act as agent, and also for accounting reasons, the contract was entered into between the Du Pont Engineering Company and the United States. E. I. du Pont de Nemours & Company agreed to furnish the Du Pont Engineering Company the services of all of its departments, thereby securing to the Government precisely the same service that it would have received if the contract had been entered into with the parent company.

Under the agency contract, the Du Pont Engineering Company was to be paid a fee of $500,000 for designing and preparing the plans for the plant, and in addition thereto, a profit of 3% on the cost of the construction of the plant, which profit of 3% was limited to a maximum of $1,500,000. The estimated cost of the plant was approximately $50,000,000. The profit to the Du Pont Enginneering Company for the operation of the plant was to be a fixed compensation of 3½ cents per pound for each pound of powder produced, and 50% of the saving if the powder was produced below a certain base price stated in the contract.

The agency contract required that the Du Pont Engineering Company should first secure the approval of the special director on all drawings and specifications, and should follow all instructions issued by him from time to time ordering changes in drawings and specifications and for additional work. The written approval of the special director had to be obtained from time to time as authority for the Du Pont Engineering Company to purchase and procure material and labor, and for salaries and expenses of officers and employees. The United States was to make all disbursements through its own disbursing officers.

It was estimated that the first unit of the plant would be ready for operation in eight months and the entire plant was to be completed in fourteen months.

The office of the special director was located in New York City, and he also had an office in Washington. It was necessary that the Du Pont Engineering Company employees explain drawings, specifications, equipment, necessity for material to be purchased, prices, labor rates, etc., in order that the approval of Mr. Jackling might be secured from time to time. Obtaining such approvals resulted in serious delay in the construction of the plant.

III

In February 1918 the demand for smokeless powder became more and more urgent. Several divisions of our troops had reached France. The draft had called into service a tremendous number of citizens, and the special director was advised by the War Department that it was necessary to provide additional smokeless powder capacity, and it was suggested that a third plant be built similar to the two then under construction at Nitro, West Virginia, and Nashville, Tennessee. Mr. Jackling pointed out the difficulty in securing organization and talent to construct the third plant and recommended, as a more practical plan, the increase in capacity of the then existing plants in the United States and Canada, and the enlarging of the plants to be built at Nitro, W. Va., and Nashville, Tenn. He communicated his views on this matter to the president of the du Pont Engineering Company and asked his opinion as to what modifications of the terms of the agency contract of January 29th would be necessary. To his request the du Pont Engineering Company, on March 1, 1918, replied in part, as follows:

"You have explained to me the urgency of this work, as well as the necessity of its undertaking by E. I. du Pont de Nemours and Company. It is only this necessity that warrants our considering the burden. The latter is so great that the question of compensation is of less importance than the question of the saving of man-power, especially that of the administrative end of the business.

"I therefore urge upon you to arrange that the carrying out of this work may be placed in the hands of our company entirely without hindrance as to supervision and approvals. In return for this concession, we are prepared to place the question of compensation beyond possibility of criticism."

Briefly, the Du Pont Engineering Company proposed, in subsequent conferences, in line with the letter above quoted, that if the Government desired to enter into a new contract with the Du Pont Engineering Company and give that company authority to proceed with the construction and operation of the plant in its own way, and according to the methods and plans, as used by E. I. du Pont de Nemours and Company in the construction and operation of its plants, the Government to bear all costs and expenses of every character and description incurred or made in connection with the construction and operation of the plant, the Du Pont Engineering Company would waive all profit in connection with the construction work, including the profit which had already accrued—the profit on operation to remain the same as in the agency contract. This proposal the United States accepted, and on March 23, 1918, a new contract, approved by the Acting Secretary of War, superseding and cancelling the agency contract of January 29, 1918, was entered into, under and by the terms of which the only profit that could be paid to the Du Pont Engineering Company on account of construction was the nominal profit of $1.00.

Under the contract of March 23, 1918, the capacity of the plant was increased from a 5-unit plant, estimated to produce 500,000 pounds of smokeless powder per day, and at an estimated cost of approximately $50,000,000, to a 9-unit plant, estimated to produce 900,000 pounds of smokeless powder per day, at an estimated cost of approximately $75,000,000, which estimate was later increased, by amendment to the contract, to $90,000,000, due largely to the increased cost of labor, material, and freight rates.

Under the contract of March 23, 1918, the Du Pont Engineering Company was to receive an advance of $18,750,000 on account of construction work, without interest. Prior to the execution of the contract, it was carefully examined by the Secretary of War, by Mr. Stettinius (then Second Assistant Secretary of War), by Colonel Samuel McRoberts, Chief of the Procurement Division, Ordnance Department, and by Major Mudd (representing Mr. Jackling), and, although Mr. Stettinius pointed out the fact that the contractor would be reimbursed for every expenditure, even to the extent that if the contractor made mistakes the Government would have to pay for them, the Secretary of War stated that he would approve the contract, and it was thereupon executed.

IV

Thereupon Mr. Jackling ceased to have supervision of the construction of the smokeless powder plant at Nashville, Tenn., and the plant was constructed and operated by the Du Pont Engineering Company with such diligence that the first unit was in operation and powder was actually produced on July 2, 1918, a little over three months from the date of executing the contract.

The plant was constructed at what is known as Old Hickory, Tenn., about twelve miles from Nashville, in a bend of the Cumberland River. Approximately 6,000 acres of land were acquired for the purpose.

The Du Pont Engineering Company built a railroad seven miles long to connect the plant with the main lines of the Tennessee Central Railroad and the Nashville, Chattanooga and St. Louis Railroad. They constructed huge switching yards with miles of spur track in and about the plant. It was necessary to construct a village with all the adjuncts thereof, such as schools, hospitals, fire departments, water supply, etc., to care for the tremendous number of employees at the plant.

The Du Pont Engineering Company employed all the local labor that was possible, but was obliged to import a large number of employees from other sections of the country, wherever they could be obtained, to carry on the work of construction and operation. At one stage of the work approximately 43,000 employees were carried on the pay roll.

On November 11, 1918, when the armistice was signed, the entire plant was approximately 93% completed. The du Pont Engineering Company was able to produce powder at the Old Hickory plant at a low cost, and when we take into consideration the magnitude of the task, the performance by the du Pont Engineering Company must always be considered as a remarkable achievement.

V

In addition to the contract for the construction and operation of the Old Hickory powder plant, the du Pont Engineering Company entered into four additional contracts with the United States for the construction and/or operation of explosives plants, making a total of five contracts, as follows:

Contract numbered P–4755–711–E; contract numbered P–2337–1228–A; contract numbered P–3509–643–E; contract numbered P–9050–960–E; contract numbered P–15271–1433–E.

Contract War Ord. P–2337–1228–A, dated April 12, 1918, referred to above, for the construction and operation of a loading plant for shells and casings at Penniman, Va., superseded and canceled an agency contract dated December 31, 1917, between the du Pont Engineering Company and the United States. Under the agency contract of December 31, 1917, the du Pont Engineering Company was to be paid, in addition to the cost of the construction and equipment of the plant, a sum equal to 10% of the cost of construction as compensation and profit.

The construction of the Penniman shell loading plant was also under the direction of Mr. Jackling, and the same delay was encountered in the work of construction under that contract as was encountered under the agency contract for the construction of the Old Hickory powder plant. The du Pont Engineering Company, therefore, submitted a proposal to the Government that if the Government would agree to a contract similar to the contract of March 23, 1918, for the construction and operation of the Old Hickory powder plant, the du Pont Engineering Company would waive all profit on account of construction of the Penniman shell loading plant This proposal was accepted by the Government and on April 12, 1918, a new contract, similar to the Old Hickory contract, was entered into, the du Pont Engineering Company waiving all profit on account of the construction work.

All of the five contracts, specified above, contained similar provisions with respect to reimbursing the du Pont Engineering Company for all costs and expenditures incurred. As an example of the provisions of these contracts, with respect to reimbursing the du Pont Engineering Company, we shall quote the following from the contract dated March 23, 1918, for the construction and operation of the Old Hickory powder plant:

"CONSTRUCTION

"Art. I.—'The contractor agrees to proceed with a survey of the site and general layout of the plant, to design and prepare all plans, drawings, and specifications, to procure all the necessary labor and materials, and to construct on a site owned by the United States, at or near Nashville, Tennessee, a complete plant for the manufacture of smokeless powder to consist of nine (9) sections or units, each with a capacity of one hundred thousand (100,000) pounds of smokeless powder per day of 24 hours,' etc.

* * * * * * *

"Art. II.—'The contractor is hereby authorized to do all things necessary or convenient in and about the construction of the plant including the purchase and procurement of all materials and labor necessary therefor, except that the United States shall furnish the requisite amount of platinum, estimated at approximately 13,000 ounces, to be paid for by the contractor and charged to the cost of construction. In order that the contractor may expedite the work of construction, it may in its discretion, from time to time, pay extra compensation for materials or services, subject, however, to the approval of the contracting officer, which extra compensation shall be charged to the cost of construction.* * *

* * * * * * *

"'The United States shall reimburse the contractor for all costs and expenses of every character and description, incurred or made in connection with the construction and equipment of the plant, or any part thereof, including the pro rata share properly attributable to the construction work under this contract (a) of the expense of maintaining the contractor's offices at Wilmington, Delaware, or elsewhere, and (b) of the salaries and traveling expenses of all officials, and employees of the contractor and of E. I. du Pont de Nemours & Company.

"'In order that the work of construction may proceed with the utmost promptness and dispatch, the contractor shall, from time to time, make the expenditures and pay the costs aforesaid, and the United States, upon presentation of satisfactory evidence of such expenditures and payments, shall promptly reimburse the contractor therefor.'

* * * * * * *

"OPERATION

"ART. IV.—'(a) As each section is completed the contractor shall forthwith proceed to operate it and shall do all things necessary or convenient in and about the operation of the plant, or any part thereof, including the purchase and procurement of all necessary materials and labor therefor. The contractor shall not, except with the written consent of the contracting officer, purchase raw materials for the manufacture of powder in excess of the amounts required for the complete fulfillment of this contract. The United States shall bear all costs and expenditures of every character and description, incurred or made in connection with the operation of the plant, or any part thereof, including the cost of labor, materials, and their conversion, repairs, power, transportation, general works expense, works accidents as provided in article XIV hereof, plant superintendence, maintenance of guards, and also the pro rata share properly attributable to the operation of the plant, or any part thereof, (1) of the cost and expense of maintaining the contractor's offices at Wilmington, Delaware, or elsewhere; and (2) of the salaries and traveling expenses of all officials and employees of the contractor and of E. I. du Pont de Nemours & Company.'

* * * * * * *

"ART. IX.—'The contractor shall keep complete records as to all construction and operation expenses, all of which records shall at all times be open to the inspection of the United States or its duly authorized representatives. The United States may examine all work as it progresses and shall audit all accounts, but in such a manner as not to interfere with the contractor proceeding with the construction and operation in any manner and by any means that in its judgment will best produce the desired results under this contract.'

"ART. X.—'To facilitate prompt payments to the contractor, the United States shall detail paymasters at the plant and at the contractor's home office. Any payments by the United States shall be subject to correction for errors, if any.'"

All of the above contracts were suspended, following the signing of the armistice, and early in 1919, the United States took over all the plants, equipment, and materials.

VI

During the period of construction and operation of the above plants, the United States had a corps of employees engaged in checking the receipt of material and auditing expenditures by the du Pont Engineering Company.

After the armistice, the du Pont Engineering Company decided that it was inadvisable, in the interest of the Government, to carry a large force of employees to complete the construction, and to carry on the operation of the plants, and rather than expend money for paying wages and using up a lot of material that could be sold commercially, they disbanded their organization as rapidly as possible.

After the plants were turned over to the Government early in 1919, the Philadelphia district ordnance office was charged with the work of settling all five contracts. That office appointed a corps of auditors and instructed them to check up all expenditures of every nature made by the du Pont Engineering Company during the period of performance. These auditors carried on this work up to and including May 1922 at an expense to the United States of approximately $1,000,000.

During the period of this audit there arose a number of questions concerning the expenditures made, and these questions were submitted to the War Department Board of Contracts and Adjustments, or to the War Department Claims Board. Such questions as these boards were unable to settle were finally ruled upon by Mr. Wainwright, Assistant Secretary of War.

In the settlement contract, herewith submitted, the rulings of the Assistant Secretary of War and of the above boards have been followed, and where a ruling was adverse, deduction has been made in the amount of expenditure claimed by the Du Pont Engineering Company.

One of the points that came before the Assistant Secretary of War was with respect to the fee to be allowed Mason & Hanger Company, subcontractors of the Du Pont Engineering Company on construction work. The legal aspects of this question were such that the Secretary of War decided to refer the matter to the Attorney General for an opinion. The Attorney General ruled that the fee as paid to Mason & Hanger was correct, and in accordance with the terms of the contract, and that the Du Pont Engineering Company should be reimbursed therefor.

While the above matter was pending before the Attorney General, rumors in connection with the construction and operation of the Old Hickory plant came to the attention of the United States district attorney, at Nashville, Tenn., who reported to the Attorney General that fraud and crime had been committed by the Du Pont Engineering Company during the period of construction and operation of the Old Hickory powder plant.

The charges that the district attorney made were referred to the war transactions section of the Department of Justice, and that section called upon the War Department for its records in the case. All of the records of this office were placed at their disposal. Special counsel were appointed to examine into these various contracts that are covered by this settlement, and the result of the investigation, as made by the Attorney General, is embodied in a letter (exhibit A), addressed to the Secretary of War, under date of August 5, 1925, from which we quote the following:

"An extensive investigation of the charges of fraud or crime above referred to has failed to disclose reasonable or probable grounds for believing that during the performance of the contracts in question the du Pont Company committed the offenses with which it has been charged, or any crimes, and in my opinion there is no warrant either for further investigation along these lines or for the institution of proceedings against the company based upon charges of fraud or crime."

The Department of Justice, in the letter above referred to, question certain of the expenditures made under these contracts as being proper charges thereunder. These expenditures fall under six heads and we quote from their letter, as follows:

"The expenditures which I have in mind may be classified, as follows:

"1. So-called 'meritorious bonuses.'

"2. Thirty days' pay on discharge of men employed on the work.

"3. Return transportation and moving expenses furnished employees to the places from which they had come in order to engage in the work.

"Payments made to discharged employees for living expenses after they arrived at their home stations and the cost of returning their families to their homes, would, in my opinion be governed by the same principles as the items numbered 2 and 3 above.

"4. Payments to banks for losses which the banks sustained in establishing branches at the points at which work was being performed under the contracts.

"5. A sum variously stated as $45,572.27 or $42,354.98, being the excess of the price of certain cotton shavings above the price prescribed by the contract.

"6. Expenses incurred by the contractor in the course of the Government's audit."

With respect to the first three of these items, the Attorney General states, as follows:

"I realize that the contracting officer approved the meritorious bonus before payment and approved or ratified the other bonuses after payment under the contract. However, he had no authority to approve payments of extra compensation unless made to expedite the work of construction. If not made for that purpose, his approval would be without warrant in the contract. Nevertheless, in view of the broad terms of the contract, the length of time which has elapsed since the payments were made, the enormous task performed by the contractor, the urgent necessity for not disturbing the labor market by turning loose upon it numbers of penniless men, and the possibility that under such circumstances a court might be inclined to indulge every intendment in favor of the Du Pont Company, the contracting officer's approval or ratification of the bonus payments might possibly be regarded as conclusive of the purpose for which they were made and as binding upon the Government. Accordingly, I do not feel that in case of a legal action to recover the amount of this bonus payment the Government could feel absolute assurance of success.

"2. Thirty days' pay on discharge.

"3. Return transportation and moving expenses.

"These two classes of bonus payments, in my opinion, are governed by the same considerations as the so-called meritorious bonus."

VII

Each one of the points raised by the Attorney General had been previously carefully considered by representatives of the Secretary of War and the findings are as follows:

1. *Meritorious bonuses.*

The above item was incurred under the following contracts: P–4755–711–E, Old Hickory smokeless powder; P–2337–1228–A, Penniman Shell loading plant, P–15271–1433–E, Ives, T.N.T. plant.

During the period of negotiations that led up to the making of these contracts, the Du Pont Engineering Company, as evidenced by letters of its president in the files in the Ordnance Department and the War Industries Board, stressed the fact that it was their policy to award employees of their organization certain bonuses for meritorious services, and it was made clear to all the representatives of the United States engaged in the negotiation of these contracts that the Du Pont Engineering Company intended to pursue this policy, for only by so doing could it expect to get the maximum results.

The War Department was in the position that it had to have these various plants constructed as readily as possible, and if, by the payment of a bonus to certain of the employees for meritorious work performed, it could get the plants erected and in operation earlier than the time contemplated, it was in the interest of the Government to pay such bonuses. Accordingly, there was inserted in the contracts a clause reading as follows:

"In order that the contractor may expedite the work of construction, it may, in its discretion, from time to time, pay extra compensation for material or *services subject, however, to the approval of the contracting officer,* which extra compensation shall be charged to the cost of construction."

It requires no argument to show that a bonus for meritorious services could not be paid until the completion of the work, for until such time it could not be determined which of the employees were entitled to receive same.

That the work was prosecuted with dispatch is beyond question.

When contract P4755–711E for the Old Hickory powder plant was negotiated, it was the opinion of all concerned that the first unit would not be ready for operation before eight months from the date when work was begun, and that each month thereafter another unit would be put in operation. Ground was broken on March 8, 1918, and powder was actually being produced in the first unit on July 2, 1918, and the entire plant was 93% completed on the date of the armistice.

We mention the above merely to show that the work was expeditiously performed, and the Du Pont Engineering Company, realizing its obligation to certain of its employees who made this performance possible, prepared a list of such employees and the amount of extra compensation or bonus which they proposed to pay for meritorious services. This list was submitted to the contracting officer in April 1919, and, in accordance with the contract, the contracting officer, who himself was an attorney, ruled that, according to the terms of the contract, the United States was obligated to pay such bonuses, and they were thereupon paid by the Du Pont Engineering Company.

In view, therefore, of all the circumstances of the case—

(1) That the payments as made were first submitted to the contracting officer for approval and that such approval was given;

(2) In view of the ruling of Col. Morrow, vice chairman of the War Department Claims Board, dated November 19, 1921, that these meritorious bonuses should be allowed; and

(3) In the light of the statement of the Department of Justice that in case of legal action to recover, the Government could not feel absolute assurance of success:

we have in our settlement contract included the payments already made as meritorious bonuses. The total amount involved is $199,650.

2. *Thirty days' pay on discharge of men employed on work.*

For years it had been the practice of the E. I. du Pont de Nemours & Company to pay salaried employees a month's salary at the time of discharge, this salary being in lieu of a month's notice. Upon the signing of the armistice, the Du Pont Engineering Company endeavored to close down the work as promptly as possible, so as to save the Government unnecessary expense. The large force of employees engaged on the work at these different plants was disbanded as rapidly as the conditions would permit, and salaried employees, when their work reached the point where their services were no longer needed, were given thirty days' pay in lieu of notice of discharge, as was the practice of the parent company. The action of the Du Pont Engineering Company in making this payment was approved by the contracting officer as being an item of expense under article VI of the contract which reads as follows:

"When the operation of the plant shall cease, or upon termination or cancellation of this contract under article XV, the United States shall reimburse the contractor for all costs and expenses of every character and description incurred or made in, or connected with, the construction, equipment, or operation of the plant, or any part thereof, including the cost of all labor, freight, and all apparatus and materials purchased, whether delivered or undelivered, in connection with the construction and equipment of the plant or the operation or contemplated operation thereof; all obligations of the contractor incurred hereunder, outstanding at the date of such cessation or termination or which may thereafter arise, shall be assumed by the United States and the United States shall save harmless the contractor in respect of any liability whatsoever in connection therewith. At the option of the United States, the contractor shall assign or transfer to the United States, or its nominee, all contracts then outstanding entered into by the contractor hereunder."

The remarks of the Department of Justice, referred to under the heading "Meritorious bonuses", apply with equal force to this item. The question of this extra compensation was made the subject of study by the War Department Claims Board, and Colonel Morrow, vice chairman of that Board, on November 19, 1921, ruled that this item was an allowable expense, and the payment therefore has been included in this settlement contract.

3. *Return transportation and moving expenses furnished employees to the places from which they had come in order to engage in the work.*

During the period of construction and operation, it was necessary to bring large numbers of employees from various points in the United States to the plants which were being erected and operated under these contracts. In some cases these plants were located at considerable distances from large centers of population, and it was necessary to pay the expenses incident to the transportation of these employees from the point at which they were hired, to the plant, and it was found necessary to assure these men of their return transportation when the work was terminated. As stated before, the Du Pont Engineering Company very properly stopped their construction work and disbanded their operations as soon after the armistice as possible. This threw large numbers of men and women out of employment. Many of these people had no funds with which to return to their homes. The policy of the War Department at that time was not to throw large numbers of people out of employment, and create undue hardships, and so the Du Pont Engineering Company, in accordance with its assurances to these employees, paid their transportation to other centers where the employees believed their services could be utilized, relying on the United States to reimburse them for such travel expenses, in accordance with the contracts under discussion. It so happened that in some cases the Du Pont Engineering Company paid travel to points farther distant than those from which the employees came, and the matter became the subject of consideration before the War Department Claims Board and The Assistant Secretary of War. The contracting officer had previously ruled that the payments, as made by the Du Pont Engineering Company, were just and proper expenditures under the contracts, but the War Department Claims Board and The Assistant Secretary of War reversed the ruling of the contracting officer and decided that only such part of the payments for transportation as represented the travel to a point no more distant than that from which the employee had been hired should constitute an expense under these contracts. In accordance with the ruling of The Assistant Secretary of War, that portion of the expenditures of the Du Pont Engineering Company in excess of the cost of transporting employees to a point no more distant than that from which they were obtained, was disallowed and stands in this settlement contract as a disallowance.

Again, we might add that the remarks of the Department of Justice, referred to under "Meritorious bonuses" with respect to the doubtful possibility of recovering all or any part of this payment, apply with equal force to this item.

4. *Payments to banks.*

The total expense charged to the United States under this item is $33,700.62. The actual amount paid by the Du Pont Engineering Company was some $7,000 in excess of this item, and relates to the contract at Penniman, Va. The expense which is allowed, viz, $33,700.62, applies only to the Old Hickory powder plant.

As we have stated heretofore, this plant was located approximately twelve miles from the city of Nashville, Tenn., and in the earlier period of construction the employees found it necessary to leave the plant and go to Nashville to get their checks cashed. As the banks in Nashville were open only until 3 o'clock in the afternoon, there was a considerable loss of time after each pay day, by reason of employees being absent. To get around this, the Du Pont Engineering Company conceived the idea of paying these men at the plant and it was estimated that the expenses of providing the facilities to pay these employees during the period of the contract would cost the United States approximately $75,000. If an arrangement could be secured with a bank in Nashville to handle the funds and to pay these employees at the plant, the Du Pont Engineering Company believed that the bank could do it more economically than the Du Pont Engineering Company, and further that these employees would not have to absent themselves from their work after each pay day. Accordingly, an arrangement was made by the treasurer of the Du Pont Engineering Company with the Fourth and First National Bank of Nashville, Tenn., by which that bank established a branch at Old Hickory under an agreement with the Du Pont Engineering Company that it would be reimbursed for any losses that it might sustain in providing such facilities.

In the Spring of 1918 a branch was established by the Fourth and First National Bank, and it functioned in the capacity of cashing checks and handling the accounts of these employees all through the period of construction and operation. It was clearly to the interest of the Government to have some such institution at the site of the work. It did away with the necessity of employees absenting themselves after each pay-roll period; it insured prompt payment in cash to the employees on each pay day; it enabled those who lived in the village to carry accounts, etc.; all of which cost the bank a considerable sum of money, and in return for which the bank, by reason of deposits made with it, derived some benefit.

When the work was terminated and the Du Pont Engineering Company were ready to turn over the plant to the United States, the bank set up a statement of account, in which it showed the moneys it derived, by reason of interest on balances on deposit, and against that it set out the losses which it sustained by reason of payment of salaries to its employees in the branch bank, and other expenses incident thereto,—the difference being the net loss above referred to.

Under the agreement which the Du Pont Engineering Company made with the bank, they believed they were obligated for that loss, and under the estimate prepared by the treasurer at the time he entered into the agreement, the United States was saved approximately $42,000 assuming that the treasurer's estimate was correct. The Du Pont Engineering Company believed that this was a proper charge under the contract, and when the question was presented to the Assistant Secretary of War for decision, he ruled on April 12, 1922, that this was an allowable expense under the contract.

It will be noted that the Attorney General, in his remarks, makes the following statement:

"Should it be established to your satisfaction that these payments were made pursuant to agreements between the Du Pont Company and the respective recipients antedating the performance by the banks of the services for which the payments were made, I think they would be proper charges against the Government. The facts presented to me, however, fall short of establishing this.

"One of these claims, amounting to approximately $7,000, appears to have been withdrawn by the Du Pont Company itself. Another amounting to approximately $33,000, was denied by various War Department boards, and upon appeal denial was affirmed. It was paid by the Du Pont Engineering Company only after these denials."

The facts are as outlined in my previous statement. An agreement was actually made between the respective recipients antedating the performance of the banks. This was properly established before the Assistant Secretary of War made his decision.

The claim of $7,000, which was disallowed, refers to the Penniman contract, and that still stands as a disallowance, because no such arrangement was made at Penniman, as was made at Old Hickory. Both questions, viz, the payment of the $7,000 at Penniman and of the $33,000 at Old Hickory, were brought up for decision, and the Penniman payment was disallowed by all of the various boards, but the payment of $33,000 to the bank at Nashville was allowed by the Assistant Secretary of War, because it was conclusively shown that an agreement had been entered into in that case.

5. *A sum variously stated as $45,572.27, or $42,354.98, being the excess of the price of certain cotton shavings above the price prescribed by the contract.*

The amount involved, according to the records of this office, is $42,354.98. According to the terms of its contract, the Du Pont Engineering Company were authorized to pay not more than 20% in excess of certain base prices for raw materials, as set out in a schedule. The base price of cotton shavings was 4.22 cents per pound; subsequently, they were authorized to pay not more than 25% in excess of the base price, or 5.275 cents per pound, delivered at Nashville, for the reason that they were unable to procure cotton shavings for less than this amount. The Railroad Administration increased the freight rates on this class of material and the Du Pont Engineering Company was faced with a condition, where it either had to stop the manufacture of powder, because it could not buy shavings, delivered at Nashville, for the price stipulated in the contract, or await the approval of the contracting officer for an increased price.

On October 18, 1918, the Du Pont Engineering Company at a conference with the procuring officers, stated that the price should be 5¼ cents per pound, f. o. b. point of production, and confirmed their conversation by a letter of that date. The purpose of the confirmation was to have in writing the authorized approval of the contracting officer, which approval had been tentatively given during the conversation.

Confirmation of the increase price, however, was not actually forthcoming until November 8, 1918, but the Du Pont Engineering Company had secured a considerable quantity of this material, and paid the increased price, amounting in all of $42,354.98. When the auditors examined the payments made by the Du Pont Engineering Company for these cotton shavings, they took exception to the payment of the increased price. The matter became the subject of an appeal to the Assistant Secretary of War. It was pointed out to the Assistant Secretary of War that the increase in the price paid was due largely to the fact that the Railroad Administration had increased the freight rates; that the Railroad Administration was a part of the Government; that the increase in price paid accrued to the Government; and that, in fact, it was taking the money out of one pocket of the Government and putting it in another; and because of this state of facts, the Assistant Secretary of War ruled that the amount paid was an allowable cost under the contract, and has been included as a cost under this settlement contract.

6. *Expenses incurred by the contractor in the course of the Government audit.*— During the settlement of these contracts, it was necessary for the Du Pont Engineering Company to furnish the Government with records, information, and assistance in making the audit. The expense incurred in connection with this work was tremendous, and the Du Pont Engineering Company claimed that, under the terms of its contract, it should be reimbursed for the total amount. The War Department took the stand that the amount claimed by the Du Pont Engineering Company, included, among other items, the salaries and expenses of certain officers of the company, who were really defending the claims as distinct from the employees of the company, who were engaged in assisting in the audit of the accounts, and the Assistant Secretary of War ruled that only such part of the expense in connection with this audit as was incurred in explaining entries and such necessary rental of office space and traveling expenses as these employees incurred, was a proper charge under the contract.

Accordingly, the allowance included in this settlement contract covers only the salaries and expenses of the employees engaged in assisting the Government in making an audit of these contracts.

The Attorney General, in his letter, stated that "if the expenditures of the contractor in the course of the Government audit were made primarily for the purpose not of furthering and helping that audit and of furnishing information to the Government, but on the contrary, of opposing the Government's audit and of defending against and refuting such claims as the Government might raise against the company, the legality of charging the contractor's expenses in this audit against the Government would be open to serious question. This becomes a question of fact, of course, and I have not sufficient information before me to enable me to determine the matter."

The letter of the Attorney General confirms the views of the Assistant Secretary of War, and, as stated before, only such expenses have been included as were made primarily for the purpose of furthering and helping the audit, and furnishing information to the Government.

VIII

In the settlement contract herewith submitted we have left out all reference to disallowances. The Du Pont Engineering Company expended approximately $300,000 over and above the amounts allowed in this settlement, and it contended that the United States was obligated under the contracts to reimburse this expenditure as it was made in good faith; but the War Department held that the above sum which covered numerous items was not reimbursable. However, for the purpose of settlement, the Du Pont Engineering Company is willing to accept the findings of the War Department.

In conclusion, it may be stated that the entire cost of construction and operation, under the five contracts, is approximately $129,000,000, and on this expenditure, the Du Pont Engineering Company have made a net profit, after deducting Federal taxes, of approximately $400,000.

The net result of this settlement is that the Du Pont Engineering Company will make refund to the United States of $352,840.35.

P. J. O'Shaughnessy,
Major, U. S. A., Ret.

Approved:
(Signed) C. C. Williams,
Major General, Chief of Ordnance.

Exhibit "A"

Office of the Attorney General,
Washington, D. C., August 5, 1925.

00160/28592
Du Pont Co.
The Honorable, the Secretary of War.

My Dear Mr. Secretary: Heretofore you have referred to the Department of Justice for study and investigation certain criminal charges against the Du Pont Engineering Corporation in connection with its performance of certain war contracts with the Government. A reference of the case to this Department was also recommended by a committee of the joint board of survey of which the chairman was the Assistant Secretary of War.

Since, however, you indicated in your letter of May 23, 1924, that upon the determination of the question of criminality you desired the case returned to your Department for administrative settlement of the contracts involved, I have ordered the files returned to the War Department.

An extensive investigation of the charges of fraud or crime above referred to has failed to disclose reasonable or probable grounds for believing that during the performance of the contracts in question the Du Pont Company committed the offenses with which it has been charged, or any crimes, and in my opinion there is no warrant either for further investigation along these lines or for the institution of proceedings against the company based upon charges of fraud or crime.

However, in the course of this Department's investigation, its attention was called to and it made a study of certain expenditures of the Du Pont Company. On the basis of the information before me, I have concluded that there is grave doubt as to such expenditures being properly chargeable against the Government. I, therefore, felt it my duty to call them to your attention, especially since, in your letter of May 23, 1924, you invite my advice on any phases of the matter which may become the subject of special study by this Department.

The expenditures which I have in mind may be classified as follows:

1. So-called "meritorious bonuses."
2. Thirty days' pay on discharge of men employed on the work.
3. Return transportation and moving expenses furnished employees to the places from which they had come in order to engage in the work.

Payments made to discharged employees for living expenses after they arrived at their home stations and the cost of returning their families to their homes, would, in my opinion be governed by the same principles as the items numbered 2 and 3 above.

4. Payments to banks for losses which the banks sustained in establishing branches at the points at which work was being performed under the contracts.

5. A sum variously stated as $45,572.27 or $42,354.98, being the excess of the price of certain cotton shavings above the price prescribed by the contract.

6. Expenses incurred by the contractor in the course of the Government's audit.

My reasons for believing that on the basis of the information in my possession there is grave doubt as to propriety of charging the Government with the expenditures above mentioned, are very briefly as follows:

1. Meritorious bonuses. Some reasonable sanction for each payment must be found within the contract or else such payment was not properly chargeable to the United States. The language of article II seems to have been relied on by the Du Pont Company as supporting this class of bonus payments. Article II, it will be remembered, deals exclusively with the construction of the plant, not with its operations after completion, article II reads as follows:

The contractor is hereby authorized to do all things necessary or convenient in and about the construction of the plant including the purchase and procurement of all materials and labor necessary therefor * * *. In order that the contractor may expedite the work of construction it may, in its discretion, from time to time, pay extra compensation for materials or services subject, however, to the approval of the contracting officer, which extra compensation shall be charged to the cost of construction.

I will not discuss in detail the reasons for my conclusion that article II applies to construction only and not to operation, but, if I am correct in this, it follows that no authority can be found therein for any part of these bonus payments made to operating, as distinguished from construction employees.

As far as such payments to construction employees are concerned, I have seen no evidence except the unsupported statement of the company that such bonuses were paid pursuant to any agreement between the recipients and the company, made when such recipients were employed or subsequently, to the effect that at the end of the work they would receive a bonus for meritorious services. If it turns out that no such agreements were made or can be proved, then I question whether the Du Pont Company could charge the amount of this bonus against the Government on the theory that it expedited the work. Moreover, on the company's own statement, so far as my information extends, the only promises which they claim to have made to their employees were that the men transferred from E. I. du Pont de Nemours Company to the Du Pont Engineering were not to lose their status as employees of the former or their eligibility to a bonus or extra compensation under the system prevailing in the former company. But I call your attention to the fact that the system of bonuses of the parent or E. I. du Pont de Nemours Company did not contemplate the payment of cash bonuses under such circumstances as those arising under the Du Pont Engineering Company's contracts and did not involve the positive obligation to pay bonuses at all. The parent company did pay cash bonuses as a reward for inventions or conspicuous service, but these were paid on an entirely different theory from the bonus now in question.

Article II authorizes the payment of extra compensation for the purpose of expediting the work. A bonus after the conclusion of the work pursuant to no prior agreement could not have had that effect. Except article II, I find nothing in the contract which expressly or impliedly permits the payment of bonuses or extra compensation, or which, in the absence of previous agreement with the recipients would make the bonus contracts legal charges against the United States.

I realize that the contracting officer approved the meritorious bonus before payments and approved or ratified the other bonuses after payment under the contract. However, he had no authority to approve payments of extra compensation unless made to expedite the work of construction. If not made for that purpose, his approval would be without warrant in the contract. Nevertheless, in view of the broad terms of the contract, the length of time which has elapsed since the payments were made, the enormous task performed by the contractor, the urgent necessity for not disturbing the labor market by turning loose upon it numbers of penniless men, and the possibility that under such circumstances a court might be inclined to indulge every intendment in favor the Du Pont Company, the contracting officer's approval or ratification of the bonus payments might possibly be regarded as conclusive of the purpose for which they were made and as binding upon the Government. Accordingly, I do not feel that in case of a legal action to recover the amount of this bonus payment the Government could feel absolutely assurance of success.

2. Thirty days' pay on discharge.

3. Return transportation and moving expenses.

These two classes of bonus payments, in my opinion, are governed by the same consideration as the so-called "meritorious bonus."

4. Payments to banks. Should it be established to your satisfaction that these payments were made pursuant to agreements between the Du Pont Company and the respective recipients antedating the performance by the banks of the services for which the payments were made, I think they would be proper charges against the Government. The facts presented to me, however, fall short of establishing this. One of these claims, amounting to approximately $7,000, appears to have been at one time withdrawn by the Du Pont Company itself. Another, amounting to approximately $33,000, was denied by various War Department boards and on appeal the denial was affirmed. It was paid by the Du Pont Engineering Company only after these denials. In the absence o proof, such as is not contained in the files before me, to the effect that these banks were entitled to be repaid their losses under preexisting agreement with the Du Pont Company, I question that these payments constitute proper charges against the Government.

5. Excess price of cotton shavings. The contract prescribed limits for the price to be paid by the Du Pont Company for these shavings. The contractor exceeded this price but relies on a letter from the War Department authorizing and permitting an increase in that price. That letter, while doubtless sufficient authority for making subsequent purchases at the increased price, in my opinion does not support the contention of the contractor that the increase in price was to be retroactive.

6. Contractor's audit expenses. I suggest for your consideration, that if the expenditures of the contractor in the course of the Government's audit were made primarily for the purpose, not of furthering and helping that audit and of furnishing information to the Government, but, on the contrary, of opposing the Government's audit, and of defending against and refuting such claims as the Government might raise against the Company, the legality of charging the contractor's expenses in this audit against the Government would be open to serious question. This becomes a question of fact, of course, and I have not sufficient information before me to enable me to determine the matter.

You will appreciate that this letter contains only a brief summary of the reasons for my opinion as to the items mentioned. If, in the course of your administrative settlement of this case or at any other time, you desire a more full statement of these reasons, or if this Department can be of any service to you in that connection, I shall be glad to have you call upon me.

In passing, I also note that the War Department has disallowed claims of the contractor for general overhead expense of the E. I. du Pont de Nemours Company, and for an adjustment of profits on the bonus for saving amounting to $55,862.28, due to the manner in which freight between Nashville and Jacksonville, Tennessee, had been accounted for by the contractor. Both of these disallowances are, in my opinion, correct under the contracts.

In conclusion, may I emphasize the fact that, in accordance with my understanding of your wishes, expressed in your letter of May 23, 1924, this Department has made no general investigation into the payments made to the Du Pont Company in the course of its work under the contracts in question. I am therefore making no suggestions as to the propriety of any payments except the ones above mentioned. Furthermore, this Department has for obvious reasons made no effort to pass upon the accuracy or completeness of the War Department's audit in this case, except that, incident to this Department's investigation of the general payments above referred to, its accountants determined the amounts paid on account of the so-called "meritorious and discharge bonuses."

Sincerely yours,

(Sgd.) John G. Sargent,
Attorney General.

Exhibit No. 1216

BOND TO UNITED STATES OF AMERICA BY DU PONT ENGINEERING COMPANY, PRINCIPAL, AND E. I. DU PONT DE NEMOURS & COMPANY, SURETY. IN PENAL SUM, $20,000,000

Know all men by these presents, That we, Du Pont Engineering Company, a corporation organized under the laws of the State of Delaware, as principal, and E. I. du Pont de Nemours & Company, a corporation organized under the laws of the State of Delaware, as surety, are held and firmly bound unto the United States of America in the penal sum of twenty million dollars ($20,000,000), for the payment of which sum, well and truly to be made, we bind ourselves, and our successors, jointly and severally, firmly by these presents.

The condition of this obligation is such, That whereas the above bounden Du Pont Engineering Company has on the 23d day of March, 1918, entered into a contract with the United States, represented by Samuel McRoberts, Colonel, Ordnance Department, United States National Army, whereby the said Du Pont Engineering Company has agreed to do all things necessary for the construction, on a site owned by the United States, at or near Nashville, Tennessee, of a complete plant for the manufacture of smokeless powder, and whereas in and by said contract it is agreed that the United States is to advance on account of said construction work to said Du Pont Engineering Company, contemporaneously with the signing of said contract, the sum of eighteen million, seven hundred fifty thousand dollars ($18,750,000);

And whereas, by the terms of said contract said advance is to be kept separate from the funds of said Du Pont Engineering Company and expended exclusively upon the construction and equipment of said plant and for no other purpose;

Now, therefore, if the above bounden Du Pont Engineering Company, or its successors, shall and will, in all respects, duly and fully observe and perform all and singular the covenants, conditions, and agreements in and by the said contract agreed and covenanted by said Du Pont Engineering Company to be observed and performed by it, regulating the use, expenditure, disposal or return of said advance payment, according to the true intent and meaning of said contract, and as well during any period of extension of said contract that may be granted, or during any period when the time limit may be waived on the part of the United States as during the original term of the same, then the above obligation shall be void and of no effect, otherwise to remain in full force and virtue.

In witness whereof, The parties hereto have executed this instrument under their seal this 29th day of March, 1918; the name and corporate seal of said principal being hereto affixed and these presents duly signed by its vice president, pursuant to resolution of its board of directors passed on the 6th day of February, A. D. 1918, a copy of the record of which is hereto attached; and the name and corporate seal of said surety being hereto affixed and these presents duly signed by its president, pursuant to resolution of its board of directors passed on the 27th day of March, A. D. 1918.

Du Pont Engineering Co. [seal]
By (sgd.) E. G. Buckner [seal]
Vice President.
By (sgd.) Pierre S. du Pont [seal]
President.

In presence of—
(sgd.) Alexis I. du Pont,
Secretary.
(sgd.) Alexis I. du Pont,
Secretary.

Attest:

I hereby certify that the following is a correct copy of a resolution of the Board of Directors of E. I. du Pont de Nemours and Company as the same appears in the minutes of a meeting of said board held at the principal office of the company in the city of Wilmington, Delaware, on the 27th day of March, 1918, at which meeting there was present a quorum of said board, viz:

"Resolved that P. S. du Pont, president, or E. G. Buckner, vice president of this company, be and either of said officials is authorized and directed to execute for and on behalf of this company, and in its corporate name as surety, that certain bond in the penal sum of twenty million dollars ($20,000,000), wherein the du Pont Engineering Company, a corporation organized under the laws of the State of Delaware, is principal, and this company is surety, securing the performance by said principal of all and singular the covenants, conditions and agreements agreed by it to be performed in a certain contract entered into March 23, 1918, by said principal, as party of the first part, and Samuel MacRoberts, Colonel, Ordnance Department, United States National Army, as party of the second part, covering the construction of a smokeless powder factory at Nashville, Tennessee, and Alexis I. du Pont, Secretary, is hereby authorized and directed to affix this Company's corporate seal to said bond."

I further certify that I am the custodian of the records of said company including the minutes of the meetings of the board of directors, and that said resolution has not been revoked, annulled or amended in any manner whatever.

In witness whereof I have hereto set my hand and affixed the corporate seal of the company this 27th day of March, 1918.

(Signed) Alexis I. Du Pont,
Secretary.

Extract from minutes of executive committee meeting no. 4, April twenty-six 1918, Du Pont Engineering Company.

The following resolution was offered and unanimously adopted:

Resolved, that the president and any vice president of this company, or either of them, is authorized and directed to procure, on any terms that they or either of them deem expedient, an advance payment or payments on any one or more contracts now existing, or hereafter made, between this company and the United States of America, or any department thereof, and to execute and deliver in the name and on behalf of this company all notes, bonds, obligations, amendatory contracts, supplemental contracts, and/or other contracts that the United States, or any department thereof, may require in respect of the making and repayment of any such advance payments, and to give such security therefor as may be required, and to affix the seal of this company to any papers requiring the same, and to do such other acts and things, and execute and deliver such other instruments as the United States may require in the premises.

Resolved further, that any previous action in conflict with the above be and the same is hereby rescinded.

Exhibit No. 1217

BOND TO UNITED STATES OF AMERICA BY DU PONT ENGINEERING COMPANY, PRINCIPAL AND E. I. DU PONT DE NEMOURS & COMPANY, SURETY. IN PENAL SUM, $6,318,000

Know all men by these presents, that we, Du Pont Engineering Company, a corporation organized under the laws of the State of Delaware, as principal, and E. I. du Pont de Nemours & Company, a corporation organized under the laws of the State of Delaware, as surety, are held and firmly bound unto the United States of America in the penal sum of six million three hundred eighteen thousand dollars ($6,318,000.00) for the payment of which sum, well and truly to be made, we bind ourselves, and our successors, jointly and severally, firmly by these presents.

The condition of this obligation is such, that whereas the above bounden Du Pont Engineering Company has on the 23d day of March 1918 entered into a contract with the United States, represented by Samuel McRoberts, Colonel, Ordnance Department, United States National Army, whereby the said Du Pont Engineering Company has agreed to do all things necessary for the operation, on a site owned by the United States, at or near Nashville, Tennessee, of a complete plant for the manufacture of smokeless powder, and whereas in and by said contract it is agreed that the United States is to advance on May 15, 1918, on account of said operation, to said Du Pont Engineering Company, the sum of six million three hundred eighteen thousand dollars ($6,318,000.00);

And whereas, by the terms of said contract said advance is to be kept separate from the funds of said Du Pont Engineering Company and expended exclusively upon the operation of said plant and for no other purpose;

Now, therefore, if the above bounden Du Pont Engineering Company, or its successors, shall and will, in all respects, duly and fully observe and perform all and singular the covenants, conditions, and agreements in and by the said contract agreed and covenanted by said Du Pont Engineering Company to be observed and performed by it, regulating the use, expenditure, disposal or return of said advance payment, according to the true intent and meaning of said contract, and as well during any period of extension of said contract that may be granted, or during any period when the time limit may be waived on the part of the United States as during the original term of the same, then the above obligation shall be void and of no effect, otherwise to remain in full force and virtue.

In witness whereof, the parties hereto have executed this instrument under their seals this 13th day of May 1918; the name and corporate seal of said principal being hereto affixed and these presents duly signed by its vice president pursuant to resolution of its executive committee passed on the 26th day of April A. D. 1918, copy of the record of which is hereto attached; and the name and corporate seal of said surety being hereto affixed and these presents duly signed by its president, pursuant to resolution of its finance committee passed on the 13th day of May, A. D. 1918;

In presence of—

Du Pont Engineering Company
(sgd.) E. G. Buckner, *Vice pres.*

Secretary.

ATTEST:

(sgd.) Alexis I. du Pont

E. I. du Pont de Nemours & Company,
(sgd.) P. S. du Pont, *Pres.*

DU PONT ENGINEERING COMPANY EXECUTIVE COMMITTEE

The following resolution was offered and unanimously adopted:

Resolved, That the president and any vice president of this company or either of them, is authorized and directed to procure, on any terms that they or either of them deem expedient, an advance payment or payments on any one or more contracts now existing, or hereafter made, between this company and the United States of America, or any department thereof, and to execute and deliver in the name and on behalf of this company all notes, bonds, obligations, amendatory contracts, supplemental contracts, and/or other contracts that the United States, or any department thereof, may require in respect of the making and repayment of any such advance payments and to give such security therefor as may be required, and to affix the seal of this company to any papers requiring the same, and to do such other acts and things, and execute and deliver such other instruments as the United States may require in the premises.

Resolved further, That any previous action in conflict with the above be and the same is hereby rescinded.

This is to certify that the above is a true and correct copy of resolution adopted by the executive committee of the Du Pont Engineering Company, at meeting held on April 26, 1918.

——— ———,
Secretary Du Pont Engineering Co.

E. I. DU PONT DE NEMOURS & COMPANY FINANCE COMMITTEE

The following resolution was offered and unanimously adopted:

Resolved, That the president or any vice president, of this corporation be and they, or either of them, are hereby authorized to execute in the name and behalf of this corporation, under its corporate seal to be attested by the secretary, or an assistant secretary, on any terms that they or either of them deem expedient, all contracts and obligations, guarantees, bonds, or instruments, either as principal or surety, necessary, convenient, or incidental, to the execution and/or performance of contracts heretofore or hereafter entered into by this corporation, or the Du Pont Engineering Company, with the United States of America, or any department thereof, including the execution, either as principal, or surety, of obligations for the purpose of the procurement by Du Pont Engineering Company of payments in advance or otherwise, on account or in respect of, said contracts with said United States Government; hereby ratifying and confirming all acts, instruments, or obligations performed, signed, or executed in pursuance of the foregoing authority.

This is to certify that the above is a true and correct copy of resolution adopted by the finance committee of E. I. du Pont de Nemours & Company at meeting held on May 14th, 1918.

Signed M. D. Fisher,
Asst. Secy. E. I. Du Pont de Nemours & Co.

("EXHIBIT No. 1218" appears in text on p. 3580.)

EXHIBIT No. 1219

E. I. DU PONT DE NEMOURS & COMPANY RESOLUTION ADOPTED BY THE BOARD OF DIRECTORS AT MEETING HELD MARCH 27, 1918

EXECUTION OF BOND IN RE NASHVILLE PLANT

On motion, duly made and seconded it was

Resolved, That P. S. du Pont, president, or E. G. Buckner, vice president of this company, be and either of said officials is authorized and directed to execute for and on behalf of this company, and in its corporate name, as surety, that certain bond in the penal sum of twenty million dollars ($20,000,000), wherein the du Pont Engineering Company, a corporation organized under the laws of the State of Delaware, is principal, and this company is surety, securing the performance by said principal of all and singular the covenants, conditions and agreements agreed by it to be performed in a certain contract entered into March 23, 1918, by said principal, as party of the first part, and Samuel MacRoberts, colonel, Ordnance Department, United States National Army, as party of the second part, covering the construction of a smokeless powder factory at Nashville, Tennessee, and Alexis I. du Pont, secretary, is hereby authorized and directed to affix this company's corporate seal to said bond.

EXHIBIT No. 1220

[Copy]

MAY 10, 1924.

Mr. R. H. WILLIAMS,
First National Bank Building, Chattanooga, Tenn.

DEAR SIR: Among the subjects which we discussed in reference to the Old Hickory contract, while I was in Chattanooga, was the methods used by the purchasing department in connection with the procurement of material for the Old Hickory projects. You requested me, at the time, to furnish you with evidence which would illustrate that prior to placing orders for materials the purchasing department obtained competitive price quotations. In this connection I am enclosing herewith a special report citing transactions wherein competitive prices were obtained by purchasing department prior to placing orders for materials procured in connection with the Old Hickory powder plant, and a copy of a report dated January 18, 1919, addressed to Mr. David D. Rankin, asst. purchasing agent, which was prepared by Mr. T. W. Harris, one of the purchasing department employes.

In this connection I would like to call your attention to the fact that a great many materials used in connection with the Old Hickory construction and operating projects were purchased at prices fixed by the Government, for example: Cement, lumber, pig iron, steel plate, rails, sheet steel, high silicon iron castings, carbon tetrachloride, benzol, methyl alcohol, acetone, toluol, acetate of lime, coal, fuel oil, cotton linters.

Large purchases of sulphur were made in connection with the Old Hickory operation and it might be pertinent to add that sulphur was purchased by us at a price agreed upon between the principal producers and the United States.

Most of the sulphuric acid used in connection with the Old Hickory operation was manufactured at Old Hickory, but in the early stages of the operating period, it was necessary to purchase quantities of sulphuric acid aggregating 594,138 pounds. It is my understanding that this material was procured at prices fixed by the Government. You of course, understand that the price of sulphuric acid varies in the ratio of strength.

Trusting that this information will serve your purpose, I am

Yours very truly,

W. A. SHAFER,
Assistant to the Treasurer.

WAS:p.

SPECIAL REPORT—CITING TRANSACTIONS WHEREIN COMPETITIVE PRICES WERE OBTAINED BY PURCHASING DEPARTMENT PRIOR TO PLACING ORDERS FOR MATERIALS PROCURED IN CONNECTION WITH THE OLD HICKORY POWDER PLANT

TRANSACTION #1

Exhibit 1, copy of requisition USN–769–1/2L.
Exhibit 2, copy of letter from Republic Iron & Steel Company.
Exhibit 3, copy of letter from American Steel & Wire Company.
Exhibit 4, copy of letter from director general, Military Railways.

Requisition USN–769–1/2L was issued by the construction division and transmitted to the purchasing department, which proceeded to obtain competitive quotations from two purveyors:

Republic Iron & Steel Company.
American Steel & Wire Company.

The order for the material specified on requisition 769–1/2L was ultimately placed with the Dilworth Porter Co., Inc., as per instructions of the Director General of Military Railways at the price specified in his letter, viz, $4.05 per cwt.

TRANSACTION #2

Exhibit 5, requisition USN–768–1/2L.
Exhibit 6, letter from Light Railway Equipment Company.
Exhibit 7, letter from Lorain Steel Company.
Exhibit 4, letter from Director General Military Railways.

Requisition USN–768–1/2L was issued by the construction division and transmitted to the purchasing department, who then obtained competitive quotations from—

Light Railway & Equipment Company.
The Lorain Steel Company.

The order for material specified on requisition 768–1/2L was ultimately placed with Lakewood Engineering Company, Cleveland, Ohio, as per instructions of the Director of Military Railways, at prices specified in his letter (exhibit 4).

TRANSACTION #3

Exhibit 8, letter from Bass Foundry & Machine Company.
Exhibit 9, letter from Buffalo Foundry & Machine Company.

The order for the material specified was placed with Buffalo Foundry & Machine Company. Requisitions USN–2460–1/2A, 2462–1/2A, 2463–1/2A.

TRANSACTION #4

Exhibit 10, letter from Eagle Tank Company.
Exhibit 11, letter from Wendnagel & Company.
Exhibit 12, letter from Challenge Company.

As the need for these materials was urgent, the orders were divided among the three bidders to facilitate prompt delivery.

TRANSACTION #5

Exhibit 13, letter from Dover Boiler Works.
Exhibit 14, letter from W. H. Thompson & Company.
Exhibit 15, letter from Tippett & Wood.
Exhibit 16, telegram from Chattanooga Boiler & Tank Company.

Order for the material specified on requisition USN–6854–1/2X was placed with the Chattanooga Boiler Works.

TRANSACTION #6

Exhibit 17, letter from Dover Boiler Works.
Exhibit 18, letter from Tippett & Wood.
Exhibit 19. Coatesville Boiler Works.

The order for materials specified USN–8001–1/2G was placed with Coatesville Boiler Works.

TRANSACTION #7

Exhibit 20, letter from Chattanooga Boiler & Tank Company.

Exhibit 21, letter from Tippett & Wood.

Exhibit 22, letter from Dover Boiler Works.

The order for material specified was placed with Chattanooga Boiler & Tank Company, requisition USN–5632–1/2X.

TRANSACTION #8

Exhibit 23, letter from W. H. Thompson & Company.

Exhibit 24, letter from Coatesville Boiler Works.

Order for material specified was placed with Coatesville Boiler Works, requisition USN–7518–1/2A.

TRANSACTION #9

Exhibit 25, letter from Geo. D. Wetherill & Company, Inc.

Exhibit 26, letter from John Lucas & Company, Inc.

Exhibit 27, letter from John T. Lewis & Brothers, Company.

Order for materials specified was placed with the lowest bidder, Geo. D. Wetherill & Company, Inc., req. GOH–719.

Exhibit No. 1

February 11, 1918.

War Department, United States of America, Ordnance Department, Du Pont Engineering Co., agents, Wilmington, Del.]

Req. No. USN–769½–L.

Charge Const. Nashville Smokeless Powder Plant—Material.

400 kegs 4″ x 7/16″ railroad spikes. Tramways. Delivery 160 kegs March 15, 1918; delivery 160 kegs April 15, 1918; delivery 80 kegs May 15, 1918.

Dilworth Porter & Co., Inc., Pittsburgh, Pa., $4.05 cwt. f.o.b. Pitts. As per instructions from Director Gen'l of Military Rys. (See letter 3/13).—C. R. H.

(Director General Military Railways, 734 15th St., Washington, D.C. $4.90 cwt.—D. B. W. Cancelled; placed as above.)

PLH*EC

Mark and ship as follows: To Ordnance Department, U. S. Army, Du Pont Engineering Co., agents; destination, c/o E. F. Johnson, R. E. (USN–769½–L). Via freight.

Shipment as above.

H. M. Pierce, *Chief Engr.*
Per Wm. N. Howson.

Exhibit No. 2

[C. T. Johnston, Gen'l Manager of Sales; W. B. Topping, Ass't Gen'l Manager of Sales]

Republic Iron & Steel Company,
General Offices, Republic Building,
Youngstown, Ohio, Feb. 14, 1918.

War Department, U. S. of America,
Ordnance Department, Du Pont Engineering Co., Agents
Wilmington, Delaware.

Gentlemen: We are in receipt of your favor of the 12th inst. "DSW" requisition USN–769½–L, inquiry for 400 kegs 4″ x 7/16″ railroad spikes, would advise that if order is received at once, could furnish these spikes in about three to four weeks after receipt of order and quote you $3.90 base f.o.b. Pittsburgh.

Yours very truly,

W. B. Topping,
Ass't General Manager of Sales.

Dict. by G. L. G

EXHIBIT NO. 3

[All agreements contingent upon strikes, accidents, and causes beyond our control prices subject to change without notice]

SALES DEPARTMENT,
AMERICAN STEEL & WIRE COMPANY,
30 Church Street,
New York, October 22nd, 1918.

DU PONT ENGINEERING CO.,
Wilmington, Del.

GENTLEMEN: We have your letter of the 21st, file "HMA", enclosing copy of telegram and would state that we have no record of having received this telegram. However our price on 100 kegs, 4 x 7/16 railroad spikes is $5.15 per 100 lbs., f.o.b. Pittsburgh and the less car lot rate of freight from Pittsburgh to Racine, Wis., is 42½¢ per 100 lbs. plus the war tax of 3% on the freight. We also charge the freight on the tare of the kegs and the keg weight, 10 lbs. As near as we can estimate we have about five weeks work on railroad spikes at the present time, but shipment of the 100 kegs for you could possibly be made in two to three weeks.

Terms, thirty days net or ½ of 1% discount if paid within ten days from date of invoice or thirty days net.

Yours truly

AMERICAN STEEL & WIRE CO.,
O. B. COLES, *Sales Agent.*

HJM:AN

The prices quoted for the materials named herein are subject to revision to a basis that may be fixed by the proper U. S. Government agency, by agreement or otherwise, as the public or market price for such materials at the time of shipment.

EXHIBIT NO. 4

[FAM*AFC. In reply refer to file no. G. File C. R. H.]

WAR DEPARTMENT, CORPS OF ENGINEERS, U. S. ARMY,
OFFICE OF THE DIRECTOR GENERAL OF RAILWAYS,
734 Fifteenth Street NW.,
Washington, D. C., March 13th, 1918.

DU PONT ENGINEERING COMPANY,
Wilmington, Del.

(Attention Mr. F. A. LaMotte, Jr.)

GENTLEMEN: 1. Since writing you on the 8th instant we have received certain rail orders for 25# rail accessories and turn-outs, which are herewith returned you.

2. As stated in my letter of March 8th, arrangements have been made in your behalf in respect to the allotment and prices of the 25# rail, and it is further arranged for you to place your order, instead of this office, in the following manner:

Arrangements have been made with the Cambria Steel Company to furnish the tonnage on order 118–P, for 408,000 ft. of 25# rail should read—1,574 gross tons 25# A. S. C. E. section rail in accordance with specifications of D. G. M. Ry. dated March 4th, 1918, together with 16,520 pairs of splices, the rail at 3¢ per cwt., splices at 38¢ per pair. All of the above rail should be 30 ft. lengths, excepting 56 gross tons, which should be requested in 455 pieces 32 ft. 10 in. in length, which will take a price of .309¢, and should be consigned to the Lakewood Engineering Company, Cleveland, Ohio, for the fabrication of your 365 turn-outs. The above prices are f. o. b. Johnstown, Pa.

Your order 116–P should be made to the Lakewood Engineering Company, covering 365 #4 turn-outs, 3 ft. gauge, to be made of rail as furnished without charge f. o. b. their works, at a price of $32.75 each, plus $16.50 for switch stands.

Your order 117–P, covering 400 kegs of 4 by ½″ railroad spikes should be made to Dilworth, Porter & Co., Inc., Pittsburgh, Pa., at a price of $4.05 per cwt., f. o. b. Pittsburgh, Pa.

Your bolt requirement consists of 275 kegs approximately, or 54,400 pieces 2⅛ by ½″, priced at 4.9¢ per pound, f. o. b. Pittsburgh, and can be taken care of by the Oliver Iron & Steel Company, Pittsburgh, Pa.

3. The above-named firms have been notified of the above and are awaiting your formal order.

Very respectfully,

S. M. Felton,
Director General Military Railways.
By F. H. Malilor,
Lt. Col., Engineers, N. A.

Inclos. Copies of orders, CC Lakewood Engineering Co., Cleveland, Ohio; Dilworth, Porter & Co., Inc., Pittsburgh, Pa.; Oliver Iron & Steel Company, Pittsburgh, Pa.; Cambria Steel Co., Woodward Building, Washington, D. C.

Exhibit No. 5

Req. No. USN–768½–I.

February 11, 1918.

[War Department, United States of America, Ordnance Department, Du Pont Engineering Co., agents, Wilmington, Del.]

Charge: Construction Nashville Smokeless Powder Plant—Material.

365 turn-outs for tramway, 3′0″ gauge, 25-lb. rail, each turn-out to consist of 2 5′0″ split switch points, right and left; 4 head blocks; 1 head tie rod with switch stand connections and one (1) auxilliary tie rod; 1 ground throw, lever to parallel track; 1 #4 rigid rivetted plate frog 4′8″ long and two (2) 5′0″ guard rails.

(Director General of Military Railways, 734 15th St., Washington, D. C. Cancelled.)

Tramways, delivery 146 complete turn-outs March 15, 1918; delivery 146 complete turn-outs April 15, 1918; delivery 73 complete turn-outs May 15, 1918. PLH*EC

(Replace Lakewood Engineering Co., Cleveland, O. $32.75 ea. + $16.50 ea. for switch stands, as instructed in letter of 3/13 from Director Gen'l of Military Rys.)

Mark and ship as follows: To Ordnance Department, U. S. Army, Du Pont Engineering Co., agents. Destination, c/o E. F. Johnson, R. E. (USN–768½–I), Old Hickory (via Hermitage) (near Nashville), Tennessee.

Shipment, as above. Via freight.

H. M. Pierce, *Chief Engr.*,
Per Wm. Howes.

Exhibit No. 6

Light Railway Equipment Company,
Phila., Pa., Feb. 15th, 1918.

Dupont Engineering Co.,
Agents, Ordnance Dept., U. S. of America,
Wilmington, Del.

Your file DSW. Req. USN–768½–L.

We propose to furnish f. o. b. our works, Chester, Pa., within ______ from date of receipt of your order, unless delayed by strikes, fires, or other causes beyond our reasonable control, the hereinafter described material, as called for in your inquiry of Feb. 12th, 1918, 365 turnouts for tramway 3′ gage, made of 30# rail, each turnout to consist of—

2–5′ split switch points (right and left).
4 head blocks or slide plates.
1 head tie rod with switch stand connections.
1 auxiliary tie rod to reach the ground throw.
1 ground throw, lever to operate parallel with track.
1 #4 rigid plate frog 4′ 8″ long.
2–5′ guard rails notched and bent.

Each set as described above at a price of $38.40 each.

We will make delivery shipping 100 in three weeks from date of order, and 100 per week following.

Thanking you for the opportunity of quoting and hoping to be favored with your order.

Terms: 30 days 1% 10 days.

Respectfully submitted.

LIGHT RAILWAY EQUIPMENT CO.,
H. A. ELLIS, *Pres.*

EXHIBIT NO. 7

[File D. S. W.]

CARNEGIE STEEL CO.,
ILLINOIS STEEL COMPANY,
NATIONAL TUBE CO.,
AMERICAN STEEL & WIRE CO.,
AMERICAN SHEET & TIN PLATE CO.,
UNIVERSAL PORTLAND CEMENT CO.,
UNITED STATES STEEL PRODUCTS COMPANY,
AMERICAN BRIDGE CO.,
TENNESSEE COAL, IRON & R. R. CO.,
THE LORAIN STEEL CO.,
Wilkins Building, Washington, D. C., February 18, 1918.

ORDNANCE DEPARTMENT, U. S. A.,
Du Pont Engineering Company, Agents,
Wilmington, Delaware.

(Your file "DSW", Requsition USN–768½–L.)

DEAR SIRS: In response to your letter of the 12th instant, addressed to our Johnstown, Pa., office, for quotation on 365 turn-outs of #30 lb. rail, we are pleased to quote you price of $45.70 per set f. o. b. cars our works, Johnstown, Pa., based on each set being made up as follows:

Rigid split switch 5′0″ long, complete with 1 head rod and 1 tie rod with clips and bolts, and 4 slide plates, and equipped with parallel ground throw; #4 riveted plate frog, 4′8″ long; two (2) 5′0″ guard rails; built of #30 lb. ASCE tee rail; gauge of track, 3′0″; ground throw to be of the type shown at the top of page 39 of our #19 catalog; frog to be of the type shown on page 88 of same catalog.

Cuts mentioned are enclosed herewith.

We have enough rail in stock to take care of approximately 75% of the material required, and this rail is offered for immediate acceptance and subject to prior sale. The balance of rails required for this work can be secured from rolling within 2 to 3 weeks, and in order that we may secure from this rolling it will be necessary that your order be received immediately. On this basis we can make shipment at the rate of 65 sets in 28 working days and 100 sets per week thereafter, after receipt of order and full information, although this promise is made subject to nonpenalty.

Trusting this proposition will prove of interest and that we may be favored with your order to cover promptly, we await your further advices.

Very truly yours,

THE LORAIN STEEL COMPANY,
W. N. BRANDT.

WNB–X

EXHIBIT NO. 8

THE BASS FOUNDRY & MACHINE COMPANY,
Fort Wayne, Ind., February 23rd, 1918.

Bid on castings for Nashville, Tenn.

D. S. WOOD,
Asst. Pur. Agt., E. I. du Pont de Nemours & Co.,
Wilmington, Delaware.

DEAR SIR: Referring to your inquiry of the 12th instant, file "DSW", inviting our price on castings for Nashville, Tenn., beg to advise that we are prepared to bid on one double unit only, for your July or August schedule of delivery. There were some discrepancies in your specification sheet as compared with the blueprint sent us. You failed to send us details of castings 3953–B and 1239–B but with these exceptions we are bidding on the other castings as follows:

4 #4125–A1 supports.
4 #4125–B perforated plates.

128 #4125–D2 grids.
16 #4125–C supports.
4 #3953–A tower tops.
20 #1245–A lantern inlets.
20 #1243–A lantern bodies.
20 #1243–B lantern covers.
8 #3958–A inlet sleeves.
20 #1242–B shield plates.
20 #1242–C wearing plates.
20 #1241–A spray saucers.
20 #1242–A gradings.
80 #1244–A supports.
8 #3958–B gas sleeves.
40 #1244–C gas sleeves.
20 #1244–B blank flanges.
20 #189–A base plates.
620 #4607–A grates.
620 #4607–B grates.
620 #4607–C grates.
620 #4607–D grates.
12 #1244–D acid sleeves.
12 #1238–C inlet sleeves.
4 #4168–A sleeves.
15 #4213–C ring flanges 3″.
5 #4213–D ring flanges 4″.
5 #4213–E ring flanges 5″.
5 #4213–F ring flanges 6″.
4 #4149–B 16″ x 23½″ blank flange.
4 #4149–A1 manifold (cast steel).
4 #4268–A fillers.
4 #4268–B fillers.
16 #3990–A1 furnace fronts.
16 #3989–F weights.
8 #3991–A sills.
16 #920–A ash pit frames.
16 #920–B ash pit doors.
16 #920–C ash pit doors.
32 #3989–E sheaves.
16 #3989–B arch plates.
16 #3989–D side frames.
16 #3989–G side frames.
8 #3991–B bar supports.
24 #3965–B lug guides.
24 #3965–C slot guides.
8 #3965–A straight pipe.
288 #3965–D1 sleeves.
144 #3940–C u-pipes.
120 #3940–A u-boxes.
8 #3942–A inlet manifolds.
8 #3941–A outlet manifolds.
80 #3939–A plain roof bars.
72 #3939–B lug roof bars.
40 #921–A frames.
40 #921–B doors.
32 #3989–C doors 12 x 24.
32 #3989–A frames 12 x 24.
20 #1207–C pipe saddles.
20 #1207–D saddle shoes.
2 #3940–B split collars.
16 #4091–A floor plates.
32 #4091–B floor plates.
72 #3888–E base blocks.
8 #3884–A1 bottom sections.
40 #3885–A intermediate sections.
8 #3886–A covers.
80 #3888–A grills.
200 #3888–B distance bars.

80 #3888–C segments.
192 #3888–D1 spring washers.
2 #4125–A1 supports.
2 #4125–B perforated plates.
64 #4125–D2 grids.

We estimate the total weight of all the foregoing to be 941,090 pounds and our total price for same, including all machine work where called for, would be $59,047 f. o. b. Fort Wayne. If the four manifolds from pattern #4149–A1 are made of cast iron instead of cast steel, our price would be reduced $1,700.00. We could have all of these castings shipped during July but as there are about 15 carloads of castings involved, we would no doubt begin shipping as early as June and probably sooner, but we would not care to be pushed for any of the castings before July, owing to Government work already on our books.

A majority of the necessary patterns our records show to be in existence. We give below separate prices for such patterns as our records do not show we have previously had in our possession, as follows:

Patt. #4125–A1 support, $54.00.
Patt. #4125–B perforated plate, $15.00.
Patt. #4125–D2 grids, $39.00.
Patt. #4125–C support, $49.00.
Patt. #1245–A lantern inlet, $18.00.
Patt. #4168–A sleeve, $18.00.
Patt. #4213–C flange, $1.00.
Patt. #4213–D flange, $1.00.
Patt. #4213–E flange, $1.50.
Patt. #4213–F flange, $1.50.
Patt. #4149–B flange, $6.00.
Patt. #4149–A1 manifold, $80.00.
Patt. #4268–A filler, $5.50.
Patt. #4268–B filler, $5.50.
Patt. #1207–C pipe saddle, $3.75.
Patt. #1207–D saddle shoe, $5.50.

Trusting this proposition will receive favorable consideration, we remain,

Very respectfully,

THE BASS FOUNDRY & MACHINE CO.,
By WILLIAM E. SLATER.

EXHIBIT NO. 9

BUFFALO FOUNDRY AND MACHINE CO.,
Buffalo, N. Y., Mar. 4, 1918.

Mr. D. S. WOOD, P. A.,
War Department, du Pont Engineering Co.—Agents,
Wilmington, Del.

MY DEAR MR. WOOD: Referring to the writer's conversation with you on Saturday, beg to advise that we this morning carefully went over this matter, and in view of the fact that we desire to help you out, we finally decided that the lowest price we could make would be six and one-half cents (6½¢) per pound, which really leaves us little or no profit. Our former quotation should be the price we ought to ask, but appreciate the position you are in, and, therefore, reduced our price as above, which we embodied in the following telegram we a few moments ago sent you—

"After careful consideration find best price can make on rough iron castings is six and one-half cents pound f. o. b. Buffalo. Patterns $865.00 additional. Machine work $11,272.00 additional. If only part order is placed divided over entire quantity pattern charge will be same but machine work will be on proportionate quantity. Please wire decision."

which we hereby confirm.

Thanking you for past kind favors, and trusting to be favored with your order, we are

Yours very truly,

BUFFALO FOUNDRY & MACHINE CO.
E. G. RIPPEL, *Sales Manager.*

EGR-S.

EXHIBIT NO. 10

EAGLE TANK CO.,
Chicago, Ill., Feb. 21, 1918.

DU PONT ENGINEERING CO.,
Agents, U. S. Government,
Wilmington, Del.

DEAR SIRS: We agree to deliver f. o. b. cars Chicago, knocked down wood tanks, as follows:

	Each	*Total*
32 wooden bleach tanks: 13′ 8″ dia., 12′ 6″ deep, all inside measures, each with 13⅞″ dia. hoops with two malleable iron lugs @	$337. 00	$10, 784. 00
32 wooden stuff tanks, each— 15′ 6″ dia., 10′ 6″ deep, all inside measures, each with 12⅞″ dia. hoops with two or more malleable iron lugs @	340. 00	10, 880. 00
20 wooden hot water tanks, each— 13′ 0″ dia., 13′ 0″ deep, all inside measures, each with 13¾″ dia. hoops with two malleable iron lugs, @	327. 00	6, 540. 00
64 wooden tanks, 9942-A, each— 13′ 0″ inside dia., 18′ 0″ staves outside. These tanks to have two bottoms, one flat and one sloping. No bottom supports or sluice valves furnished, @	492. 00	31, 488. 00
9⅞″ dia. hoops and 9¾″ dia. hoops with two malleable iron lugs.		
12 wooden tanks, each— 8′ dia. inside, 16′ staves outside, each with 16¾″ dia. hoops, with two malleable iron lugs	204. 00	2, 448. 00
760 wooden boiling tubs, each— 10′ 5″ dia., 6′ 2″ deep, all inside measures, each with 11⅞″ dia. hoops with two malleable iron lugs, Croze & Chime, as shown, @	175. 00	133, 000. 00
240 wooden poachers, each— 13′ 0″ dia., 11′ 0″ deep, all inside measures, each with 13⅞″ dia. hoops with two malleable iron lugs, @	325. 00	78, 000. 00
The above tubs are all open tops and made from clear Tank grade fir, or we may substitute long leaf yellow pine 90% heart and sound knotted. Thickness 3″ before being machined and 2¾″ approximately, when finished.		
Five 35,000-gal. water tanks, each— 18′ 0″ dia., 20′ 0″ staves, all outside measures made of 3″ clear tank grade fir with 20⅞″ dia. hoops with lugs. 1″ D. & M. flat pine cover. Pine ruberoid-covered conical roof Five 30-foot high towers: 4 posts each, for supporting above tanks with a factor of safety of four, including balcony, hand rail and ladders, all painted one coat at factory	1, 800. 00	9, 000. 00
Additional cost of freight and expense of sending men to Nashville and erecting above 5 tanks and towers on foundations furnished by others	700. 00	3, 500. 00

The above tanks are all made with straight sides.

We can furnish about 25% of the above tanks.

Yours very truly,

EAGLE TANK CO.,
W. O. OLSEN, *President.*

EXHIBIT No. 11

WENDNAGEL & CO.,
Chicago, Ill., Feb. 21, 1918.

DU PONT ENGINEERING CO., *Agents,*
Wilmington, Del.

GENTLEMEN: We propose to furnish, f. o. b. Chicago, the following tanks, all to be made of 3″ best quality and grade old-growth yellow fir, or 3″ long-leaf yellow pine, 90% heart, all to be entirely free from sap on the inner surface and practically free from knots and all defects. All to be worked up to their proper size and shape by machinery; staves convex and concave; joints all smoothly planed (not sawed) and thoroughly dowelled. Hoops made to proper length, threaded and bent to circle.

	Each	Total
32 (thirty-two) wood bleach tanks, 13′ 8″ dia. x 12′ 6″ deep, inside dimen. with 13 ⅞″ round screw hoops, 2 lugs on each @ Can furnish 16 tanks.	$339.00	-----------
32 stuff tanks, 15′ 6″ dia., 10′ 8″ deep, inside dimen. with 12 ⅞″ round screw hoops, 2 lugs on each @ Can furnish 16 tanks.	345.00	-----------
20 hot water tanks, 13′ dia. 13′ deep, inside dimen., with 13 ¾″ round screw hoops, 2 lugs on each, @ Can furnish 10 tanks.	316.50	-----------
64 tanks, print 9942-A, 13′ dia. inside 18′ full length of stave. These tanks to have two bottoms, one flat and one sloping. The supports under tanks and slide valves not included herein. Each tank to have nine ⅞″ and nine ¾″ round screw hoops, 2 lugs on each, @ Can furnish 21 tanks.	471.50	-----------
12 tanks, 8′ diam. inside, 16′ staves, with sixteen ¾″ round screw hoops, 2 lugs on each, @ Can furnish 12 tanks.	195.00	-----------
760 boiling tanks, 10′ 5″ diam. 6′ 2″ deep, inside dimen., with eleven ⅞″ round screw hoops, 2 lugs on each, @ Can furnish 100 tanks.	171.00	-----------
240 poachers, 13′ dia. 11′ deep, inside dimen. with thirteen ⅞″ round screw hoops, 2 lugs on each, @ Can furnish 120 tanks.	295.00	-----------
5-35,000-gal. water tanks, 18′ dia. outside 20′ stave, with 20 ⅞″ round screw hoops, 2 lugs to each, with conical cover covered with ruberoid and to have apex, brackets, and hinged manhole door. A wooden ladder inside of tank and a steel ladder outside, also a 30′ high steel tower for each tank, tank and tower to receive one coat of paint at factory, f. o. b. cars Chicago	1,498.00	-----------
These five tanks and towers we will furnish f. o. b. Chicago and erect on supports provided by you, at Nashville, you to pay freight and do the necessary cartage, for Can furnish five equipments.	2,045.00	-----------

This lumber will all dress to 2¾″.

Please note that we have included inside wood ladders and outside steel ladders for the 35,000-gallon water tanks in this proposition. These are not called for in your specifications, nor is the ruberoid covering which we specified.

We make the same price on the yellow pine and fir tanks, and regard one as being just as good as the other. We guarantee them first-class in every detail and should like to have the option of furnishing either.

Yours very truly,

WENDNAGEL & CO.,
By WM. WENDNAGEL.

P.S.—We did not give you the totals as we did not know whether you want the total figures of the number of tanks specified or the number of tanks we can furnish.

W. & Co.

EXHIBIT NO. 12

CHALLENGE CO.,
BATAVIA, ILL., *Feb. 21st, 1918.*

DU PONT ENGINEERING CO., *Agents,*
Wilmington, Delaware.

GENTLEMEN: Complying with your request of yesterday for prices on tanks, will advise that we take pleasure in handing you herewith our prices on this material, which are as follows:

32 bleacher tanks 12′ 6″ straight stave inside measurement x 13′ 8″ inside diameter made of 3″ fir lumber and equipped with 13⅞ round hoops, and malleable lugs, $356.00 each, total for 32 tanks	$11, 392. 00
32 stuff tanks 10′ 8″ straight stave inside measurement x 15′ 6″ inside diameter, made of 3″ fir lumber and equipped with 12⅞″ round hoops, and malleable lugs, $347.00 each, total for 32 tanks	11, 104. 00
20 hot-water tanks 13′ straight stave inside measurment x 13′ inside diameter, made of 3″ fir lumber, equipped with 13¾″ round hoops, and malleable lugs, $304.00 each, total for 20 tanks	6, 080. 00
64 tanks 18′ straight stave outside x 13′ diameter inside, made of 3″ fir lumber, equipped with 9⅞″ and 9¾″ round hoops and malleable lugs, and supplied with false bottom, $503.00 each, total for 64 tanks	32, 192. 00
12 wooden tanks 16′ straight stave outside x 8′ diameter inside, 3″ fir lumber, equipped with 16¾″ round hoops and malleable lugs, $213.00 each, total for 12 tanks	2, 556. 00
760 boiling tubs 6′ 2″ straight stave inside x 10′ 5″ diameter inside, made of 3″ fir lumber and equipped with 11⅞″ round hoops, $165.00 each, total for 760 tanks	125, 400. 00
240 poachers 11′ straight stave inside x 13′ diameter inside, made of 3″ fir lumber and equipped with 13⅞″ round hoops, $299.00 each, total for 240 tanks	71, 760. 00

The above prices are for material f. o. b. Batavia, Illinois. Terms, one-half on presentation of bill of lading, balance 30 days from date of invoice.

We are in a position to handle any of the above items, with the exception of the 64 18′ x 13′ diameter tanks.

Trusting that our proposition will have due consideration, we beg to remain,

Very truly,

CHALLENGE COMPANY,
By J. R. JUDD.

EXHIBIT NO. 13

DOVER BOILER WORKS,
DOVER, N. J., *May 27/18.*

THE DU PONT POWDER CO.,
Wilmington, Del.
(Mr. Harris.)

Quotations are for immediate acceptance and are subject to change without notice.

(1) Steel tank as per B/P 71–A–54, specifications #204–A, Req. USN–6854½–X, same delivered f.o.b. cars Dover, N.J., for the sum of $997. 63

Delivery could be made in six weeks.

Please note that the 8″ Standard companion flange for gas outlet is not included in this estimate, and neither have we included the guage glass or cocks.

This proposition does not constitute a contract until your order has been accepted from the home office. Delivery subject to delay beyond our control.

DOVER BOILER WORKS,
Per — — — — — — —

Exhibit No. 14

W. H. Thomson & Co.,
511–512 Land Title Building,
Broad and Chestnut Streets,
Philadelphia, Pa., May 22, 1918.

du Pont Engineering Co.,
Mr. D. D. Ranken, A. P. A., Purchasing Department,
Wilmington, Del.

Gentlemen: Replying to your valued favor of the 16th instant, file TWH, Req. USN–6854½–X, and confirming conversation of today with your Mr. T. W. Harris, would advise we are pleased to quote you $520.00 f.o.b. Pottstown, Pa., for supplying:

One steel tank 71–A–54, blueprint 71#54, to measure 4′ in diam. by 12′ long and made of ¼″ and 5/16″ thick steel, as indicated on drawing. One head to be flanged and dished, other head to be flat and bolted to place. Shell seams to be lapped and single-riveted and caulked inside and out to a standard of 60 lbs. pressure per square inch. Tank equipped with cast-iron nozzles, reinforced outlets, and one built-up coil of 2½″ wrought-iron pipe and pipe supports, as shown on blueprint.

We desire to state for your information, however, that in making this coil cast-iron return bends would be used, and the lengths of wrought pipe would be screwed to place in same and coil would not be constructed with welded joints and steel return bends, as indicated on drawing, as we have learned upon investigation that it would require at least three months to secure cast-steel return bends.

We could make shipment of tank constructed as outlined above, in about eight weeks.

Hoping to have the pleasure of serving you, we remain,

Very truly yours,

JMT/DE W. H. Thomson & Co.

This proposition is for immediate acceptance, subject to change without notice, and is based on today's mill and shop conditions; with the proviso that Federal or State authorities do not increase operating costs prior to completion of this work.

Exhibit No. 15

Tippett & Wood,
Phillipsburg, N. J., May 24–18.

Quotations subject to change without notice. All ageements are contingent upon strikes, accidents, and other delays unavoidable or beyond our control.

du Pont Engineering Company, *Agent,*
Wilmington, Del.

Attention T. W. Harris.

Gentlemen: Your file "TWH", Req. USN–6854½–X.

Answering yours of 22d inst., beg to state we will furnish f.o.b. cars Phillipsburg, N.J., riveted up complete, one steel tank as per drawing 71–A–54 and specification sheet 204–A accompanying your letter, for the sum of eight hundred fifty-four ($854.00) dollars, and can ship in four weeks after receipt of order.

This price is based on using material now on hand in our yards at Government warehouse price.

Very truly,

Tippett & Wood,
By S. Taylor Wilson
President.

STW–H

Exhibit No. 16

[Telegram]

Chattanooga, Tenn., *May 24, 1918, 9:22 p.m.*

T. W. Harris,
Wilmington, Del.

Referring your inquiry May twentv-second, requisition USN sixty eighty fifty-four one-half X, we quote four hundred dollars Chattanooga, not including iron gate valve. Can ship as required.

Chattanooga Boiler and Tank Works.

EXHIBIT NO. 17

DOVER BOILER WORKS,
Dover, N. J., June 26, 1918.

The DU PONT POWDER CO.,
Wilmington, Del., U. S. A.
(Mr. Harris.)

Quotations are for immediate acceptance and are subject to change without notice.

KIND OF MATERIAL

	Price
Three (3) tanks 54″ dia. x 24′ long, detail 1514–A, req. 8001½″–G USN, delivered f. o. b. cars Dover, N. J., for the sum of___each__	$1, 884. 50
	5, 653. 50

Delivery in three weeks after receipt of steel castings.

Two (2) tanks 9′ dia. x 36′ long, detail 3500–B, requisition #7701½ USN, delivered f. o. b. cars Dover, N. J., for the sum of___each__	2, 646. 00
	5, 292. 00

Delivery could be made in two weeks after the receipt of heads from the mill, as we have no 9′ heads in stock.

We have 10′ heads in stock and would be pleased to furnish you with two (2) tanks 10′ dia. x 30′ long, at a price of delivered f. o. b. cars Dover, N. J., for the sum of______________________(each)__ 2, 885. 52

And these we could get out in two weeks time.

This proposition does not constitute a contract until your order has been accepted from the home office.

Delivery subject to delay beyond our control.

Would expect to make delivery ______ days from receipt of order.

Terms: cash ________________ days, via ____________________________R. R.

DOVER BOILER WORKS,
Per ______________________

EXHIBIT NO. 18

TIPPETT & WOOD,
Phillipsburg, N. J., June 25, 1918.

DU PONT ENGR. CO.,
Wilmington, Del.
(Attention T. W. Harris.)

Gentlemen:

Your file TWH, spec. sheets 222–223–A, req. USN–7518½–P, 7701½–P, 8001½–G.

Answering yours of 22d inst., we are pleased to quote you as follows all f. o. b. Phillipsburg, N. J., riveted up complete:

3 steel tanks, detail 1514–A, 4′ 6″ diam., 24′ long, req. USN–8001½–G, price thirteen hundred thirty-one ($1,331.00) dollars each, shipment 6 weeks after receipt of plates from the mill, which would have to be obtained on priority certificate.

1 tank 8′ 0″ diam., 30′ 0″ long, detail 11913–A, req. USN–7518½–A, price twenty-two hundred twenty ($2,220.00) dollars f. o. b. Phillipsburg, N. J., shipment six to seven weeks after receipt of order.

Tank to be made from stock material now on hand and made up as follows: Shell made in 4 rings, 2 plates to a ring, each head made in two pieces.

2 tanks 9′ diameter, 36′ long, req. USN–7701½–P, detail 3500–B, price twenty-six hundred ninety-four ($2,694.00) dollars each, f. o. b. Phillipsburg, N. J. Shipment 8 weeks after receipt of order. Tanks to be made from stock material now on hand, and made as follows: Tank made in 6 rings, 2 plates per ring, heads made in two pieces.

We return blue prints as per your request.

Very truly,

TIPPETT & WOOD,
By S. TAYLOR WILSON,
President.

STW-HZ

EXHIBIT NO. 19

NOTICE.—On account of present extraordinary conditions all our quotations are made for immediate acceptance and subject to our ability to handle the business when same is placed with us. General conditions are such that we cannot leave anything open. Therefore, all orders are accepted by us under the condition that we are not to be held liable for nondelivery because of nontransportation facilities, labor strikes, fires, war, flood, accidents at factory, inability to secure labor or materials required to fill the contract, or any other unavoidable cause. The above is a part of this proposal.

COATESVILLE BOILER WORKS,
Phila., June 25, 1918.

DU PONT ENGINEERING CO.,
Agents for U.S. Government,
Wilmington, Del.

GENTLEMEN: We propose to furnish you steel plate work as per schedule attached hereto and forming part hereof at prices, delivery, terms, etc., as hereinafter stated.

The material furnished comprises: Three (3) steel tanks detail 1514–A, each 4′6″ diameter by 24′0″ long.

Delivery.—F.o.b., Coatesville.

Price.—Nine hundred ninety-seven dollars ($997.00) each.

Terms of payment.—Net, 30 days.

Time of shipment ten days to two weeks after receipt of all materials.

The time of delivery named herein is the approximate date of shipment from our works, and this company shall not be responsible for delays or nonperformance occasioned by strikes, fire or other causes beyond its reasonable control.

The acceptance of the material when delivered shall constitute a waiver of all claims for damages caused by any delay.

The title to and property in the material, shall remain in this company until payment shall have been completed, risk of fire or other casualty shall be in the purchaser.

The material shall at all times be and remain personal property notwithstanding the manner of its annexation to realty.

The foregoing proposal is subject to the approval of an executive officer of this company, and shall not be binding upon this company until so approved, nor unless accepted by the purchaser within reasonable time.

All previous communications between the parties hereto, either oral or written, with reference to the subject matter of this proposal, are hereby superseded, and this proposal, when duly accepted and approved, shall constitute the agreement between the parties hereto, and no modification thereof shall be binding upon the parties, or either of them, unless such modification shall be in writing, duly accepted by the purchaser and approved by an executive officer of this company in writing.

Prices quoted are based on present prices of materials to this company and are subject to change accordingly.

There are no understandings or agreements outside of this written proposal.

Respectfully submitted.

COATESVILLE BOILER WORKS,
By HERBERT H. EVANS.

Accepted____________________191 .

____

____

Approved____________________191 .

COATESVILLE BOILER WORKS.

In duplicate.

[PROPOSAL]

COATESVILLE BOILER WORKS

BOILERS AND STEEL PLATE CONSTRUCTION

SCHEDULE

To: Du Pont Engineering Co.

Three (3) Steel Tanks, detail 1514–A, each 4′6″ dia. 24′0″ long. Shell to be made of ½″ steel in 3 sheets.

Heads to be made of ½″ pressing steel, dished as shown on drawings.

Tanks to be complete with nozzles, manholes and other connections, of material specified as shown on drawing. All castings, of cast steel and cast iron, must be made from good clean metal, free from blow holes, sand dirt, or shrinkage cracks.

All parts to be machined and finished to size and shape specified on drawings.

All seams to be lap, single riveted.

Tanks to be used as acid containers. Size and spacing of rivets to be manufacturers standard for this class of work. No dutchmen will be permitted.

All seams to be caulked both inside and outside and subjected to a hydrostatic test pressure of 80 lbs. per sq. inch. Tanks to be given one coat quick drying black paint on outside before shipment and after inspection. Tanks to be subject to inspection by representative of engineering department before shipment and before painting. Workmanship and material must be first class in every respect.

Per specification sheet 223–A, dated June 22, 1918, Rq. USN 8001½–G.

The price herein quoted is based on present price of steel as fixed by the Government, namely 3¼¢ per pound, base Pittsburgh. If the Government increases the price of steel plates before the mills deliver the plates to our shops, you are to pay us additional for such increase, provided the mills charge us such increase, and on the other hand, if the Government price of steel goes below the present price before the plates are delivered to us by the mills, we are to credit you with the decrease in price, provided the mills allow us such decrease in price.

In regard to delivery, it will be necessary for you to secure priority certificate from the Government in order to facilitate shipment from the mills to our works.

Standard flanging and dishing has been figured as per list of January 1, 1917. If there should be any change in this price, you are to pay us for any increase and we will make you an allowance for any decrease.

HHS/BK.

Exhibit No. 20

Chattanooga Boiler & Tank Co.,
Chattanooga, Tenn., April 30, 1918.

Du Pont Engineering Co. *Agents,*
Wilmington, Del.
(Attention Mr. T. W. Harris.)

Gentlemen: We received your inquiry this morning. Yours of April 26th, specification sheet #183–A, Req. USN–5632½–X, covering two tanks 8′ diameter x 10′ high. We wired you as follows this morning:

"Your inquiry April 26 received, Req. USN–5632 one-half X, covering two tanks. We can furnish these tanks from our stock at Seven Hundred Dollars each Chattanooga. Shipment between June fifth and tenth. Answer." As this was the only way we could get quotation to you in time. We have all material in stock for these tanks, but will have to make the head in two pieces. This, we judge, will be entirely satisfactory to you, as we could either weld this, or put a butt strap on it, either of which will be just as safe as the other joint in the tank.

We are forced to do this because we require sheet at least 102″ wide to make this head, otherwise we would follow your specifications. We hope to hear from you some time this week advising that we can go ahead with this business.

We would like to have promised you better shipment than June 5 to 10th, but believe this is about the best we can do for you.

Yours very respectfully,

Chattanooga Boiler & Tank Co.,
Per E. C. Patterson, *Secy. & Gen. Mgr.*

ECP:A

Exhibit No. 21

Tippett & Wood,
Builders of Water Towers, Stand Pipes, and Tanks,
Phillipsburg, N. J., April 29–18.

War Department U. S. Army,
Du Pont Engr. Co., Agents,
David D. Ranken, Asst. Purch. Agt.,
Wilmington, Del.

Gentlemen: Your file TWH. Specification sheet 183–A, Req. USN–5632½–X.

Answering yours of 26th inst., beg to state we will furnish f. o. b. cars our works Phillipsburg, N. J., riveted up complete, two (2) Steel Tanks 8′ diam., 10′ high, open top, as per blueprints W–23, detail 11415 and specification above noted, for the sum of nine hundred sixty-one ($961.00) dollars, and could ship in two to three weeks after receipt of order.

These tanks will be made from stock material we now have on hand in our yard.

We return blueprints above noted.

Very truly,

TIPPETT & WOOD,
By S. TAYLOR WILSON, *President.*

STW-HZ

EXHIBIT NO. 22

DOVER BOILER WORKS,
DOVER, N. J., *April 29/18.*

The WAR DEPARTMENT, DU PONT ENGR. CO.,
Wilmington, Del.

Mr. T. W. Harris.

Quotations are for immediate acceptance and are subject to change without notice.

KIND OF MATERIAL

Two (2) steel tanks, drawing W. 23, detail 11415, 8′ x 10′ x ⅜″, open top, Req. USN-5632½ X, same delivered f. o. b. cars Dover, N. J., for the sum of (each) $946

We have all this material in stock, and shipment could be made in three weeks.

This proposition does not constitute a contract until your order has been accepted from the home office. Delivery subject to delay beyond our control.

DOVER BOILER WORKS,
Per F. F. BIRCH.

EXHIBIT NO. 23

W. H. THOMSON & CO.
Philadelphia, Pa., June 28th, 1918.

DU PONT ENGINEERING CO.,
Mr. D. D. RANKEN, A. P. A.,
Purchasing department, Wilmington, Del.

GENTLEMEN: Replying to your valued inquiry of the 22nd instant, file TWH, Req. USN-7518½-A would advise we are pleased to quote you $2,100.00 F. O. B. Pottstown, Pa., for supplying—

One steel tank 11913-A, blueprint 11913 to measure 8′ in diam. by 30′ long and made throughout of ⅜″ thick steel. Heads flanged and dished and fastened to place in shell in manner shown. Shell to consist of five belts of one plate each. Seams lapped and single riveted and caulked inside and out and made to show tight under a test pressure of 60 lbs. per sq. in. Tank equipped with the cast iron mountings and reinforced outlets shown (water gauge fixtures not included). Also would supply one built-up coil made of 2″ wrought black pipe and consisting of four lengths of pipe about 28′ long and cast iron return bends and coil support shown on drawing.

Painted black on the outside.

Delivery during September or October.

Terms: Net cash within thirty days from date of shipment.

Hoping to have the pleasure of serving you, we remain

Very truly yours,

JMT/DE W. H. THOMSON & CO.

This proposition is for immediate acceptance, subject to change without notice, and is based on today's mill and shop conditions, with the proviso that Federal or State authorities do not increase operating costs prior to completion of this work.

Exhibit No. 24

COATESVILLE BOILER WORKS,
BOILERS AND STEEL PLATE CONSTRUCTION,
Philadelphia, June 25th, 1918.

DU PONT ENGINEERING CO.,
Agents for United States Government, Wilmington, Del.
Req. U. S. N. 7518½–A:

GENTLEMEN: We propose to furnish you steel plate work as per schedule attached hereto and forming part hereof at prices, delivery, terms, etc., as hereinafter stated.

The material furnished comprises: One steel tank, detail 11913–A, 8′ 0″ dia. x 30′ long.

Delivery.—F. O. B. cars Coatesville, Pa.

Price.—Thirteen hundred and ten dollars ($1,310.00).

Terms of payment.—Net 30 days.

Time of shipment.—Ten days to two weeks after receipt of material.

The time of delivery named herein is the approximate date of shipment from our works, and this company shall not be responsible for delays or nonperformance occasioned by strikes, fire, or other causes beyond its reasonable control.

The acceptance of the material when delivered shall constitute a waiver of all claims for damages caused by any delay.

The title to and property in the material, shall remain in this company until payment shall have been completed, risk of fire or other casualty shall be in the purchaser.

The material shall at all times be and remain personal property notwithstanding the manner of its annexation to realty.

The foregoing proposal is subject to the approval of an executive officer of this company, and shall not be binding upon this company until so approved, nor unless accepted by the purchaser within reasonable time.

All previous communications between the parties hereto, either oral or written, with reference to the subject matter of this proposal, are hereby superseded, and this proposal, when duly accepted and approved, shall constitute the agreement between the parties hereto, and no modification thereof shall be binding upon the parties, or either of them, unless such modification shall be in writing, duly accepted by the purchaser, and approved by an executive officer of this company in writing.

Prices quoted are based on present prices of materials to this company and are subject to change accordingly.

There are no understandings or agreements outside of this written proposal.

Respectfully submitted.

COATESVILLE BOILER WORKS,
By HERBERT H. EVANS.

In duplicate.

NOTICE.—On account of present extraordinary conditions all our quotations are made for immediate acceptance and subject to our ability to handle the business when same is placed with us. General conditions are such that we cannot leave anything open. Therefore all orders are accepted by us under the condition that we are not to be held liable for nondelivery because of nontransportation facilities, labor strikes, fires, war, flood, accidents at factory, inability to secure labor or materials required to fill the contract, or any other unavoidable cause. The above is a part of this proposal.

[PROPOSAL]

COATESVILLE BOILER WORKS

BOILERS AND STEEL-PLATE CONSTRUCTION

To E. I. du Pont de Nemours & Co.

One steel tank detail 11913–A 8′ 0″ diameter 30′ 0″ long. Shell to be made of ⅜″ tank steel in 5 sheets. Heads to be made of ⅜″ steel, dished as shown on drawing. Tanks to be completed with nozzles, manholes, and other connections of material shown on drawing, also 2″ black iron pipe coil, flanges, lock nuts, pads. All castings of cast iron, must be made from good clean metal, free from blow holes, sand, dirt, or shrinkage cracks. All parts must be machined and finished to size and shape specified on dwg. All seams to be lap, single riveted. Tanks to be used as acid containers. Size and spacing of rivets to be manufacturers standard for this class of work. No dutchmen will be permitted. All seams must be caulked both inside and outside and subjected to a hydrostatic test pressure of 60 lbs. per sq. in. Tanks to be given one coat quick-drying black paint on outside before shipment and after inspection. Tanks to be subject to inspection by representative of engineering dept. before shipment and before painting. Workmanship and material must be first-class in every respect.

SPECIFICATION SHEET #222-A

The price herein quoted is based on present price of steel as fixed by the Government, namely 3¼¢ per pound, base Pittsburgh. If the Government increases the price of steel before the mills deliver the plates to our shops you are to pay us additional covering such increase, provided the mills charge us such increase in price, and on the other hand if the Government price of steel goes below the present price before the plates are delivered to us by the mills, we are to credit you with the decrease in price, provided the mills allow us such decrease in price.

In regard to delivery it will be necessary for you to secure priority certificate from the Government in order to facilitate shipment from the mills to our works.

Standard flanging and dishing has been figured as per list of January 1st, 1917. If there should be any change in this price you are to pay us for any increase and we will make you an allowance for any decrease.

HHS/L

Exhibit No. 25

Geo. D. Wetherill & Co., Inc.,
Philadelphia, August 2, 1918.

du Pont Engineering Co.,
Wilmington, Del.

Gentlemen: We wish to acknowledge your telephone order for 40,000 lbs. pure white lead in oil at 10¾¢ per lb.; 9,000 lbs. dry red lead in oil at 10⅞¢ per lb.

Your requisition GOH, 719, to be shipped to Du Pont Engineering Company, contractor, c/o E. S. Johnson, manager, operating department, Old Hickory via Hermitage, Davidson Co., Tenn.

Yours very truly,

Geo. D. Wetherill & Co., Inc.,
Per G. E. Glover.

GEG–H.

Exhibit No. 26

[File C. R. H.]

John Lucas & Co. Inc.,
Philadelphia, August 2, 1918.

du Pont Engineering Company,
Wilmington, Del.
(Attention of Mr. Hilberry.)

Dear Sir: This will confirm our telephone quotation on 40,000 lbs. pure white lead in oil, $11.97 per 100 lbs. f. o. b. Philadelphia. Terms: 30 days net.

This price is for immediate acceptance only. We are not in position to quote on the 9000 lbs. dry red lead.

Yours very truly,

John Lucas & Co., Inc.,
Alfred V. Brown,
Industrial Department.

JB—M.

EXHIBIT NO. 27

[File C. R. H.]

JOHN T. LEWIS & BROS. COMPANY,
Office N. E. Cor. Fifth & Chestnut Streets,
Philadelphia, August 5, 1918.

The DU PONT ENGINEERING COMPANY,
Wilmington, Delaware.
(Attention of Mr. Hilberry.)

GENTLEMEN: Confirming our telephone conversation on Friday, your inquiry directed to the National Lead and Oil Company of Pennsylvania to our Pittsburgh representative has been referred to us.

We are very glad to quote you:

40,000 pounds of white lead in oil	@$11.84 per hundred
9,000 pounds of dry red lead	@ 11.84

Terms: 2% for cash 15 days, net 60 days, f. o. b. Nashville, Tenn.

We can make delivery from our Cincinnati branch within 30 days after the receipt of your order.

We hope you will be able to see your way clear toward placing this order with us, which we assure you will have our very careful attention.

Yours very truly,

JOHN T. LEWIS & BROS. COMPANY,
CHAS. A. WILSON,
Asst. Sales Manager.

CAW—KE.
17-7-62.

Purchasing Department
Mr. David D. Ranken, Asst. Pur. Agt.

E. I. DU PONT DE NEMOURS & COMPANY,
Wilmington Delaware, January 18, 1919.

[Our file "TWH"]

RÉSUMÉ OF YEAR'S WORK, 1918

The following data has been accumulated covering the amount of purchases that have been made in my office during the year 1918, and these purchases have been divided into two main divisions, viz:

A—Materials purchased not on contract, but as each individual order presented itself.

B—Material purchased under contract.

Division A.—Below are listed 14 subdivisions of the actual cost of material purchased with the average competition or market price at time of purchase determined by averaging all quotations obtained, including the firm obtaining the business, if such quotations are comparable, viz: Only such firm's quotations were considered who could render as good workmanship as the successful bidder and who could make deliveries possibly not as soon but at least within a reasonable time for the delivery required. Thus as a rule all bidders' quotations were considered as we very seldom approach firms who do not render us the workmanship required, or who were in such a position as to have impossible deliveries.

Subdivision #1.—Autoclaves, mixers, and dephylagamators:

Cost	$113, 137. 00
Competition	119, 547. 00
Saving	6, 410. 00

This covered all purchases of special mixers, jacketed autoclaves, etc., required mostly for the dye plant and for which requirements there appears to be a future for 1919. It covers the purchases from such firms as:

E. B. Badger & Sons
J. P. Devine Co.
Stokes Machine Co.
J. H. Day Co.

Gedge-Gray Co.
Buffalo Foundry & Machine Co.
and the tank manufacturers such as:
Bass, Foundry & Machine Co.
Struthers-Wells Co.
W. H. Thomson & Co.

Subdivision #2.—Breechings:

Cost	$56, 819. 00
Competition	63, 600. 00
Saving	6, 781. 00

This includes breechings purchased for the du Pont Engineering Company for Old Hickory, etc., and covers in nearly 100%, cost of the large power-house breechings in which the price of steel was figured at 3¼¢ per lb., base Pittsburgh, or approximately 3½¢ per lb. delivered at the fabricator's plant, and at a fabricating cost of 3½¢ per lb.

Subdivision #3.—Steel stacks:

Cost	$35, 613. 00
Competition	37, 608. 00
Saving	1, 995. 00

These stacks including preheater stacks purchased for Old Hickory plant and Ives, were based on a 3¼¢ per lb. steel price, f. o. b. Pittsburgh, or approximately 3½¢ per lb. delivered at the fabricator's plant, with a cost of fabrication of approximately 2¾¢ per lb. The competition on this class of work was very keen in that the southern fabricators, such as Walsh-Weidner Co., could fabricate these tanks in the early part of the year 1918 at very low costs, due to low labor charges. The other competing firms at the same time were also anxious to get this kind of work in order to fill this end of their shops which was somewhat stagnant during this year. Therefore, the purchase price was very low and the saving shown was relatively low.

Subdivision #4.—Tanks and towers:

Cost	$20, 775. 00
Competition	22, 010. 00
Saving	1, 235. 00

There were very few tanks and towers purchased during the year 1918, and those that were purchased were bought mainly from the Chicago Bridge & Iron Works. The cost per pound for same averaged approximately.

Subdivision #5.—Steel plate work including tank plates, heads, cans, ventilating ducts, casings, etc.:

Cost	$73, 926. 00
Competition	84, 696. 00
Saving	10, 770. 00

This did not include the cost of the plate and heads for the tanks for the Ives plant, as the cost of this item alone amounted to $156,170. We have this cost, however, figured in the cost of the tanks for the Ives plant. Of course this was purchased at Government price and there was no possible competition. The steel was allocated by Washington and the price fixed by the U. S. Government. However, this subdivision does include mostly fabricated plate work so that a saving could be made.

Subdivision #6.—Apron conveyers:

Cost	$61, 105. 00
Competition	69, 374. 00
Saving	8, 269. 00

In making the original purchases for the United States Government Penniman plant the engineering department had obtained from the Link Belt Co. their quotation and requested me to get into the conference with them for placing the order. Their price seemed high, so even though the order was placed with the Link Belt Co. we obtained quotation from the Alvey-Ferguson Co. and found their price to be 14% lower. We took this matter up with the Link Belt Co. and told them we did not feel justified in having them go ahead with the order at this high price for equipment going into a U. S. Government plant. Upon taking this up with Mr. Tallman he felt that the attitude we had taken was correct, and finally the Link Belt Co. abandoned the installation, not being willing to meet the competition.

Subdivision #7.—Freight and bucket elevators and repair parts including chain, kickers, etc.:

Cost	$87, 167. 00
Competition	104, 662. 00
Saving	17, 495. 00

A percentage of these elevators were Otis elevators, regarding which the engineering department refused to accept a substitute due to dangerous operations at the plant. Therefore, we could now show a larger saving, although we did hold Otis down to a very low price compared with their regular selling price, but this was not shown in the form of a saving. We were able to make some substitutes. supplying Speidel elevators, thereby showing a saving over the Otis, which has been entered in the above total, and also we were able to substitute at the Penniman Plant, Otis hydraulic elevators for Craig Ridgway's, which substitute proved very satisfactory in the operation at the Penniman Plant, and in which purchase considerable saving was made.

Subdivision #8.—Coal handling machinery:

Cost	$287, 869. 00
Competition	348, 133. 00
Saving	60, 264. 00

This includes the coal-handling equipment for Old Hickory, which amounted to $212,800 for handling 600 tons per hour with storage capacity of 100,000 tons, competition $268,548. This competitive estimate was determined from the difference in cost derived from the average cost for complete installation, less the actual cost of complete installation of the equipment purchased. The purchase of the coal-handling equipment for all plants, exclusive of one installation at Hopewell and one at Deep Water Point, which were purchased by Mr. DeWolf, was made in this office. On account of the fact that after the end of March it was found that due to the necessity for me to oversee the urging of steel tanks which in turn took so much of my time it was possible for me to purchase not only the steel materials covered by subdivisions 1 to 5 inclusive, and 12, 13, and 14, but also for me to make the purchases of the coal-handling equipments as required with the exceptions as mentioned above, especially for the reason that when the equipment was purchased for Racine Mr. deWolf was ill and this part of his work was turned over to me.

Subdivision #9.—Concrete bunkers:

Cost	$38, 465. 00
Competition	39, 763. 00
Saving	1, 298. 00

This saving was so low, due to the fact that there was practically a Government fixed price on cement, sand, stone, and lumber, or the material going into the construction of the bunkers with prices for labor fixed at the plant so that the cost per cubic yard averaged from $30.00 to $40.00 throughout the year on all competitive bids, and it was merely a question of deciding upon the most reliable contractor, Ferdinand Barre building three bunkers and Chas. Bond Company one. All the bunkers were built within the time required, if not sooner.

Subdivision #10.—Brick stacks:

Cost	$90, 486. 00
Competition	98, 457. 00
Saving	7, 971. 00

This does not include the stacks for Old Hickory for units 6 to 9, as the purchase of same did not come through this office. These stacks were purchased at approximately $15.00 per ton of brick for Old Hickory, and $20.00 per ton for Racine.

Subdivision #11.—Miscellaneous equipment, including coils, hand trucks, stirring equipment, screw conveyors, flat cars, gas holders, hoists, temperature regulators, filter presses, and blower engines:

Cost	$72, 565. 00
Competition	79, 037. 00
Saving	6, 472. 00

Subdivision #12.—Miscellaneous wooden tanks, total number 672:

Cost	$73, 735. 00
Competition	80, 761. 00
Saving	7, 026. 00

These tanks were purchased mostly for the dye plant and were to a large extent made of cypress, although we have endeavored and have been successful in a good many attempts in getting this end of our manufacture to use yellow pine or fir, as the cost of this lumber is so much less than cypress, and cypress itself is of an inferior grade at present, due to insufficient drying. Where we have been able to substitute yellow pine for cypress the life of the tub appears to be nearly as long as cypress, and the saving in dollars and cents amounts to from 40 to 50%. However, as this saving would be hard to show due to insufficient data as to the life of the tubs made from present-day cypress and those made from yellow pine or fir, this saving has not been included in the above item.

Subdivision #13.—Wooden tanks for Old Hickory, units 1 to 5, total number of tanks 1,139:

Cost	$234, 209. 00
Competition	240, 956. 00
Saving	6, 747. 00

This does not include the tanks for Old Hickory units 6 to 9 which were purchased by Mr. Fulton, but at the quotations we had obtained, he placing his additional orders on the same basis, except for a warranted increase in price. This price is based on the tanks being made of yellow pine or fir with lumber at $60.00 to $65.00 per M delivered, and skilled labor 60 to 70¢ per hour. At the time of purchasing these tanks quotations were also obtained for tanks practically equal to the $234,209 for the Thompson-Starrett Co. which has not been shown in this report, due to the fact that it was not a Du Pont purchase, but were to assist the Government.

Item #14.—Steel tanks:

Plant	No. of tanks	Cost	Competition	Saving	Total weight	Cost per pound
Old Hickory:					*Tons*	
Units 1 to 5	1, 974	$1, 117, 894	$1, 278, 717	$160, 823	6, 471½	$0. 08638
Units 6 to 9	1, 231	719, 567	794, 690	75, 123		
Barksdale	392	251, 766	280, 847	29, 081		
Indian Head	129	83, 587	86, 280	2, 693		
Racine	688	416, 236	451, 992	35, 756	1, 916	. 10861
Misc	1, 409	465, 461	505, 424	39, 963		
Total	5, 823	3, 054, 511	3, 397, 950	343, 439		

The purchases for the plants are made in the order in which the tanks were bought during the year, except in the case of the miscellaneous tanks which covers a year's purchase. The miscellaneous tanks were bought mostly for the dye industry, and there is no doubt from all indications that there will be considerable purchases in 1919 along the same lines as these tanks are mostly special and cannot be obtained from our surplus stocks at the present closed plants. As can be noted the competition is very keen, due to the fact that the manufacturers have been brought down to the lowest possible basis of profitable manufacture with efficient production, the tanks having been selected for manufactures taking into consideration those best adaptable to the manufacturer's shop, and also taking into consideration the steel mills available in their locality. This has special reference to the size of heads as some mills are very limited in size in turning out steel for these heads. The cost per pound of fabrication is higher than it might have been if we could have obtained wider plates, but due to the great scarcity of steel plate the only plate available was from the narrow steel mills, which necessarily increased the cost of fabrication. This cost of fabrication reached the maximum at the purchases for the Racine plant where the Government price for steel, including the cost of the heads amounted to $0.04075 and the cost of fabrication $0.06786 per pound. In this case in order to expedite delivery we actually made the purchase of these plates and heads ourselves, and regardless of the fact that the steel situation was so bad we obtained shipments of practically all of the plates and heads two to three weeks after the orders were placed, this being due to the high priority of A–3 which we received, and also to personal visits made by myself to the steel mills.

Division B.—This division includes all materials contracted for, and they can be subdivided as follows:

Subdivision #1.—Fire brick and clay, including fire tile with some chemical brick:

Cost	$314, 376. 00
Competition	342, 863. 00
Saving	28, 487. 00

This includes 3,000,000 brick for Old Hickory plant and we were able to contract at the beginning of the year 1918 for high grade boiler brick from the Union Mining Co., being their best brand "Mt. Savage" capable of standing 3200° F. at $47.50 per M, f. o. b. factory. We also contracted for Ohio brick, capable of standing 2700° F. at $30.00 per M, f. o. b. factory, and these prices were held throughout the year, being considerably under the market price; in fact being under the price unofficially set by the U. S. Government for these qualities of brick.

Subdivision #2.—Bilge barrels, total purchase 4,000:

Cost	$42, 040. 00
Competition	47, 440. 00
Saving	5, 400. 00

These drums were purchased from the Detroit Range Boiler Co. at contract price, the contract price being for the year 1918 and the last quarter of the year 1917, being based on a sliding scale for steel with a fixed price for labor, overhead, and profit. The contract proved to be $1.35 per drum under contracts in effect during 1918, as the cost of labor advanced so considerably, and in fact at the present time the Detroit Range Boiler Co. will only contract at a 90¢ per barrel advance.

Subdivision #3.—Gravity conveyors:

Cost	$77, 368. 00
Competition	84, 331. 00
Saving	6, 963. 00

These conveyor systems were purchased on a contract basis agreement at $2.90 per lineal foot, and consist of concave wood rollers with iron collars 14″ long spaced at 6″ center, and were bought mostly for the Penniman shell-loading plant, and saving is based on actual figures obtained at time of contract.

Subdivision #4.—Gauges. Although the actual handling of the gauge contract after it was executed did not come under my supervision, yet the negotiation of the contract was made in my office, and the contract closed previous to the transferring of the purchases on this contract to another office. This contract with Schaeffer & Budenberg Mfg. Co. has proved very satisfactory and saved our company considerable money, due to the fact that from them we obtain all classes of gauges, including high pressure and ammonia gauges which at one time were purchased at high prices from Crosby Steam Gauge & Valve Co. owing to this gauge having been determined upon by the Standards Committee, and also low pressure gauges which were previously purchased from the Ashcroft Mfg. Co. The prices submitted by Schaeffer & Budenberg Mfg. Co. were very much lower, amounting to as much as 20 to 30% less than those submitted by Crosby and at the time the Schaeffer & Budenberg Mfg. Co. submitted the contract this contract was held up for almost a month as we felt their prices on the low pressure gauges were too high compared with Ashcroft. Finally S. & B. Co. met our offer and the contract was negotiated; thereby we have received not only good prices but excellent service, in view of the fact that all our gauges were purchased from one manufacturer and they have made very prompt shipments. This has been advantageous also in having one source for repairs.

Subdivision #5.—E grade asbestos fibre. Although the actual handling of the requisitions on this material was done by Mr. deWolf, yet as Mr. Niles had stated that he wished us to clean up this subject before turning it over to Mr. La Motte's division, and in view of the fact that we had purchased fibre at $70.00 per ton from the Asbestos & Rubber Wks. of America, which had not proved satisfactory and against which we had to collect from $5,000 to $6,000 credit, I continued to work on this subject. After collecting this credit the Asbestos & Rubber Wks.'s quality of fibre was brought up to that furnished by Johns-Manville Co., and Mr. Niles requested me not to turn it back to Mr. La Motte but to contract for the next year, which was done October 1, 1918. During the year of 1918 to October 1, we purchased this fibre at from $67.50 per ton delivered Hopewell, Va., to $70.00 per ton, compared with $98.00 per ton quoted by Johns-Manville Co. This comparison was fair in view of the fact that where the Asbestos & Rubber Wks. of America did not furnish fibre up to the quality of Johns-Manville for a while, yet on all fibre furnished by them of inferior grade they rendered us a credit on the basis of furnishing us equal quality of fibre as Johns-Manville at $70.00 per ton.

Cost	$58, 800. 00
Competition	78, 645. 00
Saving	19, 845. 00

It might be well to mention that Johns-Manville Co. dropped their price to $78.00 delivered Hopewell for the last three months of 1918, so that the saving at that time was not as much as the first nine months.

Grand total:	
Cost	$4, 792, 966. 00
Competition	5, 339, 833. 00
Saving	546, 867. 00, or 11.4%

(This is 2½ times the purchases made in this office in 1917.)

During the month of December most of my time was taken up in cancelling or arranging for cancellation of such war material as was not required after the signing of the armistice on November 11th. Without going into detail on this subject, it might be well to mention the fact that we have been able to cancel a large amount of material without cost to the du Pont Company, including such material as 100,000 fire brick from the Union Mining Company, 7 carloads of asbestos fibre from the Asbestos & Rubber Works of America, amd also a large amount of steel plate from the steel mills for the du Pont Engineering Company, together with numerous other items. As the policy of actual adjustments for orders cancelled against which there was a cancellation expense was not determined until very late in the year of 1918, this end of the work has practically come during the year 1919, and, therefore, no summation of same will be made in this report.

In summing up the above it might be well to call attention to the fact that greater savings could not be made in quite a few cases in view of the fact that the Government had fixed the price of materials, either in the case of the finished article or at least of raw materials going into the production, so that the competition in many cases would be very similar, and the success of the purchase depended largely in choosing a manufacturer best capable of turning out the equipment as required, both in respect to time and workmanship. However, all these purchases were made after bringing in considerable competition, as I was handling practically no equipment standard with the engineering department, or equipment which could only be purchased from one manufacturer, such as in the case of American Tool wringers, etc. This naturally meant that the above purchases took considerable time in analysing and ordering, yet it would have been possible to handle a considerably larger amount of purchases had it not been necessary for me to apply the months of May, June, and July, also one-half of April, August, and October, mapping out a campaign and supervising the urging of steel tanks purchased for Old Hickory, Barksdale, Indian Head, and Ives plants. This required considerable chart making, which I did personally for the Old Hickory plant and had done by draftsman in the case of the Ives plant, and also required a lot of time and study in keeping charts up-to-date and seeing that the object for which the charts were originated was carried out. This also required my making trips to the steel mills and tank fabricators.

I would like very much to go back several years and call attention to certain firms whom I have actually brought into the furnishing of our requirements of certain commodities, or have done considerable towards developing them for these lines of purchases.

Tanks: Quaker City Iron Works, Walsh-Weidner Boiler & Tank Co.
Radiators: National Radiator Company.
Fire brick and fire clay: Union Mining Co.
Bucket elevators: Webster Mfg. Co.
Asbestos fibre: Asbestos & Rubber Works of America.
Brooms: Indianapolis Brush & Broom Co.
Piveted bucket conveyors, etc.: C. W. Hunt Co.
Gravity & apron conveyors: Alvey-Ferguson Co.
Brick stacks: Rust Engineering Co.

Concrete bunkers: Chas. Bond Co., Ferdinand Barre.
Drums (steel): Steel Barrel Co. of America.
Bilge barrels: Detroit Range Boiler Co.
Wooden tanks: Eagle Tank Co., Challenge Co.
Pipe coils: Whitlock Coil Pipe Co.
Automobile tires: Kelly-Springfield Co.

These firms have been very successful in furnishing us with materials which met our needs both as to workmanship, delivery required, and also for furnishing these materials at a much lower cost than the concerns with whom we previously dealt, and which were in quite a few cases concerns which the engineering department were wedded to, and who charged us high prices for our having standardized to a certain extent on their equipment.

The prospects of work along these lines of purchases which we have made heretofore are of course dependable upon the extent to which the du Pont Company will operate along industrial lines, but as has been mentioned in this letter, there appears now as though there would at least be considerable purchases in the line of special tanks, steel and wood steam jacketed autoclaves and mixers for the ensuing year. How far the other lines of purchases will be required it is very hard to analyze, although at the present time there is in project form some Badger equipment for the synthetic camphor plant, and considerable paint equipment for the new paint plant proposed near Chicago. This paint equipment will be to a certain extent oil tanks similar to the Bowser small tanks.

There is also another line of work which will take considerable time and which is dependable to a certain degree upon the records which we have kept in this office covering the cost of tanks in past years; i. e., under the present status of work where the du Pont Co. is purchasing tanks from the du Pont Chemical Co., we send an inquiry to the du Pont Chem. Co. and outside concerns. This necessitates considerable analysis to determine the price which should be paid the du Pont Chem. Co. for their second-hand equipment, comparing same with quotations at the present market price, and making allowances for depreciation in value for the second-hand equipment. We have already had quite a few cases along this line, and feel that as this is purely a purchasing department function unquestionably this will require considerable time and application.

In closing I would like to state that the work performed during the year 1918 in this office has of course been accomplished only through cooperation with and advice from yourself, and has also been greatly assisted by the help of my secretary, Miss Fitzpatrick, who has done much toward handling the office end of the work, telephoning, originating correspondence, etc., and also by Miss McNerney who has been very valuable in taking dictation, and also in tabulating and recording work which has been vitally necessary in the running of the office. The work which Miss Fitzpatrick has undertaken has required initiative and that of Miss McNerney of accuracy, and they have both proved to be very capable and have applied themselves to this work with a marked degree of satisfaction.

TWH/MPF.

Exhibit No. 1221

October 19, 1918.

Major J. W. Sholes.

Du Pont Engineering Company,
Mr. E. G. Buckner, *Vice President*,
Wilmington, Delaware.

Gentlemen:

Subject: Prices of Raw Materials for Old Hickory Plant—benzol and alcohol.

1. The Chief of Ordnance directs me to acknowledge your communication of the 15th, with copy of letter from Mr. W. W. Richards, which is attached thereto.

2. Although matters of this kind were not specifically provided in the contract mentioned, it is believed that whenever you cannot purchase raw materials in good and reasonable accordance with prices at which the United States could supply them, that then the Government should be given every reasonable opportunity to save from unnecessary costs.

3. The letter from Mr. Richards does not satisfactorily explain the prices paid for alcohol and benzol, and or why any contract engagements for this material did not include protection against extra declines.

4. Perhaps you will also agree that it was a little extraordinary to feel that long-term contracts were necessary when material is required by the Govern-

ment, and when the United States could always commandeer that material whenever necessary or desirable to do so.

5. This Division has not paid over 3.18 on any bookings for benzol which have been made since May.

6. As regards alcohol, the highest price which the Government has paid is 9.6¢ per pound, and the average is probably about 9.2 cents per pound. Furthermore, it has been generally understood between a sufficient number of alcohol distillers and the United States, that the price could not at any time exceed 65¢ per gallon, unless by special agreement, and there is really no excuse for any Government agency to pay more than that price.

7. In view as above, it is suggested that at least on the raw materials which could be supplied by this Division, that your purchasing department be so kind as to submit prices which you can obtain, or permit this Division to advise prices at which it can furnish any of the raw materials which it attends.

8. Your cooperation as herein will be appreciated.

Respectfully,

RAW MATERIALS SECTION,
W. M. MACCLEARY,
Major, Ord. Dept., U. S. A.
By W. H. GELSHENEN,
Major, Ord. Dept., U. S. A.

("EXHIBIT NO. 1222" appears in text on p. 3602)

EXHIBIT NO. 1223

E. I. du Pont de Nemours & Co., billings to the Du Pont Engineering Co.

Shop orders	$7, 342, 926. 03
Materials: Construction and operation	2, 676, 127. 42
Stationery and printing supplies	7, 155. 05
Telephone & telegraph	12, 767. 84
Freight & express	43, 978. 99
Postage stamps	1, 590. 88
Medical supplies	3, 207. 42
Blueprints and photographs	19, 690. 79
Cartage & storage of household goods	20, 981. 76
Surveys & special projects	38, 076. 73
Plant rentals	12, 943. 91
Office alteration and repairs	15, 559. 28
Furniture and fixtures	8, 281. 85
Group life insurance	1, 110. 58
Traveling expense	128, 150. 72
Plant labor charges	4, 396. 92
Engineering Dept. salaries	681, 984. 03
Engineering Dept. expense	150, 007. 80
Mail-room salaries	6, 878. 39
American Nitrogen Co., salaries	6, 201. 98
Smokeless powder operating Dept., salaries	78, 066. 98
Smokeless powder operating Dept., expense	106, 652. 15
Arlington Co., salaries	196. 00
Carpenters time and material	3, 051. 53
Police protection, material	2, 380. 65
Employment agency expense	23, 467. 80
Salaries of men in training	89, 881. 04
Experimental expense	12, 857. 25
Explosive manufacturing Dept., salaries and expense	97, 761. 03
Pay roll and salary deductions	14, 855. 69
Office rent and expenses	2, 157. 49
Purchasing Dept. expenses (Eng. Dept.)	12, 794. 08
Purchasing Dept. salaries	101, 426. 21
Salary Dept. salaries	1, 532. 40
Traffic Dept. expenses	28, 088. 40
Miscellaneous salaries	45, 129. 51
Purchasing Dept. expenses	3, 785. 58

E. I. du Pont de Nemours & Co., billings to the Du Pont Engineering Co.—Con.

Mail-room salaries (Eng. Dept.)	$20, 640. 16
Incorporation expense	3, 055. 45
Transcript of proceedings before Claims Board	81. 60
Bond premium	6. 25
Janitor service	213. 11
Interest on loans	267. 13
Professional services by outside parties	407. 74
Commissions to salvage Dept	4. 96
Total	11, 830, 778. 56

Exhibit No. 1224

"OLD HICKORY"

"Old Hickory", the largest military powder factory of its day, was designed to "practically double" the capacity of the then existing factories of E. I. du Pont de Nemours & Company which had been constructed to meet the military powder needs of England, France, Russia, Italy, and Belgium in the Great War (See Record p. 5018).

The magnitude of powder requirements had not been anticipated in the spring of 1917. A letter of the Ordnance Department, written April 21, 1917, gives "anticipated needs of the Ordnance Department of the Army for smokeless powder during the next twelve months, 78,500,000 lbs." (See Ex. 1121), but by October 4th, 1917, this estimate had increased to 500,000,000 lbs. prior to January 1st, 1919 (Record p. 5004).

Meantime, there had been no total lack of preparation. On March 22, 1917, E. I. du Pont de Nemours & Company had addressed a letter to Secretary of War Baker, with copy to the Secretary of the Navy, submitting data on the powder manufacturing capacity of that company and its commitments to the "Entente Allies". This letter covered also the situation with respect to all essential raw materials and to the manufacture of TNT (See Ex. 1118, R. 4974).

On February 7th, 1917, four days after the breaking of diplomatic relations with Germany, E. I. du Pont de Nemours & Company started a search for sites suitable for smokeless powder plants, resulting in the recommendation of two that eventually were chosen for the building of the two great war plants, "Old Hickory" near Nashville, Tennessee, and "Nitro", near Charleston, West Virginia.

The first definite announcement of Government powder plant construction on a large scale was made on October 3rd, 1917 (See testimony P. S. du Pont 12/14/34) when Col. Hoffer of the Ordnance Department addressed a letter to the vice-president of E. I. du Pont de Nemours & Company, asking if that company would be willing to create additional capacity for the manufacture of smokeless powder amounting to 500,000 lbs. per day and for double that amount. (See Ex. —). It was stated that the plants should be the property of the United States and should be operated by the du Pont Company, either on a cost-plus or other basis.

It is to be noted that the du Pont Company had already examined into and recommended the proper sites for these plants and had actually constructed, during the preceding 30 months, powder-making capacity for the "Entente Allies" of over 1,000,000 lbs. daily capacity. The engineering and other forces needed for the undertaking, though temporarily diverted to other work, were held ready to move on a moment's notice.

The day after receipt of Col. Hoffer's inquiry the du Pont Company made a proposal to construct and operate all or part of the plants contemplated. This proposal estimated the cost of the 1,000,000 lbs. daily capacity at $90,000,000, and the probable time of first operation about July 1st, 1918, with completion about April 1, 1919.

The actual outlay on this plant, finally of 900,000 lbs. daily capacity was $83,000,000, and the first powder was manufactured early in July 1918. On the signing of the armistice, November 11, 1918, the plant was 93% completed and over 50% in full operation with every prospect of completion on or before March 1st, 1919.

Such is the record of private industry in emergency.

The original proposal of the du Pont Company as of October 4th, 1917, was elaborated and submitted to the Chief of Ordnance on October 8th, 1917 (see Ex. 1126, R. 5004, 5006). These proposals were reduced to a final order of the

Chief of Ordnance and accepted by E. I. du Pont de Nemours & Company on October 25, 1917 (see Ex. 1130, R. 5023).

Meantime, on October 11th, 1917 (see Ex. 1127, R. 5018), the Chairman of the War Industries Board had stated to his fellow members that the Chief of Ordnance "had practically decided to recommend that they (the du Pont Company), be permitted to expend additional $90,000,000 to double their smokeless-powder capacity, and that the Chief of Ordnance expected to recommend this without bringing the matter before the War Industries Board." The record does not show protest by that Board against the proposed procedure.

On October 16th, 1917 (see R. p. 5018), the Chairman of the War Industries Board reported "that he had been verbally advised by the Ordnance Department that the Secretary of War has given his approval to the plan authorizing the du Pont Company to practically double their capacity for the manufacture of smokeless powder at an expense of approximately $90,000,000."

The minutes of that meeting stated, "It was the unanimous opinion of the Board that immediate and drastic action should be instituted as the explosive situation was regarded as critical and of supreme importance."

On October 31, 1917 (see Ex. 1131, R. page 5035), three weeks after notice of the proposed order, the War Industries Board ordered the following letter sent to the Chief of Ordnance:

Oct. 31, 1917.

The Chief of Ordnance,
War Department, Washington, D. C.

Sir: 1. Replying to your communication of October 29th, we beg to say that the only previous definite information the War Industries Board had regarding the contract referred to therein with the E. I. du Pont de Nemours & Company was a telephone message to the Chairman of the Board to the effect that you proposed to make a contract with the du Pont Company involving the expenditure of about $90,000,000 without referring it in any way to the Board.

2. We now understand that you simply advise us of your action as a matter of information.

Respectfully,

H. P. Bingham,
Secretary War Industries Board.

On the same day, October 31, 1917, the Secretary of War sent a telegram to the du Pont Company, as follows:

Washington, D. C., *Oct. 31, 1917.*

Pierre du Pont,
Wilmington, Del.:

Have just had presented to me the details of the proposed contract with regard to increased capacity for powder production, This matter is large, intricate, and important. Do nothing about it until you hear further from me. Stay all action under the order until I can acquaint myself thoroughly with all features of the matter.

Newton D. Baker, *Secretary of War.*

It is to be noted that this telegram was not to cancel an order but "until you hear further from me, stay all action under the order." The essentials of the du Pont proposals of October 4th and 8th, 1917, were (R. page 5032):

1. Complete plants to manufacture all or part of 1,000,000 lbs. smokeless powder per day.
2. An estimated cost of $90,000,000.
3. Estimated time for starting the first complete unit, 8 months.
4. Completion of plants at rate of one additional unit each month.
5. The du Pont Company, or a company to be organized by it, to act as agent of the Government in the construction and operation of the plant or plants, "with the usual power and authority of an agent to contract for and in the name of his principal." The Government to be liable for any expenditure or obligation arising out of the construction or operation of the plants and for loss by accident, fire, flood, or explosion.
6. The Government to furnish sufficient funds to enable the du Pont Company to pay all bills and other obligations.
7. The Government had the privilege of cancelling the agency at any time.
8. Compensation, in event of cancellation, $900,000 per month of construction completed, not to exceed $13,500,000.

9. Compensation for construction, a percentage of profit on cost estimated by the du Pont Company at 0–6½% (exhibit 1134).

10. Compensation for operation, 5¢ per lb. of powder manufactured and packed.

11. Additional compensation, 50% of saving below a cost of 44½¢ per lb. for water-dried powder, or 47¢ per lb. for air-dried powder.

These essentials, excepting nos. 8, 9, 10, and 11, relating to compensation, were substantially preserved in the order of October 25th, 1917; the suggested order of December 11th, 1917, the contract of January 29th, 1918, and the final substituted contract of March 23, 1918.

The proposed compensation in event of cancellation of contract presented no serious problem, though it was several times modified, as may be seen by examination of exhibits.

The proposed compensation for saving in cost was modified in the December draft of order to a base price of 46¢ on water-dried powder, and in the drafts of January 29th and March 23rd, to 45½¢ for air-dried powder.

The proposed compensation for operation, originally written at 5¢ per lb. was changed to 3½¢ per lb., subject to certain charges, in the submitted order of December 11, 1917. This compensation, 3½¢ per lb., was continued in the contracts of January 29th and March 23rd, but was stated in the letter to be above all costs of operation, i. e., a clear profit.

Almost the entire discussion relating to these order contracts was centered upon the question of compensation for construction of the proposed plant or plants.

The original proposal of E. I. du Pont de Nemours & Company was made overnight, and the elaborated proposal within five days. The Company itself offered the undertaking. It was evident that a considerable part of the work was to be done in the engineering, purchasing, and administrative division of the company which were then very active in the operation of other military powder and commercial business. As it was practically impossible to allocate actual charges to the proposed new plants, an estimate, based on the cost of plants recently built for supplying the European governments, was prepared. This estimate was submitted to the Ordnance Department on November 2nd, 1917 (exhibit 1134, Record, page 5049). It showed a balance above cost of 6.8% as a maximum and 0 as a minimum, with an estimated mean of 3.6%. However, as interference with other business of the company was estimated at 2.9–5.5% with mean of 4%, it might be argued that the "out-of-pocket" estimate given should not include such items and that therefore the maximum gross profit should be stated at 9.7%, the minimum at 5.5% and the mean at 7.6%.

Though these figures were carefully explained verbally as well as in the written communication to the Ordnance Department, neither the Secretary of War nor the War Industries Board seemed able to grasp the fact that the 15% charge for named overhead expenses was not a clear profit, all of which was explained in letter to the Chief of Ordnance of November 2, 1917 (exhibit 1134).

Again, letter of November 23, 1917 (Record, p. 5102) confirmed to the Secretary of War the agreement of E. I. duPont de Nemours & Company to construct all or part of the proposed plants or to donate the plans so that the work might be done by others. The company refused only:

1st. To work without proper compensation and with a possibility of loss.

2nd. To divide with others the work at any one site.

Letter of December 1, 1917, addressed to the War Industries Board, agreed to do the work for a compensation of 6½% on construction work or a like sum guaranteed through the operation of the proposed plants.

On November 14, 1917 (exhibit 1142) a member of the War Industries Board wrote the Secretary of War, stating that the du Pont Company had agreed to rebate 6.5% of the total 15% on cost of construction, by charges against profits on operation, and also had agreed to reduce the profit per pound on powder manufactured to 3.5% under certain conditions. However, the members of the War Industries Board declined to approve the contract so modified. The Chief of Ordnance, believing it fair and reasonable, urged its adoption on account of the emergency necessity. (It is to be noted that this 6.5% was the entire estimated actual profit on construction work.) (Exhibit 1134, letter to Chief of Ordnance dated November 2, 1917.)

On November 19, 1917, the Chief of Ordnance addressed an order to E. I. du Pont de Nemours & Company (Record, p. 5149), which reduced the profit per pound to 3.5% as above indicated, but—instead of rebating 6.5%, i. e., the profit item of the 15% allowance of former proposals—6⅓% was named as the percentage allowed for engineering, purchasing, and administrative expense, leaving no profit whatever on construction. Naturally this proposal was not acceptable to the du Pont Company.

On November 27, 1917, the President of the du Pont Company visited the Secretary of War at his request to learn of the decision in regard to Government powder plants. He was shown a communication of the War Industries Board of November 26 (exhibit 1148). This communication proposed an advance of $1,000,000 on account of "net profit or compensation" and a further negotiation as to additional profit. On completion of the entire contract arbitration was offered if it then appeared necessary. It is to be noted that this "net profit or compensation" evidently referred to the disputed 15% on construction, of which at least 9% was out-of-pocket expense for engineering, purchasing, and administrative items. This 9% the du Pont Company was asked to carry for many months before adjustment by arbitration or otherwise.

In a report to the board of directors of the E. I. du Pont de Nemours & Company, by the president (exhibit 1149), the latter stated that at the interview of November 28, 1917, the Secretary of War said that he would be in favor of giving the work to other contractors but had decided to adopt the decision of the War Industries Board, which was thereupon submitted to the board of directors with the recommendation "that we decline the offer of the War Industries Board as presented by the Secretary of War and recommend to the latter that he employ other contractors, as we have reached the conclusion that our services to the Government have not the value that we had supposed." The board adopted this recommendation with the request that the Secretary of War be advised that in any contract entered into the company would agree that the total compensation might be limited to 10% of the actual cost of construction, and 15% of the actual mill cost of powder produced.

On December 1, 1917, the president of the du Pont Company wrote the War Industries Board (exhibit 1151), stating that the letter of the War Industries Board had been submitted to the du Pont Company and "it is with the deepest regret that we find ourselves unable to accept the plan of the War Industries Board."

This letter further points out that the proposed base price on powder (44.5¢ per lb.) is 16% below pre-war price, in the face of an advance in the cost of powder of 10¢ per lb. brought about by increase in prices of essential raw materials. The letter adds that a similar condition with respect to reduction of price does not exist in any other business and that the Government is paying a very substantial advance of pre-war figures in the purchase of all other supplies.

On December 3, 1917 (Exhibit 1153), the Secretary of War informed the War Industries Board that the du Pont Company had refused to undertake the building of the proposed plant on any terms other than those contained in their last proposition, except for a minor change.

Notwithstanding this refusal, on December 10, 1917 (Exhibit 1154), E. I. du Pont de Nemours & Company addressed a letter to the Secretary of War calling attention to the delay that had occurred in the construction of the powder plants as proposed in the order dated October 25th issued by the Chief of Ordnance. It also called attention to the recent visit of the Chief of Ordnance in which he had assured the company that it was necessary to call upon it for assistance. This letter asked an appointment with the Secretary for the purpose of presenting a proposition, copies of which were enclosed. This proposition adopted the views of the Ordnance Department in form of an order submitted on November 19, 1917, and limited maximum compensation to 15% on cost of manufacture and 10% on cost of construction. A further provision agreed to an arbitration of the paragraphs relating to compensation, the arbitration to determine the proper compensation to the company "in view of services to be rendered and in view of compensation provided in similar contracts now being entered into by the departments of the United States Government."

On December 12, 1917 (Exhibit 1157), the Secretary of War notified E. I. du Pont de Nemours & Company that as the du Pont Company had declined to accept the proposition suggested by the War Industries Board on November 27th, "the War Department proceeded to work out a plan for the direct creation of this capacity by the Government itself", that this action had been reported to Messrs. du Pont and Buckner on December 10th, and "that the question would not be reopened and the Government would proceed directly in the matter."

The Secretary added, "I then assured Mr. du Pont of my great appreciation of the generous willingness expressed by your company to aid the Government in its undertaking and I shall be most happy from time to time to call on you for such assistance as in the nature of the case you are most highly qualified to render."

The recital of the above events makes evident several important facts:

(1) Notwithstanding the low Department estimates for powder needed for the year 1917–1918, the du Pont Company did much preparatory work looking to the eventual building of large powder plants.

(2) When the call came for a proposition to construct the largest factory ever planned, a reply proposition was made overnight, on October 4th, 1917, and reduced to definite form within five days.

(3) An order was issued by the Ordnance Department twenty-three days after the receipt of the proposal of the du Pont Company.

(4) The War Industries Board, though it had been informed of the contemplated action of the Ordnance Department three weeks earlier, took no action until October 31st.

(5) Action under the order was held up by the Secretary of War on the same date, but the order was not canceled.

(6) The Secretary of War notified the du Pont Company on December 12 that he had already told the president and vice president of the du Pont Company that as a result of the refusal of the company to accept the plan of the War Industries Board the Secretary had "proceeded to work out a plan for the direct creation of this capacity by the Government itself", and that the case would not be reopened. This was a definite cancelation, on December 1st, of the order of October 25th, and relieved the du Pont Company of further responsibility, although the formal cancelation was not issued until the month of January 1918.

(7) Prior to that date the preparatory work within the du Pont Company went steadily forward in order that completed plans might be available when needed for whoever did the construction. Agreements with subcontractors and others were kept alive and further options on and purchases of land and machinery were made and secured. In these ways the effect of the delay caused by Government representatives was minimized by the du Pont Company in every possible way.

(8) According to the decision announced by the Secretary of War, a contract was let to other parties for the construction of the plant at Nitro near Charleston, West Virginia, and ground broken about January 1, 1918.

(9) Ground was broken during the first week of March at Old Hickory near Nashville, Tennessee, by the du Pont Company under a contract dated March 23, 1918, By expediting the work in every conceivable way this factory started operation on July 3, 1918, the very date originally contemplated in the order of October 25th, notwithstanding the fact that construction work had been delayed practically three months, and at the time of the armistice production was proceeding at the rate contemplated in that contract, and no actual delay in the delivery of powder was experienced.

(10) The total compensation of the du Pont Company for the work at Nashville and other plants constructed or operated for the United States Government, costing approximately $129,000,000, was between $400,000 and $500,000, or about three-tenths of 1%. (Record, p. —.)

JANUARY 9, 1918.

E. G. BUCKNER,
Vice President, E. I. du Pont de Nemours & Company,
Wilmington, Delaware.

DEAR SIR: On December 17th, 1917, I had a visit from Mr. D. C. Jackling who presented a letter from Secretary Newton D. Baker, dated the day previous, introducing him as the appointee to take the business direction and management of organization and construction of the new Government powder plants.

Mr. Jackling announced that he wishes to learn the nature of the assistance that the officers of E. I. du Pont de Nemours & Company were willing to give him and to obtain the preliminary "layout" of the proposed plant which this company was asked to build under General William Crozier's order of October 25th, 1917.

With respect to the assistance to be given him:

The War Department has now proceeded to work out a plan for the direct creation of this capacity by the Government itself. Under such policy our company believes it unnecessary to reveal our practices with respect to such lines of manufacture that are now commercially developed in the United States, such as those of sulphuric acid, nitric acid, cotton purification, diphenylamine and ether, as sufficient information is obtainable elsewhere.

Manufacture of the powder itself has been developed by our company so far beyond the practice of others that we are willing to permit inspection of our processes by accredited representatives of the War Department on written request as to information desired. These representatives may witness the operation of processes; make measurements, sketches or drawings of apparatus, buildings, layouts, etc., as long as such work does not interfere with the operation of safety of our factories. Copies of existing drawings owned by our company will be furnished on application. It is understood that this information is for the use of the United States Government only and that it will not be given to other manufacturers. The company assumes no responsibility as to the use of the data and its application to the new factories that the War Department proposes to erect. In general this company will not attempt to criticize or approve the plans of the War Department as the close interrelation of the parts of the proposed factories makes piecemeal criticism useless and our services as directors of the whole project are deemed by the Government as unnecessary.

With respect to the work already done by us:

We have provided Mr. Jackling with our preliminary "layout" and the memorandum of principal materials needed for the construction work. Our chief engineer has explained this data to him. We will furnish the drawings that we had prepared for the "layout" but none of the information is certified as correct or final for the purposes of the proposed Government plant, and it must be checked out and passed upon by those qualified to do so.

We pointed out to Mr. Jackling that the proposed work involved no problems that cannot be solved by capable engineers of industrial training but that economy and speed of reaching maximum output with a properly balanced plant are out of the question unless the work is in charge of an organization of experience. On that account we will not delegate any of our men as suitable to assist the War Department in its work, knowing full well that the withdrawal of even large numbers of them cannot win satisfactory results for the Government without the backing of our entire organization. Since suspension of General Crozier's order we have taken on important work for the Government which, together with that theretofore on hand, will call for the use of all our forces. On this account we should not be called upon for men. If the War Department decides to set aside this recommendation, we request that negotiations be made with our men direct, though we would appreciate the courtesy of being informed as to what is intended in this respect.

Conversation with Jackling suggested the construction and short-time operation of part of the proposed factories by E. I. du Pont de Nemours & Company. As a result we submitted to him by telephone the following:

> E. I. du Pont de Nemours & Company will construct one plant of five units, capacity 500,000 pounds per day.
>
> E. I. de Pont de Nemours & Company will operate these units when completed until a total output equal in amount to five months' full operation, 62,500,000, has been made.
>
> The War Department will pay as compensation 10% of cost of construction and 10% on cost of manufacture, figured on base price of 45¢, making cost to the Government 49½¢ base. To this compensation is to be added one-half the savings in cost of manufacturing up to a maximum of 15% on base cost of the output of the factory.
>
> If the work is discontinued before completion of the above the War Department is to pay E. I. du Pont de Nemours & Company a sum not less than 15% on construction cost alone.

Mr. Jackling inquired as to the profit expressed in cents per pound which would produce the maximum in the above offer. On being informed that this maximum figure was 6.75¢ per pound he stated that he was not authorized to give more than one-half of that amount. Mr. Jackling's counter offer was rejected by our company because we are informed that contracts are being closed by the Government on terms quite similar to the proposal made by us and we have been given no reason why our services are considered worth less than those of other contractors.

This letter gives a condensed statement of our position as outlined to Mr. Jackling.

Very truly yours,

PIERRE S. DU PONT, *President.*

Exhibit No. 1225

Excerpts from the mimeographed memorandum dated February 20, 1934, headed "War-time contract forms and emergency codes" being a study made by a committee of student officers at the Army Industrial College during the 1933–1934 course.

PRESENT STATUS OF WAR-TIME CONTRACT FORMS

Interdepartmental Board of Contracts and Adjustments.—World War experiences in placing, administering and terminating contracts directed attention to the necessity for changes in the forms used by the Government in its contractual relations. To effect these, in 1921 there was set up inthe Bureau of the Budget an Interdepartmental Board of Contracts and Adjustments, to revise, standardize and simplify the contract forms in use by the Government.

This Board has prepared various contract forms for use in current procurement, and their use by governmental contracting agencies is made obligatory.

Board to standardize war-time contracts. * * *

In 1921 The Assistant Secretary of War convened a Board to standardize war-time contract forms. The Board was composed of a representative from each of the supply arms and services and from the Office of The Assistant Secretary of War. * * *

The Board to standardize war-time contracts in preparing contract forms for use in war recognized the following conditions which affect war procurement contracts:

1. Uncertain labor and material costs which preclude accurate determination of fixed prices.
2. The termination of contracts due to cessation of hostilities.
3. Confusion due to increased industrial activity and unfamiliarity of manufacturers with war equipment and material.
4. Haste incident to the emergency.
5. Opportunities for profiteering.
6. Increased powers of the President and removal of legislative restriction upon the powers of the Government agencies.
7. Recent recommendation of the War Policies Commission "to minimize the profits of war."

(*a*) President's power, in war, to stabilize and adjust prices; to secure use to the Government of any private property needed in the prosecution of war without affording the owner thereof profit due to the war; and to compel contractors to accept war orders.

(*b*) Upon the declaration of war and during the period of the emergency, individuals and corporations shall be taxed 95 percent of all income above the previous three-year average, with proper adjustment for capital expenditures for war purposes by existing or new industries.

(*c*) The cost plus percentage methods of purchase shall be eliminated.

8. Provision for changes in plans and specifications and necessary readjustments of original estimated cost of contract.
9. Inspection clauses—costs and materials.
10. Failure on the part of the contractor to complete his contract satisfactorily.

The Board on War-Time Contracts after much research and collaboration with the supply arms and services adopted certain forms for use in war procurement, These were embodied in a letter to The Adjutant General dated January 25, 1929.

The forms as then adopted by the Board were later referred to another committee appointed by it for further study and recommendations as to revision. This later committee held numerous conferences with representatives of the several supply arms and services and consulted freely with liaison officers of the Navy Department. Consideration was also given to suggestions received from district procurement planning officers and from Reserve officers.

Based on these studies revised drafts of forms were prepared and submitted to chiefs of supply arms and services for further consideration and suggestions. Final redrafts were them prepared by the committee and submitted to the Board. At a formal meeting of the Board on December 22, 1931, the revised forms as submitted by the committee were adopted.

The final redrafts were forwarded to The Assistant Secretary of War in February 1932, together with the recommendation for their approval for use, in their respective fields, for all war procurement purposes except that of large-scale construction projects.

The Construction Division, Office of the Quartermaster General was of the opinion that none of the proposed forms was adaptable to large-scale construction and wished to prepare a form which would be suitable for such projects.

The Assistant Secretary of War, through the Army and Navy Munitions Board, submitted the proposed forms for consideration of the Navy Department as to their suitability for war procurement purposes by that department—with a view to promoting uniform war-time contracts in the War and Navy Departments. After consideration of the forms by the Navy Department they were returned with the notation that while most of the principles contained in them were embodied in forms adopted by the Navy it was not believed advisable or possible to standardize both Department forms into a single form.

In view of recent criticism and suggestions on war contract forms received from procurement district planning officers and industrialists, The Assistant Secretary of War has referred the 1931 war contract forms to the Board on War Contracts for further consideration.

Pursuant to these instructions the Board met on January 11, 1934, and appointed a committee to consider all papers now in the hands of the Board and to present to the Board definite recommendations as to a form of contract based on the adjusted compensation principle and a Manual of Instructions for the drawing of contracts thereon.

Forms recommended.—The Board to Standardize War-Time Contract Forms has recommended adoption of the following forms of contracts for use during war:

- Informal contracts.
  - Purchase orders.
- Formal contracts.
  - Fixed price contracts.
    - Contracts for supplies.
    - Contracts for construction.
  - Adjusted-compensation contracts.

* * * * * * *

(1) In both forms the provision that requires approval by the head of the department for any change involving an estimated increase or decrease of more than five hundred dollars has been deleted. This change will avoid delays incident to securing approval of emergency changes by the Secretary of War.

* * * * * * *

4. Adjusted compensation contract.

The committee believes that in the event of war cases will arise in the procurement of technical noncommercial items where the use of a fixed-price contract will be impractical. The committee further believes that under such circumstances some variation of the cost-plus principle must be adopted. This simply means that the Government will pay the cost of manufacture and will in addition pay the contractor a fee determined by one of several means. In cases where there is no reasonable basis for determining a fixed price for an article, producers cannot well object to the cost-plus principle; but their dissatisfaction will be as to the details of accounting, the various elements of cost, and the amount of profit allowed.[1]

The proposed adjusted compensation contract is essentially a cost-plus form of contract. The Government pays the cost of manufacture plus a fee based on the value of the plant and equipment, provided by the contractor. In addition the fee is increased if the actual cost is below the estimated cost and is decreased if the actual cost is above the estimate.

(a) Accounting.

Any form of cost-plus contract will necessarily involve detailed accounting supervision by the Government. The proposed form does not attempt to prescribe any particular form of accounting. The committee believes that the adoption of standard cost accounting methods as required by the industrial codes will prove of material assistance in administering cost-plus contracts.

The proposed contract does not specify the basis upon which the contractor's plant will be valued.

(b) Elements of cost.

The proposed contract leaves a wide latitude both as to the elements of cost that may be included in the contractor's estimate and in the cost accounting. It does, however, specify certain costs that will not be allowed.

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[1] Brief on Just Compensation, prepared by Lt. Comdr. E. D. Stanley, Supply Corps, U. S. N., p. 34.

Article III, par. 2 (i) provides that the Government will not reimburse the contractor for "bonus payments to officers and employees, based upon profits earned." The statement has been made that this is unfair because many concerns pay small salaries and rely upon bonuses based on profits. If salaries are less than the services are worth proper figures may be used in the estimate. The committee recommends that in exhibit A the contractor be required to enter the salaries and bonuses paid all officials of the company during the preceding calendar year. This will permit the contracting officer to determine the reasonableness of salary increases and thus prevent the payment of exorbitant salaries as was done by certain aricraft producers during the World War.

(c) Profit.

The question of the amount of profit to be allowed the contractor is one of the most critical in any form of cost-plus contract. The fee adopted should be fair alike to the producers and the Government. In the adjusted compensation contract the fee is based primarily upon the rental value of the facility. It is true that the contractor assumes few of the risks of an entrepreneur for which profit is paid. He does, however, have certain risks of management and certain expenses for which no compensation is made. The committee believes that some increase in the present figure might well be made but doubts the advisability of attempting to determine the exact amount until war is imminent. It can then be decided on the basis of then existing conditions.

(d) Time.

One serious question in connection with the use of the adjusted compensation contract is the possible delay in production incident to negotiating the contract. Theoretically, this is cared for by the use of the preliminary data sheet. Practically, it is difficult to form a satisfactory estimate of costs without a carefully prepared factory plan. Little progress is being made at present in preparing such plans. The committee recommends that consideration be given to the advisability of using compulsory orders in connection with adjusted compensation contracts.

Suppose, for instance, the A company is willing to undertake the manufacture of one million fuses on an adjusted compensation basis. A compulsory order for that number of fuses would be issued and the company would start converting its plant.

In the meantime contract negotiations would go forward. As soon as an agreement could be reached the contract could be substituted for the compulsory order. If for any reason no agreement could be reached both parties would be adequately protected.

(e) Payment.

The contract is so drawn that no matter by how much the contractor exceeds his estimate he will receive 50% of the agreed fee. The committee, therefore, recommends that provision be made for paying the contractor each month upon the approval of the contracting officer one-half of the prorata share of the fee for that month, such payments in no event to exceed 50% of the estimated fee prior to final determination of the contract.

* * * * * * *

The committee believes that the fixed price contract form for construction devised for war-time purposes is only suited to small scale construction projects. It is further the committee's opinion that the adjusted compensation contract form as proposed is unsatisfactory for use in connection with construction projects.

The committee recommends that a form for war-time scale construction projects be considered which will be of the cost-plus a fixed percentage of the estimated cost type.

Such a form would contain the following provisions:

1. Provision for payment of a graduated bonus for reducing the cost, and/or the time of performance below the estimated cost and/or time of performance.
2. Provision for a nominal penalty for exceeding either the estimated cost or time of performance or both.
3. Provision for revising the estimated cost, the estimated time of performance, and the fee, for changes in costs of labor, material, and for delays beyond control of the contractor.

* * * * * * *

EFFECT OF EMERGENCY CODES

* * * Not only had new jobs for white collar and professional workers actually become non-existent but there was a surplus rather than a dearth of

industrial labor as well. Class lines had been clearly drawn, the danger of class hostilities appeared no longer remote but actually on the horizon.

This break-down, it must be realized, led to the creation of conditions favorable to either revolution or counter-revolution. Fortunately, however, the philosophers of the "new deal" refused to agree that the mechanism had failed. They have proceeded to wind it up again and having done that, hope to bring order out of chaos and suspend in balance for all time the existing class relation in American society.

Private ownership of the means of production is to continue, but capitalism is to be prevented from exploiting, on the one hand, the producers of raw materials and, on the other, its labor supply. Agriculture, despite its over-capitalized plant and restriction to domestic markets, will get sufficient profit for the payment of fixed charges and the purchase of capital and consumers' goods. Wage earners will be assured of a means of employment and at least a means of subsistence, if not incomes, conducive to decent standards of living.

The "new deal" has assumed that it is possible to establish a permanent truce on class antagonisms, and as a means to this end is applying that idea known to antiquity and the Middle Ages—the just price.

* * * * * * *

The American farmer was to be restored to the capital and consumption markets by giving him a just price for his commodities on the basis of production limited to the home market. Industry was to be revived by the reasonable assurance of a just price for its production. While there was no guarantee, there was at least the goal of a fair return on investment. Industry was now formed into cartels, working through the agencies of its own trade associations it was to devise codes of fair practice for the purpose of regulating methods of competition.

The first handful of codes prepared under the supervision of the National Industrial Recovery Act indicated the abandonment of laissez faire. Unfair methods of competition, secret rebates, the pirating of trademarks and labels were barred by various codes, but those practices were not very much unlike what the Federal Trade Commission Act so cheerfully set out to accomplish in another day.

More significant was the fact that codes were written and accepted calling for price control and the banning of selling below cost, for the fixing of production quotas, for the limiting of plant expansion and machinery installation. Once codes were approved by the President they had the sanction of law, and violators were liable to punishment.

* * * * * * *

Naturally the adoption of the N. I. R. A. and its network of codes produced a period of transition beset with great variety of difficulties for Government contractors and the Government as well. However, as industry obtained a better understanding of code requirements and a better grasp of the purpose of the new order tenderness changed to an attitude of vigorous compliance and wholehearted cooperation.

At the present time War Department and Navy Department purchases are made with comparatively little embarrassment and contracts are being executed efficiently and in a manner wholly satisfactory to both parties.

By virtue of the fact that codes are worded so as to permit a maximum of flexibility no drastic changes were necessary in existing contract forms. Schedules or invitations to bid have been modified to include a provision that bidders are complying with the requirements of the applicable code, and contracts to include an affidavit specifying that in the execution of the particular contract, code requirements and the provisions of the N. I. R. A. will be observed.

To some extent, under code control, the element of competition is eliminated, and this throws confusion and additional responsibility on the shoulders of Government contracting officers. Bidders from such industries as steel and lumber bid a uniform price for their products. Under existing law covering tie bids awards are made by lot. There are times when this procedure results in an apparently inequitable distribution of business, and industry seems inclined to the idea that the Government should adopt some system of allocation to obviate such a condition. As Government business must not only be right but must look right, legal procedure and practice are invariably observed in the making of awards. Under the code set-up these grievances are referred to the N. R. A. for adjudication. This affords industry an opportunity to adjust its own problems through the code authorities, and so far the system seems to operate with satisfactory results.

Realizing that the institution of codes was precipitated by an emergency which threatened the very lifeblood of our economic structure and that a few short months of application have demonstrated its efficiency and success, it seems not unreasonable to assume that the system of control as it now operates, or with certain applicable modifications, has come to occupy a permanent place in our economy. This then brings us to the vital phase of our discussion—what effect would emergency codes have upon Government war contracts?

* * * * * * *

Undoubtedly such provisions of the emergency codes as apply to maximum hours of labor and minimum wages would have to be scrapped during war but most other stipulated conditions could be modified to meet the expansion and new economy.

* * * * * * *

Code authorities in their administration of codes in connection with wartime contracts would aid effectively in the distribution and conservation of raw materials essential for war output, so also would they assist in the advance of standardization and the elimination of unnecessary sizes, styles, and shapes, thus conserving raw material, labor, and capital.

As an organized superagency for the direction and control of industry and the coordination of wartime contracts the committee is of the opinion that the N. R. A. and its existing emergency codes, with certain modifications, can be utilized effectively to insure that wartime contracts will be let quickly, administered economically, and terminated with a minimum of confusion and aftermath. Since the adoption of the N. I. R. A. industry has operated under supervised control and with continued education will develop the required temper to assume the added burdens of wartime supply without disruption.

During an emergency the code authorities under the N. R. A. would form the backbone of the superagency structure. Through them, expert information, direct contact with industry and purchasing officers, suggestions, requests, complaints, and the enforcement of regulations and control, would be obtained.

This would constitute unified control from the individual plants and various branches of industry through the code authorities and such other emergency organized units as may be set up, to the N. R. A. Administrator, and the President.

When industry is devoting its maximum effort toward the fulfillment of Government contracts code authorities would be constant sources of information regarding the sentiments of trade, their complaints and their suggestions. Approaching critical situations would be sensed and would meet with the required treatment by conferences of representatives of affected industries or such other means as may be deemed expedient. Above all, the importance of the Government's requirements would be kept constantly in mind. By industry dealing with industry, systems of distribution, priorities, and all other methods of control would be developed and coordinated to the end that Government contracts would be executed with the efficiency needed to meet the emergency.

Attitude of National Chamber of Commerce and Associated General Contractors.—Contact was made with the National Chamber of Commerce and the Associated General Contractors and developed that the proposed wartime contract forms had not as yet been referred to their body.[1] Both organizations are especially interested in the subject and requested that they be given an opportunity to study the proposed forms. They assured the committee that they were not only interested but wanted to give the Government the benefit of their experience and services in this matter.

Conclusions.—The committee is of the opinion that existing emergency codes, modified to meet wartime conditions, will facilitate the proper execution of Government war contracts, in that:

1. They constitute a method by which the Government can quickly present to all factors in an industry its needs in a particular line and receive dependable information as to how they may be met and as to the facilities available for use.
2. They provide figures as to cost of production and can keep the Government informed as to changing conditions which might affect such cost. Cost records will of course be available for inspection by Government representatives.
3. They will aid in the distribution and conservation of raw materials.

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[1] Contact has been made since this report was written.

4. They provide organized machinery for the collection of information and advise the Government as to the needs of industry to meet future requirements.

5. They can bring to the attention of the Government unemployed facilities which may readily be adapted to the production of needed supplies, thus avoiding the misuse of money, material, and labor for the expansion of existing plants.

6. Distribution of orders so as to prevent railroad congestion and labor disturbances can be effected.

EXHIBIT NO. 1226-A

Form no. ____________
Revised December 1931.

Contract no. ____________
Dated______________19__.

ADJUSTED COMPENSATION CONTRACT

(For use in war or other national emergency)

____
(Department)

____
(Contractor)

Contract for_____________________________________ Amount $____________
Place ____

This contract, entered into this __________ day of ________________, 19__, by the United States of America, hereinafter called "the Government", represented by the contracting officer executing this contract, and_________________
____
____
of the city of ____________________, in the State of _______________________
hereinafter called "the contractor", witnesseth that the parties hereto mutually agree as follows:

ARTICLE I. DEFINITIONS

1. The term "Chief of branch" as used herein shall mean the head of the branch, bureau, service, or agency of the executive department or independent establishment involved, or his assistant.

2. The term "contracting officer" as used herein shall include his duly appointed successor or his duly authorized representative.

3. The term "estimate" as used herein shall mean the estimated cost set forth in "Exhibit A."

ARTICLE II. PERFORMANCE

1. The contractor shall immediately proceed with the performance of this contract and shall deliver the articles, perform the work or render the services set forth in "Exhibit A", which is attached hereto and made a part hereof, in accordance with the terms thereof and of this contract.

2. For the purposes of this contract:

(a) The Government will provide such inspectors, auditors, and other personnel as the contracting officer may deem necessary.

(b) The contractor shall allow such inspectors, auditors, and other personnel free access to its plant, operations, and accounting records and shall furnish such facilities and supplies, including office space, office furniture, heat, light, etc., as the contracting officer may require for their use on the work: *Provided*, That the value of the office and other space so furnished shall be included in the estimated value of the buildings, machinery, and facilities upon which the fee is based, and that the actual cost of such other items so furnished shall be reimbursed the contractor by the Government and shall not be included as part of the estimate.

3. The contractor shall give his personal supervision to the work or have a competent representative on the work at all times during progress with authority to act for the contractor.

ARTICLE III. PAYMENTS

1. The contractor shall submit to the contracting officer for payment summaries of accounts setting forth the expenditures for which reimbursement is sought. The Government will currently reimburse the contractor for all expenditures which may be determined by the contracting officer to have been necessary for the performance of the contract.

2. The Government will not reimburse the contractor for any of the following expenditures:

(a) Federal taxes, except sales taxes imposed directly upon articles manufactured under this contract.

(b) Expenses of experimental research and other departments not engaged on work under the contract.

(c) Interest on outstanding debts owed by the contractor.

(d) Appropriations to reserves for bad debts.

(e) Appropriations to reserves for outstanding debts owed by the contractor, including redemption of stocks, bonds, and mortgages.

(f) Brokerage fees on commercial paper, including issues of stocks and bonds.

(g) Entertainment, except entertainment of employees properly chargeable to welfare expenses and then only when approved by the contracting officer.

(h) Contributions to charity and other gratuities.

(i) Bonus payments to officers and employees, based upon profits earned by the contractor.

(j) Compensation or other payments for services rendered prior to the commencement of work under the contract.

(k) Payments on insurance under which the contractor is the beneficiary carried by the contractor on the lives of any of his executives or employees.

(l) Expenses for patents and royalty payments not incident to the work performed under the contract.

3. Upon the completion of the contract the fee set forth in exhibit A, adjusted if necessary, for authorized changes, will be paid to the contractor.

4. If the cost of performing the work is less than the estimate, adjusted if necessary for authorized changes, the Government will pay to the contractor upon the completion of the work an additional compensation determined as follows:

The percentage which the difference between the cost and the estimate bears to the estimate will be divided by 4 and multiplied by the cost; the resulting product will be the additional compensation allowed.

5. If the cost of the work is greater than the estimate, adjusted if necessary for authorized changes, the fee shall be reduced by one percent (1%) for each one percent (1%) that the costs exceed the estimate, but in no case shall the fee be reduced more than fifty percent (50%).

6. The Government will pay to the contractor the amount set forth in exhibit A as "Rehabilitation costs" upon the completion or termination of the contract.

7. The amount set forth in exhibit A as "Depreciation" will be paid in equal monthly installments during the period of performance. If the contract is completed in less than the estimated time, the difference between the amount previously paid and the estimated amount set forth in exhibit A will be paid to the contractor.

8. If the contractor makes expenditures at prices higher than those set forth in exhibit A, the Government will not reimburse him for the excess amount, except:

(a) When and if such increased prices for labor, personal services, or material are authorized or ratified by a Federal agency set up for the purpose of controlling prices of labor and/or materials or, if no such agency exists, by the contracting officer.

(b) When, with the approval of the contracting officer, the contractor has paid increased compensation for overtime work performed. Overtime work shall be construed as the time worked in excess of eight (8) hours in any one day by employees who come within the provision of the Federal eight-hour law, and the time worked in excess of the normal working day by other employees.

When either of the exceptions (a) and (b) above are made, the estimate will be revised to include the estimated cost of such change.

9. If, upon commencement of work, the contractor has on hand material which he desires to use in the performance of this contract, such material may be taken over and paid for by the Government at prices not in excess of the current market prices, nor of those set forth in exhibit A.

10. Coincident with making final payment, the contractor shall furnish the Government with a final release, if required, in such form and containing such provisions as shall be approved by the chief of branch concerned of claims against the Government arising under and by virtue of this contract.

ARTICLE IV. RECORDS AND ACCOUNTS

1. The method of accounting used by the contractor shall be subject to the approval of the contracting officer. No material change will be made in the contractor's method if it conforms to good accounting practice and the costs are readily ascertainable therefrom. The original documents of all transactions not delivered to the Government in the course of payments shall be retained by the contractor and shall be open to inspection and examination by the contracting officer at all times prior to final settlement.

ARTICLE V. CHANGES

1. The contracting officer may at any time by written order and without notice to the sureties—

(a) Make changes in the drawings and specifications.

(b) Direct temporary suspension of the work.

(c) Direct procurement of additional facilities so as to expedite the work.

(d) Provide material or facilities which the contractor has agreed to furnish but is unable to furnish.

2. When any of the above changes are ordered, the contractor shall submit to the contracting officer an estimate showing the increase or decrease in cost, if any, that will result by reason of such change. If such estimate is approved by the contracting officer, an equitable adjustment shall be made in the original estimate, the schedule of performance, the fee and the depreciation allowance. Any claim for adjustment under this article must be asserted within ten (10) days from the date the change is ordered unless the contracting officer shall extend such time. If the parties cannot agree upon the adjustment, the dispute shall be determined as provided in Article XII hereof, but nothing in this Article shall excuse the contractor from proceeding with the contract as changed. The written order of the change shall be attached to and made a part of the contract.

ARTICLE VI. INSPECTION

1. All material and workmanship shall be subject to inspection and test by the contracting officer at all times and places and, when practicable, during manufacture.

2. The contracting officer shall have the right to reject work which contains defective material or workmanship. The cost of defective work performed by the contractor, whether due to defective workmanship or material shall be reimbursed the contractor by the Government. *Provided*, That if the contracting officer shall determine that the defective work is due to the fault or neglect of the contractor the cost thereof shall be borne by the contractor.

ARTICLE VII. FAILURE TO PERFORM

1. If, in the opinion of the contracting officer, the contractor does not prosecute the work, or any part thereof, in accordance with the conditions of this contract, the contracting officer, with the approval of the chief of branch, may, be written notice to the contractor, either—

(a) Require the contractor to proceed with the performance of this contract under such supervision as the contracting officer may elect to exercise, in which case the contracting officer shall have the right to employ, or require the contractor to employ, on such terms as the contracting officer may direct, such additional personnel, executive or otherwise, as the contracting officer may deem desirable, or

(b) Cancel the contract.

Should the contracting officer elected to proceed under paragraph (a) above, such action shall in no case estop or otherwise proclude him from subsequently proceeding under paragraph (b) above.

2. In case of proceeding under paragraph 1 (a), the increased cost to the Government, if any, occasioned thereby and approved by the contracting officer, shall be included in the cost of the work.

3. In case of proceeding under paragraph 1 (b)—

(a) The Government shall have the right to enter upon the premises of the contractor and take therefrom all Government property, and

(b) The contractor shall not receive any fee, termination fee, or compensation.

ARTICLE VIII. SUBCONTRACTS

1. Each subcontract, purchase order, or other recognized form of commercial commitment, in excess of five thousand dollars ($5,000), hereinafter called "subcontract", shall be reduced to writing and shall contain the following provisions:

"Whereas the United States of America (hereinafter called the Government) has under date of ------------------- entered into a contract with -------- -------------------------------- (hereinafter called the prime contractor) for supplying ------------------------------------- -- and

"Whereas -------------------------------------- (hereinafter called the subcontractor) has accepted this contract (hereinafter called subcontract) to furnish the services or supplies set forth herein and incident to the prime contract:

"It is understood and agreed that—

"(a) The Government may at any time by notice in writing to the parties hereto assume the rights and obligations of the prime contractor. Except when such rights and obligations are so assumed by the Government, this subcontract shall not be construed as creating any obligation between the Government and the subcontractor.

"(b) This subcontract may be terminated at any time upon notice in writing from the prime contractor to the subcontractor: *Provided*, That such termination and any settlement or agreement growing out of or incident thereto shall have the prior approval of the Government officer authorized to administer the prime contract.

"Upon receipt of such notice, the subcontractor shall, unless the notice directs otherwise, immediately discontinue all work and the placing of all orders for materials, facilities and supplies in connection with the performance of this subcontract, and proceed to cancel promptly all his existing orders and terminate work under all outstanding agreements insofar as such orders and/or work are chargeable to this subcontract: *Provided, however*, That the actual cost incurred for the protection, collection, and disposition of the property of the prime contractor shall be paid by the prime contractor.

"Upon the termination of this subcontract as hereinbefore provided, unless the subcontractor is in default, full and complete settlement of all claims or demands of the subcontractor arising out of this subcontract shall, as soon as practicable after such termination, be made as follows:

"(a) The prime contractor shall pay to the subcontractor the contract price not previously paid for articles completely manufactured, or work and/or services completely performed. If this subcontract price includes cost of transportation to destination, and the articles are not shipped, such transportation cost shall be deducted therefrom.

"(b) The prime contractor shall pay to the subcontractor for work and articles in process of completion that percentage of the subcontract price represented by the percentage of completion, less the salvage value thereof.

"(c) The prime contractor shall pay to the subcontractor the cost of material on hand purchased for and necessary for the subcontract, which has not entered into production, less the salvage value thereof.

"(d) The prime contractor reserves the right to take over all or any part of the uncompleted articles or materials by paying the subcontractor the salvage value thereof.

"(e) The prime contractor shall reimburse the subcontractor for the cost of cancelling his subcontracts under this contract in accordance with the principles set forth in subparagraphs (a), (b), (c), and (d) above.

"(f) No allowance will be made for prospective profits; but if it is determined that the sum total of the above payments is not adequate to cover the cost to which the subcontractor has been subjected by reason of the termination of this subcontract, the prime contractor may add thereto a sum sufficient to cover such costs.

"(g) The sum total of the payments so made shall not exceed the total amount of the subcontract less payments previously made."

2. If, during the progress of the work, the contractor performs work which he originally planned to subcontract as per exhibit A, or if he subcontracts work not shown therein, and such change effects an increase or decrease in the use of facilities, an equitable adjustment shall be made in the fee and the depreciation allowance.

ARTICLE IX. TERMINATION

1. This contract may be terminated by the Government at any time upon notice in writing from the contracting officer to the contractor. Such termination shall be effective in the manner and upon the date specified in said notice and shall be without prejudice to any claims which the Government may have against the contractor. Upon receipt of such notice the contractor shall, unless the notice directs otherwise, immediately discontinue all work and the placing of all orders for material, facilities, and supplies in connection with the performance of this contract, and shall proceed to cancel promptly all his existing orders and terminate work under all subcontracts insofar as such orders and/or work are chargeable to this contract: *Provided*, That the expenditures made by the contractor for protection, collection, and disposition of property of the Government and for accounting services for completion and determination of payments and settlements under this contract, as approved by the contracting officer, shall be paid by the Government.

2. Upon the termination of this contract as hereinbefore provided, unless the contractor is in default, full and complete settlement of all claims of the contract tor arising out of this contract shall, as soon as possible after such termination, be made as follows:

(a) The Government shall reimburse the contractor for all expenditures made in accordance with the terms of this contract and not yet reimbursed by the Government; and

(b) Such further expenditures made by the contractor after the date of termination, including the cost of cancelling subcontracts, as may be authorized by this contract or by the notice of termination; and

(c) The charge for depreciation will cease as of the date when termination becomes effective; and

(d) In lieu of fee and compensation set forth in article III, paragraphs 3 and 4, the Government will pay to the contractor that portion of the fee which the actual time of performance bears to the estimated time of performance.

ARTICLE X. PROPERTY

1. All articles, materials, buildings, machinery, facilities, and work for which the contractor has been reimbursed shall immediately become the property of the Government. Upon completion or termination of this contract the Government shall have the right to remove all such property, including buildings, machinery, or facilities, erected or installed upon land not belonging to it.

2. The contractor shall reimburse the Government for all damages to Government property and for the cost of any Government property lost or destroyed through the fault or neglect of the contractor.

3. All scrap from materials furnished or paid for by the Government shall be the property of the Government.

ARTICLE XI. SECURITY

The contractor agrees to furnish a bond in the sum of $------------ in the form and with sureties acceptable to the Government, guaranteeing the faithful performance of this contract. Should the surety on any bond so furnished become unacceptable to the Government, the contractor agrees to furnish such additional security as may be required from time to time to protect the interests of the Government.

ARTICLE XII. DISPUTES

If any doubts or disputes arise as to the meaning of anything in the contract, drawings, plans, or specifications, or if any discrepancy appears between said drawings, plans, or specifications and this contract, the matter shall be referred at once to the contracting officer for determination, and his decision in the premises shall be conclusive and binding upon the parties hereto: *Provided*, That both parties hereto shall have the right of appeal to the chief of branch concerned and his decision upon such appeal shall in all respects be final and conclusive on the parties hereto. In the meantime, the contractor shall diligently proceed with performance.

ARTICLE XIII. CONFIDENTIAL WORK

If the contracting officer designates any work as confidential, the contractor shall not permit access to such work, nor any information in connection therewith, to be given to any person other than employees of the contractor approved by the contracting officer.

ARTICLE XIV. OFFICIALS NOT TO BENEFIT

No Member of or Delegate to Congress or Resident Commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE XV. COVENANT AGAINST CONTINGENT FEES

The contractor warrants that he has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage, or contingent fee. Breach of this warranty shall give the Government the right to annul this contract or, in its discretion, to deduct from the fee the amount of such commission, percentage, brokerage, or contingent fee. This warranty shall not apply to commissions payable by the contractor upon contracts or sales secured or made through bona fide established commercial or selling agencies maintained by the contractor for the purpose of securing business.

In witness whereof, the parties hereto have executed this contract as of the day and year first above written.

THE UNITED STATES OF AMERICA,
By ------------------------------------

(Official title)

(Contractor)

(Business address)

Two witnesses:

I, --------------------, certify that I am the -------------------- Secretary of the corporation named as contractor herein; that -------------------- who signed this contract on behalf of the contractor was then ------------------ of said corporation; that said contract was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers.

[CORPORATE SEAL] ------------------------------

I hereby certify that to the best of my knowledge and belief, based upon observation and inquiry, --------------------, who signed this contract for the -------------------- had authority to execute the same and is the individual who signs similar contracts on behalf of this corporation with the public generally.

(Contracting officer)

Revised December 1931.

EXHIBIT A. ADJUSTED COMPENSATION CONTRACT

(Place) -------------------------
(Date) -------------------------

To ------------------------

The undersigned hereby proposes to furnish and deliver to the United States of America, under the terms and conditions set forth in United States Government Contract Form No. ---------- the following: ------------------------
----

----

in strict accordance with the specifications, schedules, and drawings herein enumerated: ____________________

Delivery to be made f. o. b. plant as follows: ____________________

Estimated time for performing the work is: ____________________

Except as provided in article III, paragraph 8 of the contract, the rates of pay for the various classes of labor (executive, supervisory, mechanical, and common), which will be employed on the work shall not exceed the following (these rates are based on the scale of wages now being paid in this vicinity for similar supervisory, mechanical, and common labor):

Designation	Rate of pay

Except as provided in article III, paragraph 8 of the contract, the unit prices of the various items of material which will be used in performing the work shall not exceed the following (these prices are based on current market prices):

____

It is proposed to procure the following work or material by subcontract:

Material or work	Proposed subcontractor	Estimated cost

In addition to the buildings, machinery, and facilities owned by the undersigned, the following must be procured by him. The actual cost of these buildings, machinery, and facilities shall be paid for by the United States, and their estimated cost is included in this estimate.

Designation	Quantity	Estimated cost	Total

The United States will furnish and deliver the following materials and/or facilities for use in performing the work: (the cost of such materials and/or facilities has not been included in the estimate):

The amount to be allowed for depreciation on the buildings, machinery, and facilities owned by the undersigned and to be used in connection with the work is ------------------ dollars ($------------).

The amount to be allowed for rehabilitation costs, i.e., for restoring the plant to its original condition, due to changes to be made in the buildings and the arrangement of the machinery for the performance of the work is ------------------- dollars ($------------).

Based on the above, the estimated cost of performing the work is -------------------- dollars ($------------).

For performing the work the undersigned shall be paid a fee of ------------------- dollars ($------------) which is computed as follows:

(a) Estimated value of buildings, machinery, and facilities owned by the undersigned and to be used in connection with the work: $------------.

(b) Estimated percentage of buildings, machinery, and facilities listed in "(a)" and required in performing the work: -------- %.

(c) "(a)" applied to "(b)": ------------ % of $------------ $------------

(d) Estimated amount to be provided by the undersigned to meet current payments prior to reimbursement by the Government-- $------------

(e) Total of "(c)" and "(d)"-------------------------------- $------------

(f) 6% per annum on "(e)" ($------------) for the estimated period of performance is the amount of the fee.

(Signature) ----------------------

Witness: ----------------------

PRELIMINARY DATA SHEET—ADJUSTED COMPENSATION CONTRACT

(City) ----------------------
(Date) ----------------------

To: ----------------------

Being desirous of cooperating with the War Department in carrying out its plans for industrial preparedness, the undersigned submits herewith an estimate of the cost of furnishing and delivering to the United States of America, under the terms and conditions set forth in United States Contract Form No. --------, the following:

----

in accordance with the following drawings and specifications -----------------

----

Estimated time for performing the work is: ------------------------------

If the plant is operated on -------- shifts of -------- hours each per day it is estimated that delivery f. o. b. plant can be made as follows:

First month--
Second month --
Third month ---
Fourth month---
Fifth month ---
Sixth month ---
Seventh month ---
Eighth month --
Ninth month ---
Tenth month ---

The designations of various kinds of labor, and the estimated number of hours required by each class to perform this work are as follows:

Designations	Labor hours
----------	----------
----------	----------
----------	----------
----------	----------
----------	----------

The material required for the work is as follows:

Kind	Quantity
----------	----------
----------	----------
----------	----------
----------	----------
----------	----------

The following material or work will be procured by subcontract:

Material or work	Subcontractor
----------	----------
----------	----------
----------	----------
----------	----------
----------	----------

Facilities required in addition to those owned

Designation	Quantity
----------	----------
----------	----------
----------	----------
----------	----------
----------	----------

Summary of estimate

Labor---------- $----------
Material---------- ----------
Overhead---------- ----------
Depreciation on buildings and facilities---------- ----------
Subcontracts---------- ----------
Additional facilities required---------- ----------
Rehabilitating plant after completion of work---------- ----------

Total estimated cost---------- ----------

These data are submitted upon the express understanding that it is not and shall not be considered as an offer subject to acceptance by the United States, and with the further understanding that it will in no way be binding upon the undersigned.

EXHIBIT NO. 1226–B

Form no. ------------
Approved ------------
Contract no. --------

EVALUATED FEE

CONSTRUCTION CONTRACT

(For use in war or other national emergency)

(Department)

(Branch)

(Contractor)

(Address)

Contract for --

To be performed at --
Amount $------------ Date -------------------

CONSTRUCTION CONTRACT

This contract, entered into this -------- day of ----------------, 19----, by the United States of America, hereinafter called the "United States," represented by the contracting officer executing this contract, and --

a corporation organized and existing under the laws of the State of [1]-----------
----
a partnership consisting of [1]--
----
of the city of [1]--
in the State of [1]---
an individual trading as [1]---
of the city of [1]--
in the State of [1]---
hereinafter called the "contractor", witnesseth, that the parties hereto do mutually agree as follows:

ARTICLE I

Extent of the work.—The contractor shall, in the shortest possible time, furnish the labor, materials, tools, machinery, equipment, facilities, supplies, and services and do all things necessary, for the completion of the following work:

----

in accordance with the drawings and specifications to be furnished by the contracting officer, and subject in every detail to his supervision, direction and instruction.

The contracting officer may, from time to time, by written instructions or drawings issued to the contractor, make changes in or additions to said drawings and specifications, issue additional instructions, require additional work, or direct the omission of work previously ordered, and the provisions of this contract shall apply to all such changes, modifications, and additions with the same force and effect as if they were embodied in the original drawings and specifications. The contractor shall comply with all such written instructions, drawings, and specifications immediately upon receipt thereof.

The title to all work, completed or in the course of construction, shall be in the United States, and likewise upon delivery at the site of the work, and upon inspection and acceptance in writing by the contracting officer, all the machinery, equipment, hand tools, supplies, and materials, for which the contractor shall be entitled to be reimbursed under article II, section (a). The provision as to title being vested in the United States shall not operate to relieve the contractor from any duties imposed under the terms of this contract.

---

[1] Delete all lines which do not apply.

ARTICLE II

Cost of the work.—The contractor shall be reimbursed in the manner hereinafter described for such of its actual net expenditures in the performance of said work as may be approved or ratified by the contracting officer and as are included in the following items:

(a) All labor, material, machinery, hand tools not owned by the workmen, supplies, and equipment, necessary for either temporary or permanent use for the benefit of said work; but this shall not be construed to cover the cost of machinery or equipment mentioned in section (c) of this article, or materials, equipment, etc., that may be furnished by the contracting officer.

(b) All subcontracts made in accordance with the provisions of this agreement, including subcontractors' fees computed in the same manner as described in article III hereof.

(c) Rental actually paid by the contractor, at rates not to exceed those mentioned in the schedule of rental rates hereto attached, for construction plant in sound and workable condition, such as pumps, derricks, concrete mixers, boilers, clam-shell or other buckets, electric motors, electric drills, electric hammers, electric hoists, steam shovels, locomotive cranes, power saws, engineers' levels and transits, and such other equipment as may be necessary for the proper and economical prosecution of the work.

Rental to the contractor for such construction plant or parts thereof as it may own and furnish, at not to exceed the rates mentioned in the schedule of rental rates hereto attached, except as hereinafter set forth. When such construction plant or any part thereof shall arrive at the site of the work, the contractor shall file with the contracting officer a schedule setting forth the fair valuation at that time of each part of such construction plant. Such valuation shall be deemed final, unless the contracting officer shall, within five days after the machinery has been set up and is working, modify or change such valuation, in which event the valuation, so made by the contracting officer, shall be deemed final. When and if the total rental paid to the contractor for any such part shall equal the valuation thereof, no further rental therefor shall be paid to the contractor, and title thereto shall vest in the United States. At the completion of the work, the contracting officer may at his option purchase for the United States any part of such construction plant then owned by the Contractor by paying to the contractor the difference between the valuation of such part or parts and the total rentals theretofore paid therefor.

Rates of rental as substitutes for such scheduled rental rates may be agreed upon in writing between the contractor and the contracting officer, such rates to be in conformity with rates of rental charged in the particular territory in which the work covered by this contract is to be performed. If the contracting officer shall furnish or supply any such equipment, the contractor shall not be allowed any rental therefor.

(d) Loading and unloading of construction plant, the transportation thereof to and from the place or places where it is to be used in connection with said work, subject to the provisions hereinafter set forth, the installation and dismantling thereof, and ordinary repairs and replacements during its use on the said work.

(e) Transportation and expenses to and from the work of the necessary field forces for the economical and successful prosecution of the work, procuring labor and expediting the production and transportation of material and equipment. Expenditures under this item must have the written authorization of the contracting officer in advance.

(f) Salaries of resident engineers, superintendents, timekeepers, foremen, and other employees at the field offices of the contractor in connection with said work. In case the full time of any field employee of the contractor is not applied to said work but is divided between said work and other work, his salary shall be included in this item only in proportion to the actual time applied to this work.

(g) Buildings and equipment required for necessary field offices, commissary, and hospital and the cost of maintaining and operating said offices, commissary, and hospital, including such minor expenses as telegrams, telephone service, expressage, postage, etc.

(h) Such premiums on bonds, including performance bonds, fire, public liability, employers' liability, workmen's compensation, and other insurance as the contracting officer may approve or require and such losses and expenses, not compensated by insurance or otherwise, as are found and certified by the contracting officer to have been actually sustained (including settlements made with the written consent and approval of the contracting officer) by the contractor in connection with said work, and to have clearly resulted from causes other than the fault or neglect of the contractor. The cost of reconstructing and replacing any of the work destroyed or damaged shall be included in the cost of the work for the purpose of reimbursement to the contractor, but any expenditures under this item must have the written approval of the contracting officer in advance.

(i) Permit fees, deposits, royalties, and other similar items of expense incidental to the execution of this contract which are necessarily incurred. Expenditures under this item must have the written authorization of the contracting officer in advance.

(j) Such proportion of the transportation, traveling, and hotel expenses of officers, engineers, and other employees of the contractor as is actually incurred in connection with this work.

Expenditures under this item must have the written authorization of the contracting officer in advance.

(k) Such other items as should in the opinion of the contracting officer be included in the cost of the work. When such an item is allowed by the contracting officer, it shall be specifically certified as being allowed under this paragraph.

The United States reserves the right to pay directly to common carriers any or all freight charges on material of all kinds, and machinery, furnished under this contract, and certified by the contracting officer as being for installation or for consumption in the course of the work hereunder; such freight charges shall not be included in the cost of the work on which the contractor receives a fee. The contractor shall be reimbursed for such freight charges of this character as it shall pay and as shall be specifically certified by the contracting officer; provided, that charges for transportation of such construction equipment, construction plant and tools over distances in excess of five hundred miles shall require the special approval of the contracting officer in advance.

No salaries of the contractor's executive officers, no part of the expense incurred in conducting the contractor's main office, or regularly established branch office, and no overhead expenses of any kind, except as specifically listed above, shall be included in the cost of the work; nor shall any interest on capital employed or on borrowed money be included in the cost of the work.

The contractor shall take advantage to the extent of its ability of all discounts available, and when unable to take such advantage shall promptly notify the contracting officer of its inability and its reasons therefor.

All revenue from the operations of the commissary, hospital or other facilities, or from rebates, discounts, refunds, etc., shall be accounted for by the contractor and applied in reduction of the cost of the work.

ARTICLE III

Determination of fee.—As full compensation for the services of the contractor including profit and all general overhead expense, the contractor will be paid by the contracting officer a fee, in addition to the cost of the work as defined in article II above. The contractor will be paid a minimum fee amounting to one percent (1.0%) of the actual cost of the work to be determined as provided in article II of this contract.

The contractor may be paid a maximum fee based on the following table:

Cost of work (as per article II)	Maximum fee (percent of cost of work)
$100,000 or under	6. 0
$500,000	5. 5
$1,500,000	5. 0
$2,500,000	4. 5
$3,500,000	4. 0
$5,000,000	3. 5
$7,000,000	3. 0
$10,000,000	2. 5

If the cost of the work is intermediate between any of the costs stated in the above table the corresponding maximum fee will be determined by arithmatical interpolation between the adjacent costs and the corresponding percentages.

However, if the cost of the work exceeds ten million dollars ($10,000,000.00) the minimum fee will be one hundred thousand dollars ($100,000.00) and the maximum fee shall not exceed two hundred and fifty thousand dollars ($250,000.00).

The actual fee to be paid the contractor hereunder, whether minimum, maximum, or some value in between those limits, will be determined by the chief of branch under whose supervision the work is performed, giving due and equitable weight to the following factors:

(a) Time of contract performance, an important essence of the contract.

(b) Efficiency of the contractor in executing the work: Output of mechanics and laborers in comparison with peace time work and other war time projects.

(c) Quality of workmanship and materials in completed project, in comparison with that specified.

(d) Initiative of contractor's overhead organization.

(e) Willingness shown by contractor to cooperate with United States representatives, and generally be mindful of the interest of the United States.

(f) The extent to which the work originally contemplated is changed by written orders, as provided in articles I, VII, and VIII hereof, and the speed, economy, and success with which such changes are accomplished by the contractor.

(g) Extent to which materials, machinery, and equipment entering into the work are purchased, and freight paid, direct by the United States.

(h) Proper use of machinery to conserve hand labor.

(i) Extent to which the contractor has performed the work without the assistance of subcontractors.

(j) Care in handling United States property.

(k) Final cost of the work: Diligence shown in endeavoring to keep down the cost of the work, consistent with good workmanship and materials.

(l) Honest and accurate accounting: Prompt payment of bills.

(m) Elimination of fraud.

ARTICLE IV

Payments.—On or about the seventh day of each month the contracting officer and the contractor shall prepare a statement showing as completely as possible (1) the cost of the work as defined in article II up to and including the last day of the previous month, (2) an amount equal to 1 percent (1.0%) of (1), on account of the contractor's fee. The contractor at the same time shall deliver to the contracting officer the original signed pay rolls for labor, the original paid invoices for materials purchased, and all other original papers, not theretofore delivered, supporting expenditures claimed by the contractor to be included in the cost of the work. If there be any item or items entering into this statement upon which the contractor and the contracting officer cannot agree, the decision of the contracting officer as to such disputed item or items shall govern. The contracting officer shall then pay to the contractor on or about the ninth day of each month the cost of the work mentioned in (1) and the fee mentioned in (2) of such statement, less all previous payments. The statement so made and all payments made thereon shall be final and binding upon both parties hereto, except as provided in article XIV hereof. Upon presentation of paid invoices the contracting officer may also make payments at more frequent intervals than above provided for the purpose of enabling the contractor to take advantage of discounts at intervals between the dates above mentioned or for other lawful purposes. Upon final completion and acceptance of the work by the contracting officer he shall pay to the contractor the unpaid balance of the cost of the work and of the fee as determined under articles II and III hereof, less any unsettled claims the United States may have against the contractor. The contracting officer will accept the completed work with reasonable promptness.

ARTICLE V

Inspection and audit.—The contracting officer shall at all times be afforded proper facilities for inspection of the work and shall at all times have access to the premises, the work and the materials, and to all books, records, correspondence, instructions, plans, drawings, receipts, vouchers, and memoranda of every description of the contractor pertaining to said work; and the contractor shall preserve for a period of 3 years after completion or cessation of work under this contract, all the books, records, and other papers just mentioned. Any duly authorized representative of the contractor shall be accorded the privilege of examining the books, records, and papers of the contracting officer relating to the cost of said work for the purpose of checking up and verifying such cost. The system of accounting to be employed by the contractor shall be such as is satisfactory to the contracting officer.

If at any time the contracting officer shall find that bills for labor or material, or other bills legitimately incurred by the contractor hereunder, are not promptly paid by the contractor, the contracting officer may, in his discretion, refuse to make further payments to the contractor until all such obligations past due shall have been paid. Should the contractor neglect or refuse to pay such bills within 5 days after notice from the contracting officer so to do, then the contracting officer shall have the right to pay such bills directly, in which event such direct payment shall not be included in the cost of the work.

ARTICLE VI

Special requirements.—The contractor hereby agrees that it will:

(a) Begin the work herein specified at the earliest time practicable, and continue to diligently proceed so that such work may be completed at the earliest possible date.

(b) Promptly pay for all labor, material, or other service rendered.

(c) Procure and thereafter maintain such insurance in such forms and in such amounts and for such periods of time as the contracting officer may approve or require.

(d) Procure all necessary permits and licenses, and obey and abide by all laws, regulations, ordinances, and other rules applying to such work, of the United States of America, of the State or Territory wherein such work is done, of any subdivision thereof, or of any duly constituted public authority.

(e) Unless this provision is waived in writing by the contracting officer, insert in every contract made by it for the furnishing to it of services, materials, supplies, machinery and equipment, or the use thereof, for the purpose of the work hereunder, a provision that such contract is assignable to the United States; will make all such contracts in its own name, and will not bind or purport to bind the United States or the contracting officer thereunder.

(f) In every subcontract made in accordance with the provisions hereof require the subcontractor to agree to comply fully with all the undertakings and obligations of the contractor herein, excepting such as do not apply to such subcontractor's work.

(g) At all times keep at the site of the work a duly appointed and qualified representative who shall receive and execute on the part of the contractor such notices, directions, and instructions as the contracting officer may desire to give. In the event the contractor's representative, or any other employee or agent, is considered by the contracting officer unqualified or for any reason not a proper person to remain on the work embraced herein, then the contractor will, on request of the contracting officer, remove such person from the work.

(h) At all times use its best efforts in all its acts hereunder to protect and subserve the interest of the United States.

ARTICLE VII

Right to terminate contract.—Should the contractor at any time refuse, neglect, or fail in any respect to prosecute the work with promptness and diligence, or default in the performance of any of the agreements herein contained, the contracting officer may, at his option, after five days' written notice to the contractor, terminate this contract, and may enter upon the premises and take possession, for the purpose of completing said work, of all materials, tools, equipment, and appliances, and all options, privileges and rights, and may complete, or employ any other person or persons to complete said work. In case of sucn termination of the contract, the contracting officer shall pay to the contractor such amounts of money on account of the unpaid balance of the cost of the work and of the fee as will result in fully reimbursing the contractor for the cost of the work up to the time of such termination, plus a fee computed thereon at the rate or rates for monthly payments set forth in article IV hereof; and the contracting officer shall also pay to the contractor compensation, either by purchase or rental, at the election of the contracting officer, for any equipment retained; such compensation, in the event of rental, to be in accordance with paragraph (c) of article II, and in the event of purchase to be based upon the valuation determined by the contracting officer as of the time of his taking such possession. The contractor hereby agrees that such payments when made shall constitute full settlement of all claims of the contractor against the contracting officer and the United States or either of them for money claimed to be due to the contractor for any reason whatsoever.

In case of such termination of the contract the contracting officer shall further assume and become liable for all such obligations, commitments, and unliquidated claims as the Contractor may have theretofore in good faith undertaken or incurred in connection with said work and in accordance with the provisions of this contract, and the contractor shall, as a condition of receiving the payments mentioned in this article, execute and deliver all such papers, and take all such steps as the contracting officer may require for the purpose of fully vesting in him the rights and benefits of the contractor under such obligations or commitments. When the contracting officer shall have performed the duties incumbent upon him under the provisions of this article, the contracting officer shall thereafter be entirely released and discharged of and from any and all demands, actions, or claims of any kind on the part of the contractor hereunder or on account hereof.

ARTICLE VIII

Abandonment of work by contracting officer.—If conditions should arise which in the opinion of the contracting officer make it advisable or necessary in the interest of the United States to cease work under this contract, the contracting officer may abandon the work and terminate this contract. In such case the contracting officer shall assume and become liable for all such obligations, commitments, and unliquidated claims as the contractor may have theretofore, in good faith, undertaken or incurred in connection with said work; and in accordance with the provisions of this contract, and the contractor shall, as a condition of receiving the payments mentioned in this article, execute and deliver all such papers, and take all such steps as the contracting officer may require for the purpose of fully vesting in him the rights and benefits of the contractor under such obligations or commitments. The contracting officer shall pay to the contractor such an amount of money on account of the unpaid balance of the cost of the work and of the fee as will result in the contractor receiving full reimbursement for the cost of the work up to the time of such abandonment, plus a fee to be computed in accordance with the provisions of article III hereof. When the contracting officer shall have performed the duties incumbent upon him under the provisions of this article, the contracting officer and the United States shall thereafter be entirely released and discharged of and from any and all demands, actions, or claims of any kind on the part of the contractor hereunder or on account hereof.

ARTICLE IX

Bond.—The contractor shall prior to commencing the said work furnish a bond with sureties satisfactory to the contracting officer, in the sum of____________ dollars, contitioned upon its full and faithful performance of all the terms, conditions and provisions of this contract, and upon its prompt payment of all bills for labor, material, or other service furnished to the contractor.

ARTICLE X

Convict labor.—No person or persons shall be employed in the performance of this contract who are undergoing sentence of imprisonment at hard labor imposed by the courts of any of the several states, territories, or municipalities having criminal jurisdiction.

ARTICLE XI

Hours and conditions of labor.—(a) Hours law: No laborer or mechanic doing any part of the work contemplated by this contract in the employ of the contractor or any subcontarctor contracting for any part of said work contemplated, shall be required or permitted to work more than eight (8) hours in any one calendar day upon such work, such prohibition being in accordance with the act approved June 19, 1912, limiting the hours of daily service of mechanics and laborers on work under contracts to which the United States is a party. For each violation of the requirements of this article a penalty of five dollars ($5.00) shall be imposed upon the contractor for each laborer or mechanic for every calendar day in which said employee is required or permitted to labor more than eight (8) hours upon said work, and all penalties thus imposed shall be withheld for the use and benefit of the United States: *Provided*, That this paragraph shall not be enforced nor shall any penalty be exacted in case such violation shall occur while there is in effect any valid Executive order suspending the provisions of said act approved June 19, 1912, or waiving the provisions and stipulations thereof with respect to either this contract or any class of contracts in which this contract shall be included, or when the violation shall be due to any extraordinary events or conditions of manufacture, or to any emergency caused by fire, famine, or flood, by danger to life or property, or by other extraordinary events or conditions on account of which, by subsequent Executive order, such past violation shall have been excused.

(b) Prevailing rates of wages: The rate of wage for all laborers and mechanics employed by the contractor or any subcontractor on the public buildings covered by this contract shall be not less than the prevailing rate of wages for work of a similar nature in the city, town, village, or other civil division of the State in which the public buildings are located, or in the District of Columbia if the public buildings are located there, and in case any dispute arises as to what are the prevailing rates of wages for work of a similar nature applicable to the contract which cannot be adjusted by the contracting officer, the matter shall be referred to the Secretary of Labor for determination and his decision thereon shall be conclusive on all parties to the contract: *Provided*, That the provisions of this paragraph are not suspended by the President during a national emergency, in accordance with the provisions of the act approved March 3, 1931.

(c) Disputes: In the event of any dispute with reference to wages, hours, or other conditions appertaining to said work, between the contractor or any subcontractor and labor employed by him on said work, the contractor or subcontractor shall immediately notify the contracting officer of the existence of such dispute and the reasons therefor. The contracting officer may, at his option, instruct the contractor or subcontractor involved in such dispute as to the method or steps which the contractor or subcontractor should follow with reference thereto, and the contractor or subcontractor shall thereupon comply with such instructions.

ARTICLE XII

Right to transfer or sublet.—Neither this contract, nor any interest therein, shall be assigned or transferred. The contractor shall not enter into any subcontract for any part of the work herein specified without the consent and approval in writing of the contracting officer. In case of such assignment, transfer, or subletting without the consent and approval, in writing, of the contracting officer, the contracting officer may refuse to carry out this contract either with the transferror or transferee, but all rights of action for any breach of this contract by the contractor are reserved to the United States.

ARTICLE XIII

No participation in profits by Government officials.—No Member of, or Delegate to, Congress, or Resident Commissioner, nor any other person belonging to or employed in the military service of the United States, is or shall be admitted to any share or part of this contract, or to any benefit that may arise therefrom, but this article shall not apply to this contract so far as it may be within the operation or exception of section 116 of the act of Congress approved March 4, 1909 (35 Stats. 1109).

ARTICLE XIV

Settlement of disputes.—This contract shall be interpreted as a whole and the intent of the whole instrument, rather than the interpretation of any special clause, shall govern. If any doubts or disputes arise as to the meaning or interpretation of anything in this contract, or if the contractor shall consider itself prejudiced by any decision of the contracting officer made under the provisions of this contract, the matter shall be referred to the chief of branch concerned for determination. If, however, the contractor shall feel aggrieved by the decision of that officer, it shall have the right to submit the same to the Secretary of the Department concerned, whose decision shall be final and binding upon both parties hereto.

ARTICLE XV

This contract shall bind and inure to the contractor and its successors.

It is understood and agreed that wherever the words "contracting officer" are used herein, the same shall be construed to include his successor in office, and any other person to whom the duties of the contracting officer may be assigned by competent authority.

Witness the hands of the parties hereto the day and year first above written, all in triplicate.

____
(contractor)
By ______________________
____
(title)

Witnesses:
(1) ______________________
(2) ______________________

THE UNITED STATES OF AMERICA,
By __________________________________
____
____
(title)
____
(contracting officer)

Witnesses:
(1) ______________________
(2) ______________________

Form No. ____________
Approved ____________

Subcontract no. ________
Principal contract no. ________

EVALUATED FEE

CONSTRUCTION SUBCONTRACT

(For use in war or other national emergency)

____
(Department)

____
(Branch)

____
(Contractor)

____
(Address)

____
(Subcontractor)

____
(Address)

Contract for -- --
To be performed at --
Amount $------------ Date ------------------

CONSTRUCTION SUBCONTRACT

This contract, entered into this -------- day of ------------ 19----- by --
a corporation, organized and existing under the laws of the State of ------------
a partnership consisting of --
an individual trading as --
of the city of -------------------- in the State of ------------------
(hereinafter called the contractor) and -------------------- a corporation,
organized and existing under the laws of the State of ----------------------
a partnership consisting of --
an individual trading as --
of the city of -------------------- in the State of ------------------
(hereinafter called the subcontractor), witnesseth:

Whereas the contractor has heretofore, to wit, on the ------------ day of -------------------- 19----, entered into a contract with the United States of America to construct for the Government of the United States ------------- -- --
at or near --------------------; and

Whereas the parties hereto have agreed that the subcontractor shall for and in the stead of the contractor fullfill and perform such part of said principal contract as is hereinafter set forth; and

Whereas the subcontractor has read and is familiar with each and every part of said contract, and the respective rights, powers, benefits and liabilities of the contractor and the United States of American thereunder;

Now, therefore, this contract witnesseth; That in consideration of the premises and of the payments to be made as hereinafter provided, the subcontractor hereby covenants and agrees to and with the contractor as follows:

I

The subcontractor shall in the shortest possible time furnish the labor, materials tools, machinery, equipment, facilities, services, and supplies and do all things necessary for the construction and completion of the following work: -- --

II

In the performance of this subcontract the subcontractor binds ------ self to the contractor and to the United States of America to comply fully with all the undertakings and obligations of the contractor, excepting such as do not apply to this subcontractor's work, as are set forth in the principal contract made and entered into on the ------------ day of -------------------- 19 ----, by and between the contractor and the United States of America. Said principal contract is hereby adopted and made a part of this contract, and a copy thereof is hereto attached.

III

It is expressly stipulated and agreed that the contractor has and reserves to ------ self, and the subcontractor grants to said contractor, the same rights and powers, in every detail and respect and in the same language and intent, which the United States of America reserves to itself in the said principal contract; it being the intent and purpose of the parties hereto, except as herein otherwise provided, to place the contractor in the same position in regard to this subcontract which the United States of America occupies in the principal contract, and place the subcontractor in the same position in regard to this subcontract which the contractor occupies in said principal contract. The contractor shall in regard to this subcontract have all the rights and powers which the United States of America has in the principal contract, and the subcontractor assumes all the obligations placed upon the contractor by said principal-contract and accepts and binds ------ self faithfully and fully to observe toward the contractor and the United States of America each and every term and provision thereof, so as to enable the contractor to fulfill -------------------- every obligation to the United States of America according to the intent and provisions of said principal contract.

IV

The subcontractor binds ------ self to protect and save harmless the contractor from any and all loss, cost or damage to -------- on account of any damage or injury to third persons or property occasioned by any act, negligent or otherwise, of said subcontractor, ------------ associates, servants, agents or employees, and to promptly pay all bills for labor, material or other service furnished to the subcontractor; and said subcontractor further agrees to keep all property, equipment, materials, tools, and supplies free of all liens or charges, and in the event of suit against the contractor on any account in connection with the work hereby included, the subcontractor upon notice from the contractor will appear and defend same and hold the contractor clear of all loss, costs or expense.

V

Neither this subcontract nor any interest therein shall be assigned or transferred, except that the whole or any part is assignable to the United States of America.

VI

The subcontractor shall be reimbursed by the contractor in the manner and for the items set out in article II of the principal contract hereinabove incorporated (except that no part of this contract may be sublet), for such of ---------- actual expenditures in the performance of the work designated in article I hereof as may be approved or ratified by the contracting officer; and in addition thereto as full compensation for the services of the subcontractor, including profit and all general or overhead expenses, the contractor shall pay to the subcontractor a fee, the amount of which will be determined by the chief of branch under whose supervision the work is performed in accordance with the provisions of article III of the principal contract.

VII

The contractor may retain out of any moneys at any time due to the subcontractor a sum sufficient to pay all persons who have performed labor or furnished materials for the work included in this subcontract, and said sums may be retained until satisfactory evidence is furnished the contractor that all such claims have been fully satisfied.

In testimony of all of which the parties have heretunto set their hands at -------------------- the day and date first above written.

Witnesses:

(Contractor)
By ------------------------------

(Title)

(1) ----------------------
(2) ----------------------

(Subcontractor)
By ------------------------------

(Title)

Witnesses:
(1) ----------------------
(2) ----------------------

CONTRACTING OFFICERS' APPROVAL

The undersigned duly appointed and acting representative of the contracting officer who entered into the principal contract of -------------------- 19----, with--

----

to construct--

----

at or near --, does on behalf of said contracting officer and the United States of America hereby assent to and approve the foregoing subcontract between said ------------
----
and --, for the performance of the work therein specified.

Witness my signature at ----------------------, this ---------- day of --------------------, 19----.

(Title)

Exhibit No. 1226–C

Form no. ---------.
Revised December 1931.

Contract no. -----------.
Dated ------------ 19--

Contract for Construction

(For use in war or other national emergency)

(Department)

(Contractor)

Contract for ---------------------------------. Amount $-------------.
Place --.

Contract for Construction

This contract, entered into this -------- day of ------------- 19--, by the United States of America, hereinafter called the "Government", represented by the contracting officer executing this contract, and--------------------------
----

----
of the city of -------------------- in the State of-------------------- hereinafter called the contractor, witnesseth that the parties hereto mutually agree as follows:

ARTICLE 1

Statement of work.—The contractor shall furnish all labor and materials, and perform all work required for--
----
----
for the consideration of---

----
in strict accordance with the specifications, schedules, and drawings, all of which are made a part hereof and designated as follows:

The work shall be commenced---
and shall be completed--

ARTICLE 2

Specifications and drawings.—The contractor shall keep on the work a copy of the drawings and specifications and shall at all times give the contracting officer access thereto. Anything mentioned in the specifications and not shown on the drawings, or shown on the drawings and not mentioned in the specifications shall be of like effect as if shown or mentioned in both. In case of conflict between drawings and specifications, the specifications shall govern. In any case of discrepency in the figures or drawings, the matter shall be immediately submitted to the contracting officer, without whose decision said discrepency shall not be adjusted by the contractor, save only at his own risk and expense. The contracting officer shall furnish from time to time such detail drawings and other information as he may consider necessary, unless otherwise provided. Upon completion of the contract the work shall be delivered complete and undamaged.

ARTICLE 3

Changes.—The contracting officer may at any time, by a written order, and without notice to the sureties, make changes in the drawings and (or) specifications of this contract and within the general scope thereof. If such changes cause an increase or decrease in the amount due under this contract, or in the time required for its performance, an equitable adjustment shall be made and the contract shall be modified in writing accordingly. Any demand by either party for adjustment under this article must be asserted within ten days from the date the change is ordered, unless the contracting officer shall for proper cause extend such time, and if the parties cannot agree upon the adjustment the dispute shall be determined as provided in article 12 hereof. But nothing provided in this article shall excuse the contractor from proceeding with the prosecution of the work so changed.

ARTICLE 4

Changed conditions.—Should the contractor encounter, or the Government discover, during the progress of the work, subsurface and (or) latent conditions at the site materially differing from those shown on the drawings or indicated in the specifications, the attention of the contracting officer shall be called immediately to such conditions before they are disturbed. The contracting officer shall thereupon promptly investigate the conditions, and if he finds that they materially differ from those shown on the drawings or indicated in the specifications, he shall at once make such changes in the drawings and (or) specifications as he may find necessary, and any increase or decrease of cost and (or) difference in time resulting from such changes shall be adjusted as provided in Article 3 of this contract.

ARTICLE 5

Inspection.—(a) All material and workmanship (if not otherwise designated by the specifications) shall be subject to inspection, examination, and test by Government inspectors at any and all times during manufacture and (or) construction and at any and all places where such manufacture and (or) construction are carried on. The Government shall have the right to reject defective material and workmanship or require its correction. Rejected workmanship shall be satisfactorily corrected and rejected material shall be satisfactorily replaced with proper material without charge therefor, and the contractor shall promptly segregate and remove the rejected material from the premises.

(b) The contractor shall furnish promptly, without additional charge, all reasonable facilities, labor, and materials necessary for the safe and convenient inspection and test that may be required by the inspector. All inspection and tests by the Government shall be performed in such manner as not to unnecessarily delay the work. Special, full size, and performance tests shall be as described in the specifications. The contractor shall be charged with any additional cost of inspection when material or workmanship is not ready at the time inspection is requested by the contractor.

(c) Should it be considered necessary or advisable by the Government at any time before final acceptance of the entire work to make an examination of work already completed, by removing or tearing out same, the contractor shall on request promptly furnish all necessary facilities, labor, and material. If such work is found not to meet the requirements of the contract due to fault of the contractor or his subcontractors, he shall defray all the expenses of such examination and of satisfactory reconstruction. If, however, such work is found to meet the requirements of the contract, the actual cost of labor and material necessarily involved in the examination and replacement, plus 10 percent, shall be allowed the contractor, and he shall, in addition, if completion of the work has been delayed thereby, be granted a suitable extension of time on account of the additional work involved.

(d) Inspection of material and finished articles to be incorporated in the work shall be made at the place of production, manufacture, or shipment, whenever the quantity justifies it, unless otherwise stated in the specifications, and such inspection and acceptance, unless otherwise stated in the specifications, shall be final, except as regards latent defects, departures from specific requirements of the contract and the specifications and drawings made a part thereof, damage or loss in transit, fraud, or such gross mistakes as amount to fraud. Subject to the requirements contained in the preceding sentence, the inspection of material and workmanship for final acceptance as a whole or in part shall be made at the site.

ARTICLE 6

Superintendence by contractor.—The contractor shall give his personal superintendence to the work or have a competent foreman or superintendent, satisfactory to the contracting officer, on the work at all times during progress, with authority to act for him.

ARTICLE 7

Delays—damages.—If the contractor refuses or fails to prosecute the work, or any separable part thereof, with such diligence as will insure its completion within the time specified in article 1, or any extension thereof, or fails to complete said work within such time, the Government may, by written notice to the contractor, terminate his right to proceed with the work or such part of the work as to which there has been delay. In event the contractor's right to proceed is terminated the Government may take over the work and prosecute the same to completion by contract or otherwise, and the contractor and his sureties shall be liable to the Government for any excess cost occasioned the Government thereby. If the contractor's right to proceed is so terminated, the Government may take possession of and utilize in completing the work such materials, appliances, and plant as may be on the site of the work and necessary therefor. If the Government does not terminate the right of the contractor to proceed, the contractor shall continue the work, in which event the actual damages for the delay will be impossible to determine and in lieu thereof the contractor shall pay to the Government as fixed, agreed, and liquidated damages for each calendar day of delay until the work is completed or accepted the amount as set forth in the specifications or accompanying papers and the contractor and his sureties shall be liable for the amount thereof: *Provided*, That the right of the contractor to proceed shall not be terminated or the contractor charged with liquidated damages because of any delays in the completion of the work due to unforeseeable causes beyond the control and without the fault or negligence of the contractor "as determined by the contracting officer: *Provided further*, That the contractor shall within ten days from the beginning of any such delay give written notice of the causes of delay to the contracting officer, who shall determine the extent of the delay and is determination thereon shall be final and conclusive on the parties hereto, subject to appeal within thirty days by the contractor to the chief of branch concerned, whose decision on such appeal shall in all respects be final and conclusive on the parties hereto."

ARTICLE 8

Permits and care of work.—The contractor shall, without additional expense to the Government, obtain all required licenses and permits and be responsible for all damages to persons or property that occur as a result of his fault or negligence in connection with the prosecution of the work, and shall be responsible for the proper care and protection of all materials delivered and work performed until completion and final acceptance.

ARTICLE 9

Covenant against contingent fees.—The contractor warrants that he has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage, or contingent fee. Breach of this warranty shall give the Government the right to terminate the contract, or, in its discretion, to deduct from the contract price or consideration the amount of such commission, percentage, brokerage, or contingent fees. This warranty shall not apply to commissions payable by contractors upon contracts or sales secured or made through bona fide established commercial or selling agencies maintained by the contractor for the purpose of securing business.

ARTICLE 10

Other contracts.—The Government may award other contracts for additional work, and the contractor shall fully cooperate with such other contractors and carefully fit his own work to that provided under other contracts as may be directed by the contracting officer. The contractor shall not commit or permit any act that will interfere with the performance of work by any other contractor.

ARTICLE 11

Officials to not benefit.—No Member of or Delegate to Congress, or Resident Commissioner, shall be admitted to any share or part of this contract or to any benefit that may arise, therefrom but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE 12

Disputes.—If any doubts or disputes arise as to the meaning of anything in the contract, drawings, plans or specifications, or if any discrepancy appears between said drawings, plans, or specifications and this contract, the matter shall be referred at once to the contracting officer for determination; and his decision in the premises shall be conclusive and binding on the parties hereto: *Provided:* That both parties hereto shall have the right of appeal to the chief of branch concerned and his decision upon such appeal shall in all respects be final and conclusive on the parties hereto. In the meantime the contractor shall diligently proceed with performance.

ARTICLE 14[1]

Payments to contractors.—(a) Unless otherwise provided in the specifications, partial payments will be made as the work progresses at the end of each calendar month, or as soon thereafter as practicable, on estimates made and approved by the contracting officer. In preparing estimates the material delivered on the site and preparatory work done may be taken into consideration.

(b) In making such partial payments there shall be retained 10 percent of the estimated amount until final completion and acceptance of all work covered by the contract: *Provided, however,* That the contracting officer, at any time after 50 percent of the work has been completed and after 45 percent of the contract price has been paid if he finds that satisfactory progress is being made, may make any of the remaining partial payments in full: *And provided further,* That on completion and acceptance of each separate building, vessel, public work, or other division of the contract, on which the price is stated separately in the contract, payment on account thereof may be made in full, including retained percentages thereon, less authorized deductions.

(c) All material and work covered by partial payments made shall thereupon become the sole property of the Government and is left in possession of the contractor solely for completing this contract, but this provision shall not be construed as relieving the contractor from the sole responsibility for the care and protection of materials and work upon which payments have been made or the restoration of any damaged work, or as a waiver of the right of the Government to require the fulfillment of all of the terms of the contract.

(d) Upon completion and acceptance of all work required hereunder, the amount then due the contractor under this contract will be paid upon the presentation of a properly executed and duly certified voucher therefor, after the contractor shall have furnished the Government with a final release, if required, in such form and containing such provisions as shall be approved by the chief of branch concerned, of claims against the Government arising under and by virtue of this contract.

ARTICLE 15

Changes in prices of labor or material.—If a Federal agency appointed for the purpose of controlling the prices of labor and/or materials causes or approves of an increase in the prices which the contractor is paying for labor or materials for use in the performance of this contract the excess amount which the contractor pays by reason of such increase will be reimbursed to the contractor by the Government upon the completion or termination of the contract.

ARTICLE 16.

Termination.—This contract may be terminated by the Government at any time upon notice in writing by the contracting officer to the contractor. Such termination shall be effective in the manner and at the time specified in said notice and shall be without prejudice to any claim which the Government may have against the contractor. Upon receipt of such notice, the contractor shall, unless the notice directs otherwise, immediately discontinue all work and the placing of all orders for material, facilities, and supplies in connection with the performance of this contract, and proceed to cancel promplty all his existing orders and terminate work under all subcontracts so far as such orders and/or work are chargeable to this contract, proivded, however, that the actual cost incurred for protection, collection, and disposition of property of the Government as approved by the chief of branch concerned shall be paid to the contractor by the Government.

---

[1] There is no Article 13 in the copy of the Construction Contract submitted to the committee by the War Department. The War Department lays the omission to an error in mimeographing which will be corrected in final form.

Upon the termination of this contract, as hereinbefore provided, unless the contractor is in default, full and complete adjustment and payment of all amounts due the contractor arising out of this contract as determined by the chief of branch concerned, shall as soon as practicable after such termination, be made as follows:

(a) The Government shall reimburse to the contractor all expenditures made in accordance with the terms of this contract less amounts previously paid.

(b) The Government shall reimburse the contractor for all costs to which the contractor has been subjected by reason of the termination of the contract. Reimbursement for the cost of terminating subcontracts under this contract shall be in accordance with the principle set forth in (a) above.

(c) The Government shall pay to the contractor an additional amount equal to -------- percent of the total expenditures referred to in (a) above.

(d) The sum total of the payments made under this article shall not exceed the total amount of the contract less payments previously made.

(e) Title to all property accruing to the Government by reason of the termination of this contract shall immediately vest in the Government upon payment therefor.

(f) Coincident with making final payments, the contractor shall furnish the Government with a final release as provided in paragraph (d), article 14.

ARTICLE 17

Additional security.—Should any surety upon the bond for the performance of this contract become unacceptable to the Government, the contractor must promptly furnish such additional security as may be required from time to time to protect the interest of the Government and of persons supplying labor or materials in the prosecution of the work contemplated by the contract.

ARTICLE 18

Definitions.—(a) The term "chief of branch" as used herein shall mean the head of the branch, bureau, service, or agency of the executive department or the independent establishment involved or his assistant.

(b) The term "contracting officer" as used herein shall include his duly appointed successor or his duly authorized representative.

ARTICLE 19

Alterations.—The following changes were made in this contract before it was signed by the parties hereto:

- -
- -
- -

In witness whereof, the parties hereto have executed this contract as of the day and year first-above written.

THE UNITED STATES OF AMERICA,
By ------------------------------------

(Official title)

(Contractor)

(Business address)

To witnesses:

I, --------------------, certify that I am the ------------------ secretary of the corporation named as contractor herein; that ------------------- who signed this contract on behalf of the contractor, was then -------------------- of said corporation; that said contract was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers.

[CORPORATE SEAL] ______________________________

I hereby certify that, to the best of my knowledge and belief, based upon observation and inquiry, ____________________ who signed this contract for the ____________________ had authority to execute the same, and is the individual who signs similar contracts on behalf of this corporation with the public generally.

____
(Contracting officer)

EXHIBIT NO. 1226-D

Form No. ________ Contract No. ________
Revised December 1931. Dated __________ 19__.

CONTRACT FOR SUPPLIES

(For use in war or other national emergency)

____
(Department)

____
(Contractor)

Contract for ______________________________ Amount $____________
Place ____

CONTRACT FOR SUPPLIES

This contract, entered into this ________ day of ____________ 19__, by the United States of America, hereinafter called the "Government," represented by the contracting officer executing this contract, and______________________________
____
____
____
of the city of ____________________, in the State of ____________ hereinafter called the "contractor," witnesseth that the parties hereto mutually agree as follows:

ARTICLE 1

Scope of this contract.—The contractor shall furnish and deliver____________
____
____
____
for the consideration stated______________________________
____
in strict accordance with the specifications, schedules and drawings, all of which are made a part hereof and designated as follows:______________________________
____

Deliveries shall be made as follow:
____
____

ARTICLE 2.

Changes.—Where the supplies to be furnished are to be specially manufactured in accordance with Government drawings and specifications, the contracting officer may at any time, by a written order, and without notice to the sureties, make changes in the drawings or specifications. Changes as to shipment and packing of all supplies may also be made as above provided. If such changes cause an increase or decrease in the amount due under this contract, or in the time required for its performance, an equitable adjustment shall be made and the contract shall be modified in writing accordingly. Any claim for adjustment under this article must be asserted within ten days from the date the change is ordered unless the contracting officer shall for proper cause extend such time, and if the parties cannot agree upon the adjustment the dispute shall be determined as provided in Article 10 hereof. But nothing provided in this article shall excuse the contractor from proceeding with the contract as changed. The written order of change shall be attached to and made a part of this contract.

ARTICLE 3.

Extras.—Except as otherwise herein provided, no charge for extras will be allowed unless the same have been ordered in writing by the contracting officer and the price stated in such order.

ARTICLE 4.

Inspection.—(a) All material and workmanship shall be subject to inspection and test at all times and places, and, when practicable, during manufacture. The Government shall have the right to reject articles which contain defective material or workmanship. Rejected articles shall be removed by and at the expense of the contractor promptly after notification of rejection.

(b) If inspection and test, whether preliminary or final, is made on the premises of the contractor or subcontractor, the contractor shall furnish, without additional charge, all reasonable facilities and assistance for the safe and convenient inspections and tests required by the inspectors in the performance of their duty. All inspections and tests by the Government shall be performed in such a manner as not unduly to delay the work. Special and performance tests shall be as described in the specifications. The Government reserves the right to charge to the contractor any additional cost of inspection and test when articles are not ready at the time inspection is requested by the contractor.

(c) Final inspection and acceptance of materials and finished articles will be made after delivery, unless otherwise stated. If final inspection is made at a point other than the premises of the contractor or a subcontractor, it shall be at the expense of the Government except for the value of samples used in case of rejection. Final inspection shall be conclusive except as regards latent defects, fraud, or such gross mistakes as amount to fraud. Final inspection and acceptance or rejection of the materials or supplies shall be made as promptly as practicable, but failure to inspect and accept or reject materials or supplies shall not impose liability on the Government for such materials or supplies as are not in accordance with the specifications. In the event public necessity requires the use of materials or supplies not conforming to the specifications, payment therefor shall be made at a proper reduction in price.

ARTICLE 5

Delays—Damages.—If the contractor refuses or fails to make deliveries of the materials or supplies within the time specified in article 1, or any extension thereof, the Government may terminate the right of the contractor to proceed with deliveries or such parts or part thereof as to which there has been delay. In such event, the Government may purchase similar materials or supplies in the open market or secure the manufacture and delivery of the materials and supplies by contract or otherwise, and the contractor and his sureties shall be liable to the Government for any excess cost occasioned the Government thereby: *Provided,* That the contracting officer shall determine that the delay of the contractor in making deliveries is due to unforseeable causes beyond the control and without the fault or negligence of the contractor, then the contractor shall not be charged with any excess cost occasioned the Government by the purchase of materials or supplies in the open market or under other contracts: *Provided further,* That the contractor shall within ten days from the beginning of any such delay give written notice of the causes of delay to the contracting officer, who shall determine the extent of delay and his determination thereon shall be final and conclusive on the parties hereto, subject to appeal within thirty days by the contractor to the chief of branch concerned, whose decision on such appeal shall in all respects be final and conclusive on the parties hereto.

ARTICLE 6

Responsibility for supplies tendered.—The contractor shall be responsible for the articles or materials covered by this contract until they are delivered at the designated point, and shall bear all risk on rejected articles or materials after notice of rejection. Where final inspection is at point of origin but delivery by contractor is at some other point, the contractor's responsibility shall continue until delivery is accomplished.

ARTICLE 7

Payments.—The contractor shall be paid, upon the submission of properly certified invoices or vouchers, the prices stipulated herein for articles delivered and accepted or services rendered, less deductions, if any, as herein provided.

Unless otherwise specified, payments will be made on partial deliveries accepted by the Government when the amount due on such deliveries so warrants; or, when requested by the contractor, payments for accepted partial deliveries shall be made whenever such payments would equal or exceed either $1,000 or 50 percent of the total amount of the contract.

ARTICLE 8

Officials not to benefit.—No Member of or Delegate to Congress or Resident Commissioner shall be admitted to any share or part of this contract or to any benefit that may raise therefron, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE 9

Covenant against contingent fees.—The contractor warrants that he has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage, or contingent fee. Breach of this warranty shall give the Government the right to annul the contract, or, in its discretion, to deduct from the contract price or consideration the amount of such commission, percentage, brokerage, or contingent fees. This warranty shall not apply to commissions payable by contractor upon contracts or sales secured or made through bona fide established commercial or selling agencies maintained by the contractor for the purpose of securing business.

ARTICLE 10

Disputes.—If any doubts or disputes arise as to the meaning of anything in the contract, drawings, plans, or specifications, or if any discrepancy appears between said drawings, plans, or specifications and this contract, the matter shall be referred at once to the contracting officer for determination; and his decision in the premise shall be conclusive and binding on the parties hereto: *Provided*, That both parties hereto shall have the right of appeal to the chief of branch concerned and his decision upon such appeal shall in all respects be final and conclusive on the parties hereto. In the meantime the contractor shall diligently proceed with performance.

ARTICLE 11

Definitions.—(a) The term "chief of branch" as used herein shall mean the head of the branch, bureau, service, or agency of the executive department or the independent establishment involved or his assistant.

(b) The term "contracting officer" as used herein shall include his duly appointed successor or his duly authorized representative.

ARTICLE 12

Changes in prices of labor or material.—If a Federal agency appointed for the purpose of controlling the price of labor and/or material causes or approves an increase in the prices which the contractor is paying for labor or materials for use in the performance of this contract the excess amount which the contractor pays by reason of such increase will be reimbursed to the contractor by the Government upon the completion or termination of the contract.

ARTICLE 13

Termination.—This contract may be terminated by the Government at any time upon notice in writing by the contracting officer to the contractor. Such termination shall be effective in the manner and at the time specified in said notice and shall be without prejudice to any claim which the Government may have against the contractor. Upon receipt of such notice the contractor shall, unless the notice directs otherwise, immediately discontinue all work and the placing of all orders for material, facilities and supplies in connection with the performance of this contract, and proceed to cancel promptly all his existing orders and terminate work under all subcontracts so far as such orders and/or work are chargeable to this contract, provided however, that the actual cost incurred for protection, collection and disposition of property of the Government, as approved by the contracting officer, shall be paid to the contractor by the Government.

Upon the termination of this contract, as hereinbefore provided, unless the contractor is in default, full and complete adjustment and payment of all amounts due the contractor arising out of the contract as determined by the chief of branch concerned shall, as soon as practicable after such termination, be made as follows:

(a) The Government shall pay the contractor the contract price not previously paid for articles completely manufactured, or work and services completely performed. If the contract price includes cost of transportation to destination, and the articles are not shipped, such transportation cost shall be deducted therefrom.

(b) The Government shall pay to the contractor for work and articles in process of completion that percentage of the contract price represented by the percentage of completion, less the salvage value thereof.

(c) The Government shall pay the contractor the cost of material on hand purchased for and necessary for the contract, which has not entered into production, less the salvage value thereof.

(d) The Government reserves the right to take over all or any part of the work or articles in process of completion and/or materials by paying the contractor the salvage value thereof.

(e) The Government shall reimburse the contractor for the cost of cancelling his subcontracts under this contract in accordance with the principles set forth in this article.

(f) If the contractor shall have submitted with his bid a list of new facilities required for the performance of this contract and the cost of such facilities has been included in the contract price the Government will pay the contractor the unamortized portion of the cost of such facilities, e. g.:

Cost of facilities	$10, 000
Fair value on termination	8, 000
Amount to be amortized	2, 000
Assumed that the contract is 30 percent completed, contractor absorbs 30 percent of $2,000, or	600
Government absorbs 70 percent of unamortized cost, or	1, 400

The Government reserves the right to take over such facilities by paying to the contractor the fair value on termination plus the Government's portion of the unamortized cost.

(g) No allowance will be made for prospective profits; but if it is determined that the sum total of the above payments is not adequate to cover the costs to which the contractor has been subjected by reason of the termination of this contract, the chief of branch may add thereto a sum sufficient to cover such costs and the action of the chief of branch shall be final and conclusive.

(h) The sum total of the payments made under this article shall not exceed the total amount of the contract less payments previously made.

ARTICLE 14

Alterations.—The following changes were made in this contract before it was signed by the parties hereto:

In witness whereof, the parties hereto have executed this contract as of the day and year first above written.

THE UNITED STATES OF AMERICA,
By

(Official title)

(Contractor)

(Business address)

Two witnesses:

I, --------------------, certify that I am the -------------------- secretary of the corporation named as contractor herein; that -------------------- who signed this contract on behalf of the contractor was then ------------------ of said corporation; that said contract was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers.

[CORPORATE SEAL] ------------------------------

I hereby certify that, to the best of my knowledge and belief, based upon observation and inquiry, --------------------, who signed this contract for the --------------------, had authority to execute the same, and is the individual who signs similar contracts on behalf of this corporation with the public generally.

(Contracting officer)

EXHIBIT NO. 1227

EXCERPTS FROM THE MIMEOGRAPHED MEMORANDUM DATED FEBRUARY 6, 1934, HEADED "COMMENTS, CRITICISMS AND PROPOSALS ON THE ADJUSTED COMPENSATION CONTRACT FORM, REVISED DECEMBER 1931"

This report was compiled by the board of officers on forms of war contracts, the recorder of which was Captain Fred A. McMahon, Ordnance Dept.

The board of officers for standardizing war contracts, appointed by Par. 20, S. O. 235-O, 1921, as amended, has received numerous replies from Ordnance district offices in answer to a letter sent out from the ordnance office under date of August 21, 1933: subject: "war contract forms—adjusted compensation, Revised December 1931."

Extracts from the various replies are quoted below for the information of all members of the board.

Birmingham Ordnance district.—This district believes that the changes are good and would improve the contract. *The elimination of the necessity for appraisals of machinery* and equipment is particularly recommended. This appraisal of plant never should have been in the contract. It could never be determined, would be subject to violent fluctuations and would be a constant source of argument and disagreement. The public-utility commissions have attempted to appraise the value of plants with a view to establishing fair rates. Nearly every valuation they attempted to determine was fought through the courts for years.

With reference to par. c(2), it is believed that nothing definite should be stated at this time. This involves labor and labor unions. It would be safer to eliminate the word "incentive."

* * * * * * *

Boston Ordnance district.—The adjusted compensation form in avoiding the evils of fixed price contracts and cost plus contracts has also eliminated the advantages to be derived under such contract and the new form has introduced additional evils such as those to which attention is called by the Bridgeport committee. The fixed price contract when circumstances make it safe for a contractor to sign such a contract, offers a gamble under which a man may make a large profit or under which he may make a great loss which spurs the contractor to his most efficient efforts. *The cost plus contract offers the ideal conditions for profiteering. It seems to the writer questionable whether the Government would have received such whole hearted cooperation from manufacturers during the World War had all opportunity for profiteering been eliminated.* In other words, it seems that there are incentives to the best efforts of manufacturers in both the fixed price and the cost plus contracts which are absent from the adjusted compensation contract.

The three difficulties enumerated by the Bridgeport committee will be present in more or less degree in any type of contract which compromises between cost plus and fixed price. It is the writer's opinion that the suggestions offered by the committee do a great deal to mitigate the evils of the adjusted compensation contract. He believes, however, that a fixed price contract with allowances for changes in the price of materials and labor occurring between the signing of the contract and completion should be most satisfactory to both the Government and the contractor.

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Cincinnati ordnance district.—

* * * * * * *

The American Rolling Mill Company.—

* * * * * * *

Where the manufacture, under the contract, is performed in conjunction with a manufacture of other products, it will be necessary for the contractor to set up a complete cost system. Reimbursement for labor, service, use of machinery and equipment, and manufacturing overhead cannot be made direct in this case. The conversion cost in the various manufacturing departments, where these departments are also processing other materials, will have to be made on the basis of an equitable distribution. In many cases, the labor charge can be coded and made direct against the contract, in other cases—this will not be possible.

* * * * * * *

* * * We do not believe it at all necessary to have an appraisal made of plant to determine the full and true value of depreciable properties at the time of contract. We believe that, without question, the district ordnance office and the manufacturer can arrive at a satisfactory basis for computing depreciation charges.

* * * * * * *

We note from the contract that the War Department does not propose to have included in the cost of producing War Department material any charges for interest on funded and other debts. However this expense of doing business must be covered in some way, so we will assume it is to be taken care of in the profit allowed the contractor.

* * * * * * *

In relation to purchase of special machinery and other equipment we agree that this should be purchased by the War Department, so as not to constitute a drain on the financial resources of the manufacturer. The manufacturer, however, should maintain detail property ledger records (memorandum) covering each item of property purchased for his use by the War Department. These property ledger sheets should include each element of the total cost (vendor's invoice price, freight, service and handling charges, foundations, installation cost, etc.). At the close of the contract then the manufacturer and the Ordnance Department can either agree on a sale of the equipment to the manufacturer, if he chooses to buy it; or, if the Ordnance Department is to retain this equipment, they will have a record of its total cost installed.

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Philadelphia Ordnance District.—

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(2) There is nothing in the contract to prevent the contractor from obtaining the market price for such raw materials or component parts as are produced by him.

* * * * * * *

St. Louis Ordnance District.—This office has conducted one general meeting of executives of manufacturing plants in St. Louis and vicinity and numerous reserve officer conferences regarding the adjusted compensation contract. The following summary, as a result of these conferences, is submitted herewith.

It is the general concensus of opinion among owners and executives of industrial plants in this vicinity that the adjusted compensation contract, while getting away apparently from the cost plus contract, still *retains some features highly objectionable and subject to prolonged argument. Some of the firms are frank to state it would be extremely different for them to voluntarily enter into such a contract in either peace or war time.*

* * * * * * *

There is no question but that the proposed contractors in the vicinity think the reward inadequate and unjust.—This is particularly true of companies having a large bond issue and an issue of preference accumulative stock whereby the fee and the uncertain bonus would not be sufficient to protect the company and the investors of the preference stock. The present form of contract specifically precludes the Government from reimbursing the contractors for appropriation to reserves for outstanding debts owed by the contractor including redemption of stocks, bonds, and mortgages. If the Government expects any production from companies with above described investment, it will either have to increase the reward or reimburse the contractor for appropriations to reserves for outstanding debts. It would appear the former would be the more equitable.

Another point raised in this discussion is the fact that a company could not ascertain its actual profits from month to month by this form of contract. In the event a company was in the middle of its contract at the end of the calendar year it would be impossible to properly prepare income-tax reports. This would have the effect of throwing the larger part of profits in the year in which the contract was completed and not spreading them over the years in which partial shipments were made. If there was a war tax as was the case in the World War, the profits being lumped into one year would get into the higher brackets and the fee and probable bonus earned would all be taken away in taxes.

It is the opinion of this office, based on the discussions at the various conferences held on this subject, that the present form of adjusted compensation contract *includes a number of fundamental objectionable features and is not satisfactory to the contractors in general.*—The contractors, of course, realize that the Government can in an emergency commandeer their facilities and it is believed this will be necessary in a number of cases providing the objectionable features of the present form of contract are not removed.

San Francisco Ordnance District.—After careful perusal of the Bridgeport district report on the adjusted compensation contract, it is believed that *the contract is impracticable, and that its use would involve intolerable delay in the initiation of procurement.*

Some thoughts on an alternate form of contract which might be developed are contained in the following:

A FORM OF CONTRACT

1. The form of contract suggested is in part based on a belief that the present practice of making award to the lowest bidder is fallacious, in that it is not conducive to the stability of industry and the general welfare. Perhaps the worst elements are the effect on more reputable bidders and the uneconomic consequences of default. But the buyer seldom receives the quality he desires. It would seem to be better business to make the award to the contractor whose bid was closest to the average of all bids.

2. The objective is a contract which may be let quickly, administered economically, and terminated with little aftermath. The speed of letting is the paramount consideration, and hence the determination of a price seems to be most desirable. *Economy in administration is also important* in keeping down the aggregate cost to the Government. *Termination is* in the *future* but *it can* be *simplified by foresight,* and *contractors relieved from fear of its effects.*

3. It is proposed that procurement of the same article from all contractors be made at a single predetermined unit price exclusive of direct material. The determination of this price will be important, and it should be subject to change annually, for successive or continuing contracts. In determining the price, consideration should be given to importance of the demand, the availability, the risks and sacrifices by the contractors as a whole, and their right to profit. The best method which suggests itself at present is by a Federal estimate considered together with the average of contractors' estimates or unbonded bids received after M day, the estimated cost of material being shown separately. The ultimate price might even be determined in council with contractors represented. Such bids or estimates would have to be made with full knowledge of the terms of the contract. *It should be expected* that *the set price will permit* of a *profit of at least 10% on the* gross price to the average bidders. Experience shows that this is about the minimum average profit on which a business can survive. The net price will not include the cost of direct material, and will be the basis of compensation.

4. Such a net price having been promulgated, the letting of contracts will be relatively simple and expeditious. *They should be given, in order, to the contractors requiring the least expansion of facilities, provided for below.*

5. When adequate facilities do not exist, the Government cannot escape the expense of providing them. Therefore, it should agree to pay for needed equipment in plants to which it awards contracts. This should be limited to grounds, buildings, and installed equipment; title to which would remain with the Government. All purchases or rental of land, construction, and equipment would be approved in advance and paid for by the Government.

6. In the event of cancellation for the convenience of the Government, the contractor should be paid a profit on all or a part of the unexpired portion of the contract. This is very essential to him, but represents only a percentage of the expense the Government expected to incur. The payment should be 10% of the amount expected from the Government for deliveries on the unexpired portion of the contract. Since under normal conditions the Government habitually requires a 20% performance bond from the contractor, it is not unreasonable that, with conditions practically reversed, the Government should give a consummation guarantee of lesser amount. This payment would tend to obviate claims except possibly from contractors who had incurred high tooling-up costs and had made few or no deliveries. The contractor's performance bond would still be required.

* * *

The Navy Department, under date of May 18, 1932, commented on the Adjusted Compensation Contract, as follows:

* * *

Exhibit A, page 7. *Depreciation.—The period of performance will in many cases be indefinite and the amount of depreciation indeterminable.—*

* * *

Page 3, article III–2 (a).—To be stricken out since every large industrial plant has research and experimental work which cannot be allocated directly to any one contract but is a part of the cost of all.

Page 3. Article III–2 (g) and (h), entertainment and contributions. These items of cost are universal to the industrial world and are considered legitimate expense. They should be stricken out.

* * * * * * *

Page 3. Article III–2 (1). As in the case of research and experimental work, legitimate industrial firms have a general patent and royalty expense which is considered part of their general overhead. In most cases the entire product of the plant, no matter what it may be, benefits by such items of expense. The item should be stricken out.

* * * * * * *

Page 5. Article III–6. It is not believed that rehabilitation should be set forth as a specific item of reimbursement (see comment on exhibit A). Where the contractor produces for the Government in his usual line of product, there will be no rehabilitation cost. Where special facilities are ordered, the necessary provisions for all these special facilities will cover the question.

Page 5. Article III–7. (See comment on exhibit A.)

Page 14. Article X. A separate paragraph should be inserted authorizing the sale of Government-owned facilities and property to the contractor upon terms to be agreed upon. This is essential as the sale would be illegal unless so provided for and, *in many instances, sale will be the proper and reasonable disposition.*

Rochester ordnance district.—In July 1925, *the Rochester district* submitted a proposed adjusted price contract form, prepared *by the General Electric Company, which that district still believes to be the correct form of contract,* for the following reasons:

* * * * * * *

1. It makes the manufacturer's contract and all subcontracts part of one transaction with the Government, all subject to the same terms and conditions and to the same governmental supervision.
2. *It enables the contractor to place all subcontracts and work out all difficulties before the emergency arises.*
3. By doing so, it enables the contractor and the Government to figure accurately on contract costs.
4. It makes the price adjustment on the main contract and on all subcontracts automatic as of the date of beginning performance.
5. By eliminating possible suspensions and interferences with production, it enables the contractor and all subcontractors to figure on a definite rate and to fix prices accordingly.
6. It insures deliveries at a predetermined rate at the lowest cost and gives both the Government and the contractor benefits which result from "quantity production."
7. It avoids necessity for special accounting systems or expert accountants to determine how much is due at any time under the contract.
8. It avoids expense and delay (reflected in contract prices) otherwise inevitable in adjusting amounts due on termination.

9. It places all contractors and subcontractors on the same basis in determining costs of labor and material and price of commodities *by making all contracts start automatically on the declaration of war, unless started earlier by governmental order.*

Pittsburgh ordnance district.—Wm. J. Moorhead, chief of the legal staff of the Pittsburgh ordnance district.

* * * * * * *

The reasonableness of a fee of six per centum seems to me to be open to question. In turning his plant and facilities to Government work, the contractor is bound to lose a portion or all of his regular business. In addition, as industry becomes congested with Government emergency contracts, the supply of facilities for ordinary business if decreased and, in accordance with familiar economic laws, prices and profits are enhanced. Based on the assumption that the estimate has been fairly made and that an excessive profit to the contractor is not possible, under the provisions hereinafter mentioned, profit at the rate of six percent per annum would not tempt successful industrial companies. There would be a tendency to let the competitor take the Government business and take a chance on greater profits from private business. I am not unmindful of the fact that the structure of this contract practically guarantees the contractor against loss and I deplore the fact that great wealth has been amassed by profiteers during emergencies; however, it seems to me that, in order to attract the officers and managers of great industrial enterprises with their efficient organizations and capacity for production, it would not be out of line to increase the rate of the fee from six per centum to ten per centum as representing a reasonable profit.

* * * * * * *

On the other hand, it must be recognized that, in estimating the cost of production of articles not currently manufactured and for the production of which costs have not been ascertained, the *contractor will protect himself by increasing* the estimates, especially in view of the penalty in case the costs exceed the estimate. It must also be recognized that certain types of contractors will furnish very high estimates in the hope that, after compromise and adjustment, they will still be above the proper level. In both such instances, the percentage provided for may be too high. It is possible that, in the former case, some special limitation of increased compensation might be provided for, while, in the latter case, the Government would do well to refuse to negotiate with the contractor until he revised his estimates within reasonable limits.

You will recall that I mentioned the provision for a penalty in case the cost exceeds the estimate. The article on "Payments" provides that, in such event, the fee shall be reduced by one percent for each one percent of such excess, with the limitation, however, that in no case shall such reduction exceed fifty percent.

The penalty provided is moderate. The fee, based upon facilities appraised at $100,000, would amount to $6,000. This would be reduced, under the penalty provision, by $60 for each one percent that the cost exceeded the estimate. A penalty of $1,200 is not a heavy assessment for exceeding the estimate by twenty percent of the estimate was fair and accurate when made. Any penalty whatsoever tends to heighten the incentive to economy. On the other hand, were the penalty severe, the contractor would seek protection by boosting the estimate. In my opinion, a moderate penalty is desirable.

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Remarks submitted by the executive assistant, Pittsburgh ordnance district, on the above suggestions from Mr. Moorhead.

* * * * * * *

This office believes that all three of the above points are worthy of consideration. Without more factual data before us with respect to the method of determining the six percent utilized as a basis for this contract, we hesitate to support the recommendation of a change to ten percent. However, *it must be remembered that interest on funded indebtedness and dividends on money furnished by stockholders for operation of the business, must be paid out of the profits.* Therefore, it is questionable whether the fee calculated on a basis of six percent would be adequate return in every case. Of course, circumstances vary and the correctness of the appraisal of facilities would have considerable bearing on the amount of the fee.

* * * * * * *

The above comments cover our remarks with respect to each point raised by Mr. Moorhead. In addition to the above, we desire to present for consideration certain suggestions which arose during our discussion of the adjusted compensation contract and proposed changes with the director of industrial accounts of the Westinghouse Electric and Manufacturing Company.

(*a*) Under the article on "The Fee", it is stated that "The fee shall be a sum equal to six percent per annum * * * on the appraised replacement value of the facilities owned by the contractor and used in connection with the work * * *."

This office believes that the Manual of Instructions for the adjusted compensation contract should set forth in some detail the method of appraisal to be used and in addition "replacement value" should be defined accurately. It is safe to assume that the working of economic laws in time of emergency will cause considerable increase in the prices of equipment and facilities for manufacturing purposes. Further, the manufacturing equipment in any one plant selected for work under the adjusted compensation contract may be in different degrees of serviceability. Certain amounts of depreciation will have been already written off in the equipment. Therefore, the exact meaning of "replacement value" will be cause for controversy unless it is adequately defined. Since this appraisal of facility and equipment forms the basis for payment of the fee, it is believed that the Manual of Instructions should give considerable space to elucidation on this subject. The accounting manual in our possession may be an old one, but no reference to method of appraisal is contained therein.

* * * * * * *

d. In the contract, it is noted that "The contracting officer may, by written order, direct temporary suspension for any or all work at any time, in which case the expense, if any, occasioned the contractor by reason of such temporary suspension shall * * * be reimbursed by the United States."

This paragraph is considered very desirable by manufacturers and representatives of the Westinghouse Electric & Mfg. Company believe that it should be incorporated in all fixed price contracts for emergency use.

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CRITICISMS FROM BRIDGEPORT ORDNANCE DISTRICT, SPRINGFIELD, MASS.

Proposal of principles for a changed adjusted compensation contract.—Under date of June 1, 1931, the accounting section reported the results of its study and practical applications of the present adjusted compensation contract. The conclusions of this report were that, as written, the present contract had certain difficulties that tended to make it unsatisfactory.

First. The necessity for appraisals of machinery and equipment would be costly, and a constant basis of dispute, adjustment, or even dishonesty, since they were to be the basis of profit figuring.

Second. The necessity for constant accounting supervision due to changes in machinery, etc.

Third. Inadequate reward to the contractor.

* * * * * * *

PROPOSED CHANGE IN PRINCIPLES

a. (1) *Raw materials.*—Purchased by the contractor, to be reimbursed as fast as checked for proper application, amount, and fair market price including transportation.

(2) Where raw materials, or even component parts, are standard articles of general production such as brass rod, screws, etc., even if produced by the prime contractor, they may be entered into the estimate at market price and so paid for.

* * * * * * *

e. (1) The profit to the contractor shall be fixed at a standard percent on the unit cost, in original estimate of labor and overhead.

* * * * * * *

COMMENTS ON CRITICISMS BY THE BRIDGEPORT ORDNANCE DISTRICT ON THE ADJUSTED COMPENSATION CONTRACT

(APRIL 4, 1932.)

(The above comments submitted by Lt. Col. P. J. O'Shaughnessy, U. S. A., ret'd, member of the Board on War Time Contracts, April 1932.)

* * * * * * *

* * * An examination of the reports of numerous corporations extending over a period of several years indicates that the average return on capital in commercial work is less than 5 percent. In times like the present it is very considerably less. The board concluded that 6 percent was a fair return on the

nvested capital of the contractor, especially in view of the fact that additional compensation is provided for if the contractor is efficient.

* * * * * * *

c. (2) *The contractor shall introduce a proper and agreed-upon incentive plan of paying direct labor, in order to bring about both speed of production and reduced cost per unit.*—I am not clear as to just what is meant by this. If it contemplates paying a bonus to workmen, it would have the effect of enabling the contractor to rob the plants of other contractors doing work for the Government of its workmen by paying these workmen higher wages. This is what happened during the World War, and what brought about a condition which necessitated the appointment of the National War Labor Board. There is, of course, no objection under the adjusted compensation contract to a contractor making any agreement with his workmen to pay them a bonus for producing the articles expeditiously and economically; but this bonus will have to be paid by the contractor from his profits under the contract. The Government cannot be a party to it. Suppose, for example, that we contracted with the Bethlehem Steel Company to manufacture guns and shell forgings, as we did during the World War, and the bonus system then in vogue in that company was agreed upon, extended, however, down to the direct labor engaged in the work. I am afraid that the adjusted compensation contract would be looked upon by the public as very objectionable, and that it would not be long before Congress would legislate against it, as it has against the cost-plus contract. The Bridgeport district, however, may have some other thought in mind than paying direct labor a bonus, and my remarks in that case would not apply.

* * * * * * *

e (1). *The profit to the contractor shall be fixed at a standard percent on the unit cost, in original estimate of labor and overhead.* Originally we attempted to do just this; but there are so many thousands of parts that go to make up the nomenclature list of the Ordnance Department that it was impossible to agree on a standard percent of the unit cost. Suppose, for example, that we say that 10 percent of the unit cost is fair. If the contractor is working wholly on copper, he would make a large profit; if he is working wholly on steel, his profit would be much less. So we would have to fix a percentage for each article. It must be borne in mind that in time of war we are going to turn to people to make things for the Army that they have never made before. One manufacturer's costs may be very reasonable—in fact, they may be very low; while another manufacturer's costs for the same article may be very high. In machining shells the Symington Company, of Tochester, N. Y. used single-purpose machinery which was almost fool proof. They could train an operator to perform work with a particular machine, and in a very short time this operator became an expert. Rejections in that plant were almost nil. Another plant, machining exactly the same kind of a shell on universal lathes, required a much higher degree of skill on the part of its workmen. The costs of the two plants were out of all proportion to each other.

* * * * * * *

e (2). *An additional percent of profit to the contractor for producing at less than estimated unit cost shall be provided in a standard percent of the saving over unit estimated cost. And a reduction of the profit may be made in a similar manner if the unit cost rises above the estimated cost.*—This was the plan in vogue during the World War when we used the bogy-price contract. When this type of contract was adopted we were prohibited by Congress from using the cost-plus contract, and *since it was necessary, in order to get munitions, that we guarantee the contractor his costs,* we provided for the payment of a fixed percent based on the estimated cost, and for an additional percentage as profit in the event that the costs were less than the estimate. Under this type of contract one concern made approximately 30 percent on its completed contracts; another made very nearly 100 percent. Of course, we could reduce the percentage to be paid as profit, but is not that precisely what we have done in the adjusted compensation contract? There we agree, first, to pay the contractor his costs; second, to pay him a fee for the use of his plant and facilities; and, third, to give him an opportunity to make a profit if he produces the articles for less than the estimate. The only objection that can be made to this contract is that the profit may be too small. But bear in mind that the report of the War Policies Commission, if adopted by Congress, would permit manufacturers to earn only about 6 percent.

* * * * * * *

Sixth. The thought and effort of management and labor may be more effectively concentrated on producing by the proposed methods. This is the ideal that we are attempting to attain. We hope that when we save the contractor fear of loss; when we pay him and his officers the salaries which they have been receiving; when we pay his labor, material, and overhead bills currently; when we save him the necessity of having to borrow large sums from the banks at a time when interest rates are high; that the management and labor producing things that are urgently required by the Nation will effectively concentrate on producing these things as rapidly and economically as possible.

* * * * * * *

EXHIBIT No. 1228

	Unit	Average transfer price	Average manufacturing cost price
Ammonia:			
1932	Lb	$0.0455	$0.0550
1933	Lb	.0360	.0291
Nitric acid:			
1932	Cwt	3.83	2.86
1933	Cwt	3.28	2.84
Aniline:			
1932	Cwt	[1] 9.80	8.78
1933	Cwt	[1] 9.95	9.53
Diphenylamine:			
1932	Cwt	27.00	16.42
1933	Cwt	21.45	20.20

[1] Aniline is transferred at cost when used as an ingredient in the manufacture of diphenylamine, which is the only commodity consuming aniline used in manufacturing munition powders. This product is also transfered to other departments to be consumed in our commercial line and in such cases the above transfer prices prevailed for the respective years.

EXHIBIT No. 1229

MEMORANDUM OF AGREEMENT

This agreement, made as of January 1, 1934, by and between Dynamit Actien Gesellschaft, a corporation of Germany, having its executive offices at Troisdorf, Germany, hereinafter referred to as "D. A. G."; and Remington Arms Company, Inc., a corporation of the State of Delaware, U. S. A., having a factory and office at Bridgeport, State of Connecticut, U. S. A., hereinafter referred to as "Remington"; Witnesseth:

Whereas Remington, on or about the 14th day of November 1929 entered into a certain contract with the Rheinisch Westfaelische Sprengstoff A. G., a corporation of Germany, which contract, hereinafter for convenience referred to as the "R. W. S. contract", is attached hereto and made a part hereof; and

Whereas the original and reissue applications for United States patents mentioned in said R. W. S. contract have eventuated as follows: Application serial no. 352893 was abandoned after filing as a continuation application serial no. 430138 which has resulted in Patent No. 1,889,116, November 29, 1932; application serial no. 400738 was abandoned in view of application serial no. 430138; reissue application serial no. 400723 has resulted in reissue Patent No. 17540 of December 31, 1929;

Whereas D. A. G. has succeeded to all the rights and obligations of Rheinisch Westfaelische Sprengstoff A. G. under and by virue of said R. W. S. contract; and

Whereas the parties hereto are desirous of modifying certain of the provisions of said R. W. S. contract as hereinafter provided:

Now, therefore, in consideration of one dollar and other good, valuable, and sufficient considerations, extending from each of said parties to the other, the receipt of which is hereby acknowledged, and in consideration of the covenants and promises herein contained, said parties do hereby mutually covenant and agree as follows:

I. Royalty payments shall be made by Remington on the sales made during each quarter based upon the net selling price after deduction of all discounts and rebates. For convenience and simplicity, the average rate of discount allowed by Remington in its ammunition business for the preceding quarter will be used in reducing Remington's gross billings to their net cash value. When accounts with respect to which royalties have been paid are uncollectible, the proper deduction will be made from the next royalty payment due after such accounts have been found to be uncollectible.

II. "Military ammunition" is defined as ammunition of sizes and types ordinarily used in war and sold directly to or made under a license from Remington by a government actually engaged in war, or storing the ammunition thus made or purchased for the purpose of war. All loose primers sold to the United States Government shall be considered as military ammunition. "Commercial ammunition" (nonmilitary ammunition) includes all ammunition not coming within the above definition of military ammunition.

III. The royalties to be paid to D. A. G. by Remington on commercial ammunition, primers and primed shells, coming within the claims of Reissue Patent No. 17540 based on the net selling price as hereinbefore set forth, shall be as follows:

	Percent
(a) Rimfire ammunition:	
1. Sold and intended for consumption within the United States	¾ of 1
2. Sold in and for export from the United States	1
(b) Centerfire metallic ammunition and shot shells:	
1. Sold and intended for consumption within the United States	.5 of 1
2. Sold in and for export from the United States	.6 of 1
(c) All loose primers and empty primed shells	1

This rate to remain the same regardless of the volume of sales.

IV. When during any calendar year Remington shall have paid to D. A. G. as royalties the sum of $20,000, the rates at which royalties shall be paid for the remainder of such calendar year shall be one-third (⅓) of those specified in paragraph III; provided, however, that should German and United States currencies be stabilized at a ratio of 3.5 or more German marks per United States dollar for two or more quarters in any one calendar year, royalty rates of one-third (⅓) of those specified in paragraph III shall apply when Remington during such calendar year shall have paid to D. A. G. as royalties the sum of $18,500.

V. The maximum royalty to be paid to D. A. G. by Remington in any calendar year with respect to commercial ammunition, primers, and primed shells, shall be $35,000, and when this amount has been paid no further royalties shall accrue to D. A. G. with respect to sales of commercial ammunition during such calendar year.

VI. If and when the total amount paid by Remington with respect to commercial ammunition under this contract and the R. W. S. contract reaches $250,000, no further royalties shall be paid by Remington with respect to commercial ammunition, primers, and primed shells, but it is understood that when the amount paid by Remington in any one year exceeds $30,000 the excess shall not be included in computing the maximum of $250,000.

VII. The royalty paid to D. A. G. by Remington with respect to military ammunition manufactured and sold by Remington shall not be less than 1% without the express consent of D. A. G. D. A. G. agrees that it will not unreasonably withhold its acceptance of royalties reduced to not less than ⅒ of 1% where such a reduction of royalties is found by Remington to be necessary or desirable to facilitate the securing of substantial orders or volume of sales of military ammunition by Remington.

Remington shall not, without the consent of D. A. G., license the Government of the United States or other American manufacturer to manufacture and/or sell military ammunition coming within the terms of this agreement at a royalty less than the following: (a) for cartridges, Fifteen Cents ($0.15) per thousand; (b) for primers and empty primed shells, 1% of Remington's net selling price of similar military primers and primed empty shells. The consent of D. A. G. to licenses at a less royalty, when necessary to the granting of profitable licenses, will not be unreasonably withheld.

One-quarter (¼) of the royalty received by Remington from the Government of the United States or other licensee with respect to military ammunition shall be paid to D. A. G.

VIII. The royalties paid by Remington to D. A. G. with respect to military ammunition manufactured and/or sold by Remington or its licensees shall not be included in the amount of $20,000 (or $18,500) beyond which a reduced royalty is paid, or in the annual total of $35,000, or in the grand total of $250,000.

IX. The royalty provisions of this agreement shall become effective January 1, 1934.

X. Should Remington desire to manufacture and/or sell ammunition, military or commercial, containing a priming mixture coming within the claims of Patent No. 1889116 but not within the claims of Reissue Patent No. 17540; or in the event that upon the expiration of Reissue Patent No. 17540 the total of $250,000 with respect to commercial ammunition has not been paid, then and in either of such events the royalties herein provided shall be reduced to one-half (½) of the amounts herein specified.

XI. Royalties paid to Imperial Chemical Industries with respect to sales of Tetrazene primed ammunition in Great Britain and Northern Ireland shall be deducted from payments to D. A. G., as hitherto.

XII. The provisions of the R. W. S. contract, and particularly paragraphs 11, III, III (a), III (d), IV, V, VI, VII (c), VII (D), VII (F), VIII, IX, XI, XII, XIII, and XIV, except as herein modified shall remain in full force and effect.

XIII. In case any controversy under this agreement shall arise between the parties hereto which they are unable to adjust between themselves, such controversy shall be settled by arbitration in accordance with the provisions of the United States Arbitration Act in the following manner:

Either party may, by notice in writing served on the other, appoint one arbitrator and call upon the other to appoint a second arbitrator with thirty days after the receipt of such notice; and each party agrees that, upon receiving any such notice, it shall so appoint an arbitrator. The two arbitrators thus appointed shall, within thirty days after the appointment of the one last appointed, jointly appoint a third arbitrator. The controversy shall be submitted to the three arbitrators in such manner as they shall direct and their decision, or the decision of a majority of them, rendered in writing shall be final, conclusive and binding upon the parties. In the event that a second arbitrator shall not be appointed as above provided, or the two arbitrators first appointed shall fail to appoint a third, application may be made by either party to the United States District Court of Delaware, or to a judge thereof, to designate and appoint an arbitrator or arbitrators, as the case may require. Each party shall pay its own expenses in connection with the arbitration, but the compensation and expenses of the arbitrators shall be borne in such manner as may be specified in their decision in writing.

XIV. This agreement shall inure to the benefit of and be binding upon the parties hereto, and their respective subsidiaries and assigns.

In witness whereof the parties hereto have executed this agreement by their duly authorized officers.

[SEAL] DYNAMIT ACTIEN GESSELSCHAFT,
By ——— ———,
——— ———,
Directors.

Attest;
——— ———, *Secretary.*

REMINGTON ARMS COMPANY, INC.,
By ——— ———,
President.

On this ---- day of ----------, ----, before me personally appeared Dr. Paul Muller and Dr. Rudolf Schmidt, they being by me duly sworn, did depose and say that they reside at Cologne, Germany; that they are directors of Dynamit Actien Gesellschaft, of Troisdorf, Germany, the corporation described in and which executed the above instrument; and that they signed their names in behalf of said corporation thereto by order and authority of said corporation.

——— ———.

STATE OF CONNECTICUT,
County of Fairfield, ss.:

On this ---- day of ------, 193----, before me personally appeared C. K. Davis, to me known, who, being by me duly sworn, did depose and say that he resides at Fairfield, Connecticut; that he is the president of Remington Arms Company, Inc., the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation, and that he signed his name and the name of said corporation thereto by like order.

——— ———, *Notary Public*

EXHIBIT NO. 1230

HYDE ARMS CORPORATION,
Brooklyn, N.Y., September 8, 1934.

WINCHESTER REPEATING ARMS CO.,
New Haven, Conn.

GENTLEMEN: Confirming our telephone conversation with your Mr. Elmslie Jonas, please enter our order for 100 barrels as per specifications of the previous 100 that you supplied.

It is understood that delivery is guaranteed in six weeks or less and that the price will be $5.50 each, placed in New York City. We are enclosing a check for $550.00 to cover the value of this order.

We will appreciate having you make early delivery on these barrels.

Yours very truly,

HYDE ARMS CORPORATION,
(Signed) F. V. HUBER, *Sales Manager.*

FVH:RL
Enc.–check

(Written in)

Quoted $5.50 on lots of 100.
Quoted $5.00 on lots of 500.
Quoted $4.50 on lots of 1,000.
Price on above order to be equalized with quantity price if they order larger quantity.

H. F. B.

EXHIBIT NO. 1231

JUNE 10th, 1933.

MR. ELMSLIE E. JONAS,
393 West End Avenue, Apt. 15–E, New York, New York.

DEAR ELMSLIE: Referring to your statement that you had heard confidentially that the Lake Erie Chemical Company were considering manufacturing a machine gun similar to the Thompson submachine gun, I spoke to Mr. Pugsley about this and he was quite interested. I believe he would like an opportunity to figure on the manufacture of such a gun, if contemplated.

He told me that he had received an order from Griffin & Howe for some 300 barrels different from anything that we make, which might be intended for machine guns.

We will be glad to have you see if you can find out anything more about this proposition.

Yours very truly,

WINCHESTER REPEATING ARMS COMPANY,
H. F. BEEBE.

HFB: ERJ–63.

EXHIBIT NO. 1232

[Copy—E. T. Hyde]

APRIL 12, 1933.

R. F. SEDGLEY, INC.,
2311–17 North 16th Street,
Philadelphia, Pa.

(Att: Mr. R. F. Sedgley.)

DEAR MR. SEDGLEY: Confirming your conversation with Mr. Pugsley and telephone conversation with the signer this afternoon, we are forwarding to you a case containing six (6) Browning light weight machine guns, caliber 30 Govt. 06 on consignment.

We offer you our stock on hand of these guns at $75.00 each net.

We are pleased to quote you on 1,000,000 30 Govt. 06 cartridges for export $26.00 per thousand net to us. Unless we make the shipment, ourselves, the 10% excise tax will have to be added. This we will refund to you upon proof of exportation satisfactory to the Government authorities.

We could deliver approximately 100,000 in one week and 300,000 per week thereafter. If the emergency warrants we might be able to complete the order in three weeks.

Hoping that you will be successful in securing this business, we remain

Yours very truly,

WINCHESTER REPEATING ARMS COMPANY,
H. F. BEEBE,
Mgr. Foreign Department.

HFB:ERJ-57

("EXHIBIT No. 1233" appears in text on p. 3647.)

("EXHIBIT No. 1234" appears in text on p. 3848.)

EXHIBIT No. 1235

Undistributed expense

	To December 31, 1931
New industries, expended by ammonia department	$8, 806. 26
New industries, expended by development department	88, 788. 80
New industries, expended by engineering department	28, 907. 95
New industries, expended by explosives department	11, 226. 69
New industries, expended by general chemical department	230, 880. 01
New industries, expended by organic chemicals department	107, 042. 48
"B" bonus (consolidated) (including previous year adjustment)	284, 638. 05
Merit bonus (consolidated) (including previous year adjustment)	534, 680. 05
Foreign trade development division	31, 174. 49
Taxes paid to foreign countries	38, 317. 35
Federal & New York State stock transfer taxes	568. 60
Franchise & State income taxes	104, 776. 22
Stamp tax on new stock issues	5, 898. 90
Federal taxes: Income, consolidated (including previous years adjustment)	2, 205, 411. 73
Total	3, 681, 117. 58

	To December 31, 1932
New industries, expended by ammonia department	$24, 967. 46
New industries, expended by development department	69, 676. 23
New industries, expended by engineering department	2, 359. 89
New industries, expended by explosives department	6, 093. 21
New industries, expended by general chemical department	141, 259. 54
New industries, expended by organic chemicals department	27, 459. 98
"B" bonus (consolidated) (including previous year adjustment)	[1] 39, 888. 88
Merit bonus (consolidated) (including previous year adjustment)	[1] 107, 332. 72
Foreign trade development division	28, 840. 47
Taxes paid to foreign countries	33, 396. 86
Federal & New York State stock transfer taxes	3, 058. 40
Federal tax on checks	4, 495. 12
Federal tax on safe deposit boxes	26. 00
Franchise & State income taxes	113, 584. 01
Special adjustment, Dr. H. R. Carveth	29, 016. 90
Federal taxes: Income, consolidated (including previous years adjustment)	965, 938. 77
Total	1, 302, 951. 24

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[1] Red figures.

Undistributed expense—Continued	To December 31, 1933
Fundamental research, expended by general chemical department	$142,683.51
New industries, expended by ammonia department	2,411.47
New industries, expended by development department	107,279.17
New industries, expended by engineering department	70.77
New industries, expended by explosives department	1.66
New industries, expended by general chemical department	190,376.46
New industries, expended by organic chemicals department	15,047.00
New industries, expended by the R. & H. chemicals department	23,640.12
"B" bonus (consolidated)	696,241.00
Merit bonus (consolidated)	1,216,188.00
Argentine business survey	7,609.78
Argentine consolidation survey	1,640.00
Foreign trade development division	22,096.85
Taxes paid to foreign countries	49,249.13
Federal & New York State stock transfer taxes	11,548.87
Federal tax on checks	11,154.60
Federal tax on safe deposit boxes	26.00
Franchise & State income taxes	154,088.03
Federal taxes:	
Capital stock, year ending June 30, 1933	111,005.00
Capital stock, year ending June 30, 1934	57,668.50
Income, consolidated	3,431,356.00
Total	6,251,381.92

To October 31, 1934

Fundamental research, expended by general chemical department	$165,108.03
New industries, expended by development department	50,197.45
New industries, expended by explosives department	5,116.03
New industries, expended by general chemical department	203,349.37
New industries, expended by organic chemicals department	4,053.76
New industries, expended by the R. & H. chemicals department	32,950.93
"B" bonus (consolidated) (including previous year adjustment)	945,274.00
Merit bonus (consolidated) (including previous year adjustment)	1,733,965.00
Argentine business survey	[1] 7,609.78
Argentine consolidation survey	4,205.89
Foreign trade development division	16,610.38
Taxes paid to foreign countries	184,007.83
Federal tax on checks	11,379.26
Federal tax on safe deposit boxes	21.00
Franchise and State income taxes	128,934.79
Federal taxes:	
Capital stock, year ending June 30, 1934	167,322.50
Capital stock year ending June 30, 1935	78,000.00
Income, consolidated (including previous years adjustment)	2,286,612.0
Total	6,009,498.53

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[1] Loss.

("Exhibit No. 1236" appears in text on p. 3656.)

("Exhibit No. 1237" appears in text on p. 3656.)

("Exhibit No. 1238" appears in text on p. 3657.)

("Exhibit No. 1239" appears in text on p. 3658.)

("Exhibit No. 1240" appears in text on p. 3658.)

Exhibit No. 1241

[File 30]

June 29, 1918.

Mr. H. M. Barksdale,
White Sulphur Springs, West Virginia.

Dear Barkie: Our cash position will be a matter for careful study from this time forward. Total balances of $28,000,000, of which $10,000,000 is in the du Pont Engineering Company, will leave no cause for immediate concern, but our transactions are on such an enormous scale that John is requesting a close study of the situation, especially with respect to cash outlay for acquiring new properties. It seems that we have already arranged for investment of the funds that we have agreed to employ permanently and should make decision as to further investment.

There seems a little more activity in Washington with regard to the nitrogen question, but nothing definite nor hopeful. We have agreed to lend Edgar and Liljenroth for a portion of their time without cost to the Government, in the belief that their influence will be helpful toward a proper solution of the problem. I have very little hope of a satisfactory outcome in reasonable time.

(Unsigned.)

(Above excerpt has been taken from pages 4 & 5 of letter dated June 29, 1918, to Barksdale.)

12

Exhibit No. 1242

[Kernan Board]

War Department,
Washington, November 15, 1916.

Special Orders, No. 268.

(EXTRACT)

26. Under the provisions of section 121 of the act of Congress approved June 3, 1916, a board to consist of Col. Francis J. Kernan, Twenty-eighth Infantry; Lieut. Col. Charles P. Summerall, Field Artillery; Maj. Lawson M. Fuller, United States Army, retired; Mr. Benedict Crowell, Cleveland, Ohio; and Mr. R. Goodwyn Rhett, Charleston, S. C., is appointed to meet in this city at the call of the senior member of the board for the purpose of investigating and reporting upon the feasibility, desirability, and practicability of the Government manufacturing arms, munitions, and equipment.

(2488037, A.G.O.)

By order of the Secretary of War:

H. L. Scott,
Major General, Chief of Staff.

Official:
H. P. McCain,
The Adjutant General.

("Exhibit No. 1243" appears in text on p. 3661.)

Exhibit No. 1244

Sept. 25, 1934.

(1) Chambers of Commerce (National, State, and City), 1933

$12. 50	Ass'n. of Commerce, Grand Rapids, Mich.—F. & F.
60. 00	Board of Trade—F. & F., San Francisco, Calif.
75. 00	Chamber of Commerce, Birmingham, Ala.—Explosives.

236. 00	Chamber of Commerce, Buffalo, N. Y.—Rayon.
50. 00	Chamber of Commerce, Butte, Mont.—Explosives.
100. 00	Chamber of Commerce, Calif. State—F. & F.
25. 00	Chamber of Commerce, Canton, O.—Grasselli.
300. 00	Chamber of Commerce, Charleston, W. Va.—Ammonia.
25. 00	Chamber of Commerce, Charlotte, N. C.—Orchem.
150. 00	Chamber of Commerce, Illinois State—F. & F.
400. 00	Chamber of Commerce, Cleveland, O.—Grasselli.
40. 00	Chamber of Commerce, Cincinnati, O.—Grasselli.
40. 00	Chamber of Commerce, Denver, Colo.—Explosives.
50. 00	Chamber of Commerce, Clarksburg, W. Va.—Grasselli.
75. 00	Chamber of Commerce, Duluth, Minn.—Explosives.
600. 00	Chamber of Commerce, East Chicago, Ind.—Grasselli.
50. 00	Chamber of Commerce, Huntington, W. Va.—Explosive.
200. 00	Chamber of Commerce, Illinois—Explosives, F. & F.
50. 00	Chamber of Commerce, Indiana State—Grasselli.
10. 00	Chamber of Commerce, Juneau, Ak.—Explosives.
200. 00	Chamber of Commerce, Leominster, Mass.—Viscoloid.
30. 00	Chamber of Commerce, Linden, N. J.—Grasselli.
75. 00	Chamber of Commerce, Los Angeles, Calif.—F. & F., R. & H.
12. 50	Chamber of Commerce, Miami, Fla.—Explosives.
37. 50	Chamber of Commerce, Miami, Okla.—Explosives.
500. 00	Chamber of Commerce, Nashville, Tenn.—Rayon.
25. 00	Chamber of Commerce, New Brunswick, N. J.—F. &. F.
25. 00	Chamber of Commerce, New Castle, Pa.—Grasselli.
125. 00	Chamber of Commerce, Newburgh, N. Y.—F. & F.
100. 00	Chamber of Commerce, N. J. State—Service.
400. 00	Chamber of Commerce, Niagara Falls, N. Y.—R. & H.
400. 00	Chamber of Commerce, Columbus, O.—Grasselli.
10. 00	Chamber of Commerce, Perth Amboy, N. J.—R. & H.
100. 00	Chamber of Commerce, Philadelphia, Pa.—F. & F., Grasselli, National Ammonia.
200. 00	Chamber of Commerce, Richmond, Va.—Rayon.
100. 00	Chamber of Commerce, St. Louis, Mo.—National Ammonia Co.
85. 00	Chamber of Commerce, San Francisco, Calif.—F. & F., Rayon Viscoloid.
200. 00	Chamber of Commerce, Scranton, Pa.—Du Pont Co. of Pa.
25. 00	Chamber of Commerce, Spokane, Wash.—Explosives.
130. 00	Chamber of Commerce, Toledo, O.—Grasselli.
5, 025. 00	Chamber of Commerce, U. S. Wash.—Service, R. & H.
2, 850. 00	Chamber of Commerce, Wilmington, Del.—Publicity, service.
100. 00	Chicago Assn. of Commerce—Explosives.
185. 00	Chicago Assn. of Commerce—F. & F.,Grasselli, R. & H.
50. 00	Chamber of Commerce—Atlanta, Ga.—F. & F.
500. 00	Chamber of Commerce, Paterson, N. J.—Grasselli, Orchem, R. & H.
25. 00	Chamber of Commerce, St. Louis, Mo.—Grasselli.
100. 00	Great Kanawha Valley Imp. Assn.—Ammonia.
250. 00	Merchants Assn. of N. Y. City—Explosives—Grasselli, International Freighting, Rayon, Viscoloid.
150. 00	Milwaukee Assn. of Commerce—Grasselli, Orchem.
14, 563. 50	Total.

(2) MANUFACTURERS ASSOCIATIONS (THOSE NOT DEVOTED TO ANY PARTICULAR INDUSTRY) 1933

1, 000. 00	American Tariff League—Rayon.
500. 00	Assoc. Industries of Cleveland—Grasselli.
30. 00	Assoc. Industries of Kentucky—Grasselli.
95. 37	Assoc. Industries of Missouri—National Ammonia, Legal.
510. 00	Assoc. Industries of New York State—Legal, R. & H., Rayon.
10. 00	Bridgeport Employment Mgrs. Assn.—F. & F.
50. 00	California Manufacturers Assn.—F. & F.
60. 00	Federated Industries of Washington—Legal.
75. 00	Indiana Mfgrs. Assn.—Grasselli.
234. 50	Industrial Association, Perth Amboy—R. & H.
350. 00	Manufacturers' Assn., E. Chicago—Grasselli.

25. 00	Manufacturers' Assn., New Jersey—Legal.
10. 00	Mfgrs. & Dealers League of New York—National Ammonia.
725. 00	National Assn. Mfgrs. of the U. S. A.—Service.
5, 000. 00	National Indus. Conference Board—Service.
100. 00	New England Council—Viscoloid.
100. 00	Ohio Mfgrs. Association—Grasselli.
84. 50	Pennsylvania Mfgrs. Assn.—Legal.
4. 17	Tacony Mfgrs. Association—National Ammonia.
850. 00	Tennessee Mfgrs. Assn.—Rayon.
54. 63	Trumbull County Mfgrs. Assn.—Grasselli.
100. 00	Virginia Mfgrs. Assn.—Rayon.
430. 00	West Virginia Mfgrs. Assn.—Ammonia, Grasselli.
10, 398. 17	Total.

(3) Trade Associations (Devoted to Specific Trades or Industries), 1933

250. 00	American Brush Mfgrs. Assn.—Viscoloid.
10. 00	American Ceramic Society—R. & H.
60. 00	American Cotton Mfgrs. Assn.—Orchem, Rayon.
11. 00	American Electro-Platers Soc.—R. & H.
16. 50	American Gas Assn.—Ammonia.
75. 00	American Hardware Assn.—Smokeless.
150. 00	American Inst. Food Distrib. Inc.—Rayon.
6, 700. 00	American Paint & Var. Mfgrs. Assn.—F. & F.
123. 90	American Paint & Var. Educa. Bureau.—Krebs.
102. 00	American Petroleum Institute.—Chemical, F. & F., Grasselli, R. & H
6. 00	American Railway Assn. Signal Sec.—F. & F.
60. 00	American Stockmen's Supplies Assn.—Grasselli.
10. 00	American Welding Society.—Ammonia, R. & H.
1, 520. 00	Amer. Wood Preservers Assn.—Grasselli.
75. 00	American Zinc Institute.—Explosives, Grasselli.
60. 00	Assd. Cigar Mfg. & Leaf Tobacco Dls.—Rayon.
30. 00	Assoc. Mfgrs. of Fabric Auto Equp.—F. & F.
20. 00	Assn. of Highway Const. Indus.—Explosives.
5. 00	Assn. of Operative Millers.—R. & H.
25. 00	Amer. Pulp & Paper Mill Supt. Assn.—Krebs.
35. 00	Assoc. Mfrs. of Toilet Articles, Inc.—Orchem.
100. 00	Auto Rebuilders Assn. of Amerca.—F. & F.
10. 00	Automotive Chem. Spec. Mfgrs. Group.—F. & F.
10. 00	Bakery Sales Promotion Assn.—Rayon.
5. 00	Baltimore Drug Exchange Bureau.—R. &. H.
100. 00	Buffalo Better Bus. Bureau, Inc.—Rayon.
832. 49	Bureau of Explosives—National Ammonia, Explosives, Grasseli.
10. 00	California Assn. of Ice Industries.—National Ammonia.
3. 50	Ceramic Assn. of New Jersey.—R. & H.
15. 00	Chattanooga Yarn Assn.—Rayon.
20. 00	Chicago Drug & Chemical Assn.—Grasselli, R. & H.
25. 00	Clean Up & Paint Up Campaign, Cleveland.—Krebs.
25. 00	Cleveland Automatic Machine Co.—Grasselli.
3. 00	Coal Mining Inst. of America.—Explosives.
610. 00	Compressed Gas Mfgrs. Assn.—Orchem, National Ammonia, R. & H.
2, 780. 00	Chemical Alliance, The.—Grasselli, Krebs, National Ammonia, Service, R. & H., Viscoloid.
10. 00	Chicago Perfumery: Soap Extract Assn.—Orchem.
10. 00	Florida Ice Mfgrs. Assn.—National Ammonia.
536. 65	General Contractors Assn.—Explosives.
25. 00	Idaho Hardware Implement & Paint Dealers Assn.—Explosives.
10. 00	Illinois Assn. of Ice Industries.—National Ammonia.
25. 00	Indiana Ice Dealers' Assn.—National Ammonia.
4, 127. 52	Industrial Alcohol Institute, The.—Orchem.
50. 00	Institute of Amer. Meat Packers.—Cellophane.
3, 132. 68	Inst. of Leathercloth & Lacquered Fabrics Manufacturers.—F. & F.
8, 743. 00	Inst. of Makers of Explosives.—Explosives.
1, 000. 00	Inst. of Paper Chemistry, The.—Orchem.
25. 00	Inter. Assn. of Ice Cream Mfgrs.—National Ammonia.
115. 00	Inter. Soc. of Master Painters & Decorators.—F. & F.

10. 00	Iowa Ice Dealers' Assn.—National Ammonia.
25. 00	Illinois State Council Master Painters & Decorators.—F. & F.
75. 00	Insecticide & Disinfectant Mfgrs. Assn.—Orchem.
5. 00	Kansas Assn. Ice Cream Mfgrs.—National Ammonia.
3, 949. 00	Manufacturing Chemists Assn. of U. S.—Chemical, Grasselli.
4. 00	Master Brewers Assn. of U. S.—National Ammonia.
25. 00	Master Painters & Decorators Assn.—F. & F.
15. 00	Michigan Ice Industries.—National Ammonia.
1, 600. 00	Motor & Equipment Assn.—F. & F.
10. 00	Mountain States Assn. Ice Indust.—National Ammonia.
230. 00	National Assn. Cotton Mfgrs.—Orchem, Rayon, R. & H.
62. 00	National Assn. Dyers & Cleaners.—Rayon, R. & H.
20. 00	National Assn. Paint Distributors.—F. & F.
100. 00	National Battery Mfgrs. Assn.—Grasselli.
50. 00	National Confectioners Assn. of U. S.—Rayon.
100. 00	National Crushed Stone Assn.—Explosives.
200. 00	National Fertilizer Assn.—Ammonia.
56. 25	National Luggage & Leather Gds. Mfg.—F. & F.
100. 00	National Macaroni Mfgrs. Assn.—Cellophane.
15. 00	New England Assn. Ice Cream Mfgrs.—National Ammonia.
10. 00	New England Ice Dealers Assn.—National Ammonia.
40. 00	N. Y. & N. J. Paint & Varnish Plant Mgrs. Assn.—F. & F.
5. 00	New York, Penna. & Ohio Ice Assn.—National Ammonia.
10. 00	Northwest Assn. Ice Industries.—National Ammonia.
150. 00	Northwest Crop Improvement Assn.—R. & H.
5. 00	Northwest Mining Association.—Explosives.
31. 00	Phila. Drug. Exchange.—R. & H.
25. 00	Porcelain Enamel Institute.—R. & H.
1, 350. 00	Pyroxylin Plastics Mfgrs. Assn.—Viscoloid.
2. 00	Ross, C. B. Mining Institute.—Explosives.
50. 00	Rubber Mfgrs. Assn. of America.—F. & F.
10. 00	Shoe & Leather Assn. of Chicago.—Grasselli.
750. 00	Silk Assn. of America, Inc.—Rayon.
300. 00	Sodium Silicate Mfgrs. Institute.—Grasselli.
1, 305. 63	Solvents Institute.—F. & F.
10. 00	Southern Assn. of Ice Cream Mfgrs.—National Ammonia.
10. 00	Southern Bakers Assn.—Rayon.
10. 00	Southern Ice Exchange.—National Ammonia.
25. 00	Southern Textile Assn.—Orchem.
6, 500. 00	Synthetic Organic Chem. Mfgrs. Assn.—Orchem.
5. 00	Tennessee Ice Mfgrs. Assn.—National Ammonia.
160. 00	Textile Color Car Assn., The—Orchem, Rayon, Viscoloid.
100. 00	Tri-State Soc. Master Painters & Decor.—F. & F.
60. 00	Tri-State Zinc & Lead Ore Prod. Assn.—Explosives.
50. 00	United Containers Association.—Grasselli.
25. 00	Wisconsin Assn. of Ice Dealers.—National Ammonia.
5. 00	West Virginia Hardware Assn.—Explosives.
58. 65	Window Shade Institute.—F. & F.
49, 416. 77	Total.

(4) TECHNICAL ASSOCIATIONS (FOR TECHNICAL MEN OR ENGAGED IN TECHNICAL DEVELOPMENT) 1933

$17. 00	Acad. Med. Clev. Medical Society—Grasselli.
13. 00	American Ass'n. for the Advancement of Science—Chemical, Rayon.
235. 00	American Ass'n. of Textile Chemists and Colorists—Orchem, Grasselli, Rayon, R. & H.
403. 00	American Chemical Society—Ammonia, Chemical, F. & F., Grasselli, Krebs, Rayon, R. & H., Service, Smokeless Powder, Viscoloid
35. 00	American Inst. of Chemists—Viscoloid.
15. 00	America Inst. Chem. Eng.—Service.
45. 00	American Inst. Mining & Metallurgical Engineers—Chemical, Explosives.
6. 00	American Inst. of Physics—Viscoloid.
25. 00	American Inst. of Refrigeration—National Ammonia.
10. 00	American Library Ass'n.—Chemical, Technical Library.
7. 00	American Medical Association—Rayon.

10. 00	American Mining Congress—Explosives.
10. 00	American Physical Society—Chemical.
5. 00	American Phytopathological Soc.—R. & H.
15. 00	Amer. Soc. of Agric. Engineers—Explosives.
30. 00	American Soc. of Mechanical Eng.—Ammonia, Chemical.
35. 00	American Soc. of Refg. Engineers—Ammonia, R. & H.
40. 00	Amer. Soc. for Steel Treating—Ammonia, R. & H.
169. 00	Amer. Soc. for Testing Materials—Ammonia, Chemical, F. & F., Grasselli, Rayon, R. & H.
20. 00	Automotive Engineers, Inc.—Ammonia.
16. 00	Acad. Medicine & Davidson Cb. Med. Soc.—Rayon.
5. 00	Amer. Ass'n. for Advancement of Science—Viscoloid.
5. 00	Amer. Ass'n. of Textile Chem. & Colorists—Viscoloid.
350. 0	Buffalo Municipal Research Bureau—Rayon.
66. 00	Chicago Engineers Club—Explosives.
14. 00	Cleveland Law Library Ass'n.—Grasselli.
46. 14	Electrochemical Society—Chemical, Grasselli, R. & H., Service.
50. 00	Engineering Societies Library—Engineering.
19. 82	Faraday Society—Chemical, R. & H.
15. 00	Franklin Institute—F. & F.
40. 00	Grayiron Institute—Engineering.
3. 00	Illinois Mining Institute—Explosives.
4. 00	Inter. Ass'n. for Testing Materials—Chemical.
5. 00	Medical Society of Virginia—Rayon.
25. 00	Mine Inspectors Institute of Amer.—Explosives.
89. 00	National Ass'n. Prac. Refrig. Eng.—National Ammonia.
10. 00	Optical Society of America—Chemical.
35. 00	Richmond Academy of Medicine—Rayon.
66. 00	Society of Automotive Engineers—Ammonia, F. & F.
24. 93	Society of Chemical Industry—Chemical, Orchem.
3. 45	Society of Chemical Industry, London—Chemical.
12. 00	Society of Rheology—F. & F., Krebs, Viscoloid.
588. 35	Sodium Phosphate Institute—Grasselli.
8. 00	Southern Medical Ass'n.—Rayon.
50. 00	Special Libraries Association—Chemical, R. & H., Technical Library.
245. 00	Technical Ass'n. of Pulp & Paper Indus.—Orchem, Chemical, R. & H.
6. 89	Textile Institute—Chemical.
200. 00	Tech. Ass'n. of the Pulp & Paper Ind.—Krebs.
110. 00	U. S. Inst. for Textile Research, Inc.—Orchem, Chemical.
3, 257. 58	Total.

Totals:

(1)	$14, 563. 50
(2)	10, 398. 17
(3)	49, 416. 77
(4)	3, 257. 58
Grand total	77, 636. 02

("Exhibit No. 1245" appears in text on p. 3662)

Exhibit No. 1246

Testimony of Col. J. H. Hawkins as Given Before Select Committee on Expenditures in War Department, 1919, vol. 275, Part 1, Pages 288–292

Mr. Graham. As a matter of fact, Colonel, the price fixing that was done on copper, and the prices paid by the Ordnance Department so long as you were connected with it, were set by parties outside of the Ordnance Department, were they not?

Col. Hawkins. Yes, sir.

Mr. GRAHAM. And all you gentlemen did who represented the Army in this matter was to follow Executive orders in that regard?

Col. HAWKINS. Yes, sir.

Mr. GRAHAM. And make your contracts according to prices that were given you by the War Industries Board, or some other price-fixing board?

Col. HAWKINS. I should say, as to the price, that we had absolutely no negotiations or trading at all. As to the terms of the contracts we did have some trading occasionally or negotiations.

Mr. GRAHAM. But as to the prices you had no——

Col. HAWKINS (interposing). As to the prices we had no negotiations at all.

Mr. GRAHAM. I think that is all I care to ask the colonel.

Mr. JEFFERIS. Colonel, in regard to the Lieut. Col. Black, wasn't he somewhat connected with the J. Pierpont Morgan business in New York?

Col. HAWKINS. Col. Black was connected with the British purchasing commission prior to the time that we entered the war, in connection with Mr. Stettinius, and I understand that purchasing commission was organizde by J. P. Morgan & Co., who were the fiscal agents for the British in this country.

Mr. JEFFERIS. And this Lieut. Col. Black that you mentioned in response to some questions by Mr. Graham, is the man you refer to?

Col. HAWKINS. Yes, sir.

Mr. JEFFERIS. Do you know for what length of time he had been helping the Morgans purchasing for the British before he came to Washington?

Col. HAWKINS. No; I do not know for what period of time, but I know he familiarized himself with munitions remarkably well. He knew all about munitions and was about as well qualified as any civilian that came in from the outside.

Mr. JEFFERIS. Do you know what time he appeared on the scene?

Col. HAWKINS. He came in in January of 1918.

Mr. JEFFERIS. Do you know whether he has gone back to the office of J. P. Morgan & Co.?

Col. HAWKINS. He has gone back to his engineering firm.

Mr. JEFFERIS. And he and Col. McRoberts, from the National City Bank, both came about the same time together?

Col. HAWKINS. Yes, sir.

Mr. JEFFERIS. And the first work that each of them were doing here in Washington you do not exactly know?

Col. HAWKINS. I do not know what Col. McRoberts was doing in the first part of December definitely, but Col. Black arrived in Washington with his commission. I do not think he did any work in Washington as a civilian; I am quite sure he did not.

Mr. JEFFERIS. Well, both of them—that is, Col. McRoberts and Col. Black, whatever their titles were—became chief contracting officers for the Ordnance Department, did they?

Col. HAWKINS. Yes, sir.

Mr. JEFFERIS. When they came in?

Col. HAWKINS. Yes, sir; Col. McRoberts and Col. Black, and Col. R. P. Lamont, and Col. C. W. Watson, and Col. Williams.

Mr. JEFFERIS. Were they all civilians?

Col. HAWKINS. Yes, sir; they all came from civil life.

Mr. JEFFERIS. These five or six gentlemen that you have just mentioned, they were the chief men in charge of the purchasing for the Ordnance Department?

Col. HAWKINS. Yes, sir. Col. McRoberts had charge of the Procurement Division, and these other gentlemen were on his staff and they were instructed by him to sign contracts in his name. Col. McRoberts signed a number himself, and these gentlemen, I think, took their turns; they signed about an equal number of them. Some of them specialized on particular lines.

Mr. JEFFERIS. Well, it turned out after a while that those contracts were considered illegal, did it not?

Col. HAWKINS. Yes, sir. The comptroller said a contract signed by Col. McRoberts, by Col. Black, was illegal.

Mr. JEFFERIS. And was that followed up by securing legislation through Congress?

Col. HAWKINS. Yes, sir. The manufacturers of the country presented a bill in December of 1917, which came out as the act of March 9, 1918.

Mr. JEFFERIS. What relief did they get? What relief did they give these people with whom these gentlemen had contracts, if anything?

Col. HAWKINS. The Secretary of War was authorized to settle and discharge the Government's obligations under these improperly executed contracts.

Mr. JEFFERIS. Now, who was the Watson that you mentioned as one of the contracting fellows?

Col. HAWKINS. Clarence W. Watson was United States Senator from West Virginia, succeeding Gassaway Davis, and was here for a short time, and was chairman of the board of directors of the Consolidated Coal Co. of West Virginia. He came from Fairmont, W. Va.

Mr. JEFFERIS. What rank did he get in the Army?

Col. HAWKINS. Lieutenant colonel.

Mr. JEFFERIS. Did he have his commission when he got here?

Col. HAWKINS. Yes, sir.

Mr. JEFFERIS. How long did he stay?

Col. HAWKINS. He went to France in connection with the service of supplies over there, I think, in August or September 1918.

Mr. JEFFERIS. Did he get promoted over there?

Col. HAWKINS. No, sir; he is a man about 55 years of age.

Mr. JEFFERIS. What particular line of purchases, if you know, did Senator Watson have to do with?

Col. HAWKINS. Senator Watson was particularly active in the negotiation of contracts for the byproducts problems, for the production of toluol.

Mr. JEFFERIS. Had he been a manufacturer? Did you know?

Col. HAWKINS. He had been in the coal and coke business all his life.

Mr. JEFFERIS. There was another man, by the name of Williams, you said was one of them?

Col. HAWKINS. Col. Williams came down here with his commission from——

Mr. JEFFERIS (interposing). What commission did he have?

Col. HAWKINS. Lieutenant colonel; and he was discharged as a lieutenant colonel in January 1919. He was continuously on the job here.

Mr. JEFFERIS. Where did he come from?

Col. HAWKINS. He was a lawyer in New York City.

Mr. JEFFERIS. What aged man?

Col. HAWKINS. He was of the class of '81 at Yale, in the university, and '84 at the Harvard Law School.

Mr. JEFFERIS. Was he a writer of something?

Col. HAWKINS. He wrote a book on mountain climbing once.

Mr. JEFFERIS. Do you know what line of law he practiced in New York?

Col. HAWKINS. He was a member of Mayor Mitchel's cabinet in New York City, and he had something to do with the preparation of some of the big contracts for the public utilities in New York City.

Mr. JEFFERIS. Was he a real practicing lawyer, or was he engaged in contracting of some kind in New York? Do you know?

Col. HAWKINS. I do not think he was a trial lawyer for some years past.

Mr. JEFFERIS. Speaking of Mayor Mitchel's cabinet in New York, what do you mean by that, Colonel?

Col. HAWKINS. John Purroy Mitchel was mayor for two terms, I think, in New York City.

Mr. JEFFERIS. Did he have a cabinet?

Col. HAWKINS. Yes, sir; every mayor had, I think.

Mr. JEFFERIS. Kind of a kitchen cabinet?

Col. HAWKINS. In Pittsburgh, where I come from, the mayor has a cabinet, a director of public safety, and a director of public works, and so on.

Mr. JEFFERIS. Do you know what position Col. Williams had in Mayor Mitchel's cabinet before he came down here?

Col. HAWKINS. I am not very familiar with the nomenclature up there, but something akin to the department of public works.

Mr. JEFFERIS. When he came down here with his commission and stepped into the Ordnance Department, what particular line of activity did he follow in the Ordnance Department?

Col. HAWKINS. He was quite active in the drafting and some of the negotiations for certain of the explosives and components for explosives.

Mr. JEFFERIS. Do you know whether he had any knowledge or experience in that line before he came here or not?

Col. HAWKINS. I think he had some knowledge; yes, sir; not very technical knowledge, but he familiarized himself pretty well with the material, such as nitrates; he had studied a good deal, I think, and seemed to know something about the different kinds of nitrates.

Mr. JEFFERIS. He studied a good deal?

Col. HAWKINS. I think he had read a good deal.

Mr. JEFFERIS. What aged man was he?

Col. HAWKINS. He was of the class of '81 at New Haven, Yale University.

Mr. JEFFERIS. Now, you mentioned some other fellow?

Col. HAWKINS. Col. R. P. Lamont.

Mr. JEFFERIS. Where did he come from?

Col. HAWKINS. He came from Chicago, where he had been president of the American Steel Foundries Co.; he came about the 15th of January, as I recollect, 1918.

Mr. JEFFERIS. Did he have his commission when he came?

Col. HAWKINS. Yes, sir.

Mr. JEFFERIS. What commission did he have?

Col. HAWKINS. Lieutenant colonel; he was promoted to full colonel in October 1918, and he was discharged from the service about January 1919. He became chief of the procurement division when Col. McRoberts went to France in the fall of 1918.

Mr. JEFFERIS. So then, as a matter of fact, the Ordnance Department, the obtaining of all ordnance supplies, was in effect in the hands of those civilians, that stepped in there about that time?

Col. HAWKINS. Yes, sir; the buying end of it was practically exclusively in the hands of the civilians.

Mr. JEFFERIS. And the only Army man that had anything to do with that whatever was this man Hoffer?

Col. HAWKINS. Col. Hoffer, for the gun division; Col. Rice, of the Regular Army, for the carriage division; and Col. Babbitt, of the Regular Army, for the equipment division.

Mr. JEFFERIS. And any others?

Col. HAWKINS. And Col. Moody of the Regular Army for some of the motor equipment.

Mr. JEFFERIS. What did they do after these other people entered with their commissions?

Col. HAWKINS. Col. Hoffer, I think I spoke of; he went to the Watertown Arsenal from the Ordnance Department down here. Col. Babbitt went to France and was connected with his old line of infantry, I think. Col. Moody went to France and did some engineering work for the Ordnance Department in France. Col. Rice became chief ordnance officer of the A. E. F. in France. I think that is all of the officers I remember just now.

EXHIBIT No. 1247

EXCERPTS FROM MEETING OF THE COUNCIL OF NATIONAL DEFENSE, MARCH 3, 1917

Secretary Baker requested Director Gifford and Mr. Clarkson to retire during the consideration of the election of a director and secretary. Following upon this Mr. W. S. Gifford was elected as director, and Mr. Grosvenor B. Clarkson as secretary of the council, it being directed by Chairman Baker that such action be spread upon the minutes.

Commissioner Willard stated that Chairman Godfrey of the Advisory Commission had informed the Commission that his private affairs would not permit him longer to serve as chairman. Mr. Willard thereupon announced his election as chairman of the Commission at its meeting earlier in the day.

Secretary Houston, following on the suggestion of Chairman Willard, moved that the regular, stated joint conferences of the council and Advisory Commission be held hereafter on the first Saturday of each month. Carried.

Chairman Willard read the following list of men nominated by the Commission to compose a "munitions standards board":

W. H. Vandervoort, Root & Vandervoort, builders of special machine tools, and president of the Moline Automobile Company.

R. A. Deeds, formerly general manager of the National Cash Register Company, president of the Dayton Engineering Laboratories Company, and interested in many industrial activities.

Frank A. Scott, Warner & Swasey Company, Cleveland, manufacturers of automatic machinery and optical instruments.

Frank Pratt, General Electric Company, Schenectady.

Samuel Vauclain, Baldwin Locomotive Works, Remington and Westinghouse Companies.

John E. Otterson, vice-president, Winchester Arms Company.

The meeting adjourned. 12:15 p. m.

Attest:

(sgd) GROSVENOR CLARKSON, *Secretary of the Council.*

EXCERPTS FROM MEETING OF THE COUNCIL OF NATIONAL DEFENSE AND THE ADVISORY COMMISSION, MARCH 24, 1917

Hon. NEWTON D. BAKER,
Chairman, Council of National Defense,
Washington, D. C.

DEAR SIR: The Advisory Commission, having before it public documents known as the report of the Kernan Board, the report of the Treat Board, and the report of the machine-gun Board, and having had opportunity in joint session with the council, to hear the report submitted by General Cozier, Chief of Ordnance, upon the condition of his department, has given careful consideration to the matters referred to in the several reports mentioned.

For the purpose of assisting us in obtaining a more definite understanding of the situation, the Chief of Staff has also at our request furnished certain information in connection with some of the articles, such as guns, ammunition, etc., that would be needed to equip an army of one million men. That number of men has been taken as a unit, because both the Kernan and Treat reports dealt primarily with an army of that size, and further, the Advisory Commission is unanimously of the opinion that under conditions such as now exist, and may exist, a force of that size is the smallest that ought to be considered in any definite plan of preparedness. The statement which was prepared by the Chief of Staff is attached to this report.

The Advisory Commission unanimously agreed that the arms, ammunition, and other articles of ordnance necessary to equip an army of one million men and to provide for the wastage of four months' active service, as shown on the attached sheet, be obtained as soon as possible. It should be borne in mind that should these supplies fortunately not be needed, they will remain a defensive asset, and would seem to afford only a reasonable insurance against unforeseen contingencies. If, however, events should make necessary the use of a considerable armed force by this country, the carrying out of the present recommendation of this Commission will be only a short step in the direction of full preparedness.

We have given consideration also to the manner in which this question should be handled, and we find our views in that respect in substantial accord with the recommendations contained in the reports above referred to, which may be briefly summarized as follows:

(a) Arrange to put at once all the arsenals that are equipped for the making of rifles and artillery on full capacity basis.

(b) Arrange with private industries for whatever supply of arms, ammunition, and equipment immediately required, above the capacity of the Government arsenals, and, to that end, steps should be taken to provide necessary drawings nd gauges.

(c) Arrange to carry out the recommendations of the machine-gun board concerning the procurement of the additional machine guns necessary for an army of one million men.

(d) Arrange for the early manufacture of such field guns as are necessary for the equipment of any army of the size mentioned, and which cannot be provided promptly by the plants which the Government now has in operation.

(e) Arrange at once for the manufacture of the amount of ammunition recommended by the Treat Board, and provide suitable places for storage.

(f) Arrange for the procurement of such number of range finders and field glasses as shown on the attached statement, to be necessary for an army of 1,000,000 men.

(g) Arrange at once for the procurement of the necessary number of antiaircraft guns.

The Treat Board has recommended the immediate procurement of additional articles complementary to those mentioned above. These articles are, among others, ammunition batteries, harness, tractors, trucks, truck companies, and certain signal equipment, including aeroplanes, for use in directing the artillery fire.

We have given attention above only to ordnance and ordnance supplies, and have not included personal and horse equipment, and quartermaster supplies.

Although horses are not included in any of the foregoing recommendations, the Advisory Commission considers it essential that sufficient draft animals be obtained to properly equip the vehicles procured under the recommendations.

Respectfully submitted.

(Signed) DANIEL WILLARD,
Chairman Advisory Commission.

The meeting thereupon (12:35 p. m.) adjourned.

Attest:

(Signed) GROSVENOR CLARKSON,
Secretary.

REPORT OF COMMISSIONER COFFIN ON FORMATION OF MUNITIONS STANDARDS BOARDS AND PROBLEMS OF MANUFACTURE IN AERONAUTICS

The report of the Advisory Commission's committee on munitions is one of progress. The munitions standards board, created by the Council of National Defense, following recommendation of the Advisory Commission, held its meeting Wednesday, March 21st. In attendance at this meeting were the following gentlemen: Mr. J. E. Otterson; Mr. Samuel Vauclain; Mr. W. H. Van Dervoort; Mr. Francis Pratt; Mr. Frank Scott; Admiral Earle, of the Navy Department; and Colonel Babbitt, of the War Department. The only member of the board unable to attend was Mr. E. A. Deeds, of Dayton, Ohio, because of serious illness in his family, which has since resulted in the death of his youngest child.

After a short meeting, presided over by the Secretary of War, the board organized itself by electing Mr. Frank Scott, of Cleveland, chairman, and authorizing the chairman to provide a Secretary of the Board, which he has since done in the person of Mr. Bolton, of Cleveland.

The board then proceeded with the general discussion of its proposed work, the officers of the War and Navy Departments taking part freely.

By formal action, the board resolved itself into six subcommittees, and by appointment of the chair the members were assigned to the chairmanship of subcommittees as shown in the following list:

J. E. Otterson, small arms, including machine guns and small arms ammunition; Samuel Vauclain, Army artillery and the ammunition therefor; W. H. Van Dervoort, naval artillery and ammunition therefor; Francis Pratt, gauges, specifications, jigs, and fixtures; E. A. Deeds, time fuses and detonators; Frank Scott, scientific instruments, including optical and range finding apparatus.

Each of these gentlemen, as chairman of a subcommittee dealing with his particular subject, is calling to his aid that particular group of quantity manufacturers, or experts of the country, best fitted to advise with him, and through him with the military departments.

As an indication of the method of procedure of all of these subcommittees, we will take that of small arms and ammunition.

Mr. Otterson, having completed his subcommittee, the military departments will supply to him immediately those drawings, specifications, and kinds of information normally supplied to the producers of such goods bidding upon Government contracts. The subcommittee will analyze this information from the standpoint of the quantity producer, and will report the findings through the chairman of the munitions board, whence it will be taken up for discussion with the responsible heads of the military departments. It is believed that through such a course of procedure we may achieve a great increase of cooperation between the Departments and the industries involved in the quantity production of war supplies, and may obviate long periods of delay which could not but prove extremely costly in time of emergency, both in money and men.

A word should be said to post the Advisory Commission, and through it the council, upon recent developments in the aeronautical industry. It will be remembered that the patent situation in this industry has already been the subject of some discussion before the council. Upon a conservative basis of the lessons of the European war, it is now estimated that one aeroplane is required in active service for each 1,000 men in the field. If we assume, therefore, for land operations, a force of one million men, it becomes evident that 1,000 machines will in any active campaign be kept in active service. Two additional machines must be held in reserve for each machine in active service, and this is the ratio which is, as far as possible, being maintained in accordance with the advices of the observers reporting to the Signal Corps.

In bringing each aviator to a point of expert excellence in aviation work requires one machine. As a matter of fact, the European armies have estimated 1½ machines. This means, for a force of one million men, 4,500 to 5,000 machines must be provided, and when we consider that the active life of a machine in war service is but four months, some conception of the problem confronting the American aeronautical industry may be had.

In these estimates are not included the very large numbers of machines necessary for the guarding of cities, for the uses of the coast defense, and for observation purposes in the Navy.

During the eight years previous to 1916, the United States Government had purchased fifty-nine aeroplanes. As a consequence, there had been no development in the art. On August 29, 1916, nearly twenty millions of dollars were voted for aeroplanes and aeronautical development, and since that time provision has been made in the Army bill, which will undoubtedly be passed during the next few days, bringing the total up to something over thirty millions. Many hundreds of machines have been on order for the past few months, but only somewhere in the neighborhood of 150 machines have been delivered, and even among this small number of machines are represented many different makes and styles. The art is so young that there is as yet practically no duplicate manufacture, and there cannot be until a consistent and continuing program of production is determined upon by the governmental Departments. There is but one quantity manufacturer of aeroplanes in this country.

An optimistic estimate at the present moment seems to indicate the possibility of the delivery of about 175 during the balance of this fiscal year. This entire number cannot be counted upon for active service, as some of them will unquestionably be used for replacement and the bulk of them for training purposes only. There is an estimated possible production of 2,000 machines during the next fiscal year and of 4,000 machines during 1919, provided a definite schedule of production covering this three-year period can be laid down and presented to aeroplane manufacturers within the very near future and continuing appropriations made to secure this result. There is a shortage of material for this work, notably in spruce and linen, and beyond these items the controlling factor is and will undoubtedly continue to be the production of aeroplane engines.

STANDARDIZATION

One of the most vital needs of the aeroplane industry and one of the greatest hindrances to the quantity and law-priced production of aeroplanes is to be found in the utter lack of standardization of material, in detail design, and in method encountered in all the factories engaged in this business. Economical quantity production cannot possibly be effected until the closest possible cooperation has been established among the manufacturers and the engineers responsible for the development of this new art. A standardization of the requirements of the various Departments of the Government must also be effected. An analysis must be made of the manufacturing equipments engaged in the business and the different models and designs of machines must be assigned to those makers best fitted to produce the different types. In short, the manufacturing concerns must be concentrated upon one or two types of machines each, and not permitted to attempt within each plant the construction of six or eight different designs for which requests have been made by the governmental Departments. We must ensure that the energies of each manufacturing concern are concentrated upon the type which it can best handle.

PATENT SITUATION

On March 22d, there occurred in this city a meeting of all the manufacturers of aeroplanes and the members of the National Advisory Committee for Aeronautics. The difficulties in the way of a rapid development of the aeroplane business were discussed in detail, and two definite actions were taken, which should go far toward clarifying the situation. Through the first of these actions, there was created a committee representing the American Aircraft Manufacturers' Association, for active cooperation with the National Advisory Committee in the investigation and elimination of the difficulties preventing progress in quantity production.

The second important step had to do with the patent situation. A tentative agreement was reached whereby all manufacturers agreed to create a cross-licensing patent agreement, as of date of March 2d. The agreement further provides that each manufacturing member of the association shall pay into the treasury of the association a certain stipulated sum for each plane made and sold. A quarterly accounting period is provided. Of the sum thus created, a certain percentage per plane is paid to the Wright-Martin Company over the period of six years for which the Wright patents run. Another definite but smaller percentage is to be paid to the Curtis Burgess interests during the fifteen-year period of the life of the Curtis patents, or until such time as the payment to the Curtis Company has equalled the total sum paid to the Wright Company during the six-year period above mentioned. The sum remaining in the treasury of the association shall be used in such part as may be necessary for the conduct of the affairs of the association, and the surplus accruing may be utilized for the purchase of patents which may be developed outside the membership of the association, or may at the end of any fiscal year be repaid to the members of the association, in proportion to the total amounts paid into the association by each manufacturing member. In looking over the purchasing records of the War and Navy Departments during the 8-year period prior to 1916, four names are found responsible for the development of the art during this time when governmental support was almost entirely lacking. These names are Wright, Curtis, Burgess, and Martin. Peculiarly, Wright has joined Martin, and Burgess has joined Curtis, thus setting up two groups of patents representing the early development of the art and combining in these two camps the men to whom we owe most for aeronautical development in this country. In the recognition which it is proposed to accord the patents controlled by these two groups, there is a recognition also of the moral obligation to these four men. Through an arrangement such as outlined above, the total tax upon the industry has been reduced to a figure considered reasonable, and the aeroplane manufacturers of the country have been joined together in a closely knit and cooperative organization, and the danger of patent litigation between manufacturing members has been removed for many years and probably for all time. Moreover, an organization thus firmly knit together insures a definite channel of contact between the industry, the National Advisory Committee for Aeronautics, and the Departments of the Government, which will bring about the greatest possible development within the briefest space of time.

The royalty which has been paid on each plane under one patent has been in the neighborhood of $1,000. The sum which it is now proposed each manufacturer shall pay into the Treasury for a license under all patents held within the Manufacturers' Association, and for the support of the activities of the organization itself, will not exceed one-fifth of this sum. This comparison will convey some conception of the painstaking and effective work which has been carried on under the direction of the National Advisory Committee for Aeronautics.

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EXCERPTS FROM MINUTES OF JOINT MEETING OF THE COUNCIL OF NATIONAL DEFENSE AND THE ADVISORY COMMISSION, JUNE 2, 1917

Commissioner Willard read the following letter, of date May 31, 1917, from E. H. Gary, chairman of the committee on steel and steel products, of the advisory commission:

"I send you herewith copy of letter just received from one of the manufacturers in reply to our request for detailed information concerning the supply of ferromanganese on hand. I do not add the names. The letter speaks for itself. If there is any question in regard to these matters we should know it now.

"The letter referred to by Mr. Gary reads as follows:

"'Ferromanganese consumption approximately two hundred fifty gross tons per month. Two months' supply on hand May first. Contracts on open market for six to eight months additional. Do not use Spiegel.'

"We are anxious to do everything we can to assist the Government, and have complied with their request for detailed information regarding all of our business, including the steel mill. We are very doubtful, however, as to how far it is safe or proper for us to cooperate with some of the committees that are endeavoring to assist in the matter. I was called to Washington a few weeks ago in connection with some of this committee work, and found that they were operating in flagrant disregard of the Sherman law, the Clayton law, and all the other statutes that are supposed to regulate business, particularly big business.

"The Government officials who were sitting in at this conference admitted that they had no authority for doing so, and upon a little further inquiry we were advised that the Government officials' presence at the conference would not in any way protect us. As a matter of fact, we have recently made a settlement with the Treasury Department of a transaction which took place in 1903, notwithstanding the fact that the Government admitted that we had acted in good faith at the time, and under the explicit instructions of the official representative of the Treasury Department. The present Administration takes the position that the former contracts were wrong, and not in conformity with the law; therefore we must be punished for doing exactly what we were told to do by the authorized representative of the Department at the time.

"It seems to us that if the Government desires cooperation on the part of the business interests in helping them with their problems, the least they could do would be to have Congress pass a resolution suspending operation of these laws during the period of the war. Until such time as such action is taken to protect us against persecution in the future, we should prefer to do our bit by responding to the direct requests of the several branches of the Government for assistance, and this we are doing practically every day."

The director was requested to send the foregoing letters to the Attorney General with the statement that the council and commission, and the various committees acting thereunder, are constantly encountering the difficulty referred to, and if there is any expression on the subject that the Attorney General can make, the council will be glad of his helpful cooperation.

Thereupon at, 6:00 p. m., the meeting adjourned to Monday, June 4, 1917, at 4:30 p. m.

Attest:

(Signed) W. S. GIFFORD, *Director.*

EXCERPTS OF MEETING OF THE COUNCIL OF NATIONAL DEFENSE, JUNE 8, 1917

The director read the following letter, of date June 6, 1917, from the Attorney General in response to inquiry made of the Attorney General as directed by the council on June 2, 1917:

"I have your letter of the 4th instant transmitting a copy of a letter from Mr. E. H. Gary, chairman of the committee on steel and steel products of the advisory commission, council of national defense, together with a copy of a letter from an unnamed manufacturer. You inquire whether the Department of Justice desires to express an opinion on the question raised by these letters.

"As I read the letters, the question raised is whether the operation of certain laws, more especially the Sherman law and the Clayton law, should be suspended by resolution of Congress during the period of the war. This is not a legal question but a question of national policy in respect of which I do not feel that I should express an opinion unless requested to do so by the President."

Thereupon, at 5:45 p. m., the meeting adjourned.

Attest:

(Signed) W. S. GIFFORD, *Director.*

(There was no exhibit marked "No. 1248.")

EXHIBIT No. 1249

EXCERPTS FROM MEETING OF THE WAR INDUSTRIES BOARD HELD TUESDAY, MAY 28, 1918, AT 11 A. M., ROOM 909, IN C. N. D. BUILDING

Present: Mr. B. M. Baruch, chairman; Mr. R. S. Brookings, Brig. Gen. Hugh S. Johnson, Mr. Hugh Frayne, Mr. Alex Legge, Judge E. B. Parker, Mr. G. N. Peek, Mr. J. L. Replogle, Mr. L. L. Summers, Mr. H. P. Ingels, secretary.

Price fixing.—Attention of the board was called to the probable difference in rulings of the price-fixing committee and the board of appraisers of the War Department now operating under the direction of the surveyor general of purchases. If a manufacturer or producer refuses to deliver his product to the Government at prices fixed by the price-fixing committee and the product is commandeered, under the present arrangements, it is the function of the board of appraisers to determine a fair and just compensation. Considering the demoralizing affect that would result from having the board of appraisers fix prices different from those fixed by the price-fixing committee, Mr. Brookings was requested to discuss with General Johnson the advisability of

1. Having the board of appraisers work with the price-fixing committee, or
2. To have the price-fixing committee take over the work now being done by the board of appraisers.

Meeting adjourned at 12:55 p. m.

(Signed) H. P. INGELS,
Secretary.

EXCERPTS FROM MEETING OF THE WAR INDUSTRIES BOARD HELD TUESDAY, JUNE 18TH, 1918, AT 11 A. M., IN ROOM 909, C. N. D. BUILDING

Present: Mr. Baruch, chairman, Mr. Legge, vice Chairman, Admiral Fletcher, General Johnson, Mr. Brookings, Mr. Frayne, Judge Parker, Mr. Peek, Mr. Replogle, Mr. Summers, Judge Ritchie, Mr. Ingels, secretary.

Curtailment of industry (pooling of production).—Judge Ritchie reported that he had considered the question referred to him by the board on June 11th, 1918, namely, when the output of plants in the congested area was cut down, whether it would be legal to require the pooling of the output of all plants of the same character, both within and without the congested area, in order to prevent the plants outside that area, where output was not cut down, from undue profiting at the expense of the plants within the area, where output was cut down.

Mr. Ritchie's opinion was that a pooling agreement of this kind would not violate the Sherman Law, provided the Government was a party to it, because he thought that under the circumstances the pooling agreement could not be construed as unreasonable. The only difficulty he saw was that he knew of no act of Congress authorizing the War Industries Board, or even the President, to enter into such an agreement relating to industries controlled by this board, but Mr. Ritchie felt that, even without such an act of Congress, the President's war powers were sufficient to authorize him to enter into or direct such an agreement with the industries affected. Mr. Ritchie said, however, that the industries were entitled to authoritative advice as to whether such a pooling agreement would protect them from proceedings under the Sherman Law, and he, therefore, suggested that the Attorney General be requested for his opinion upon the subject by the chairman of the board, it being the practice of the Attorney General to require a formal request for his opinion from the head of the board desiring it.

Contracts (contracts displaced by priority orders).—Mr. Ritchie brought up the question whether manufacturers or others whose contracts were displaced by priority orders incurred any legal liability to their contractors. The board was strongly of the opinion that everything possible must be done in order to protect manufacturers and others from liability of this kind. The Secretary was requested to ask the legal section to furnish a full written report to the board upon the liability of manufacturers and others, under contracts displaced by priority orders, or displaced in any other manner under the authority of the board, together with the conclusion and advice of Mr. Bulkley and Mr. Ritchie on the subject.

Organization (special advisory committee on plants and munitions).—Mr. S. M. Vauclain has been appointed chairman of the special advisory committee on plants and munitions.

The meeting adjourned at 12:45 p. m.

(Signed) H. P. INGELS,
Secretary.

EXHIBIT No. 1250

GENERAL MUNITIONS BOARD MINUTES

[Immediate release]

COUNCIL OF NATIONAL DEFENSE,
Washington, April 9, 1917.

A General Munitions Board has been created by the Council of National Defense.

This action constitutes another successive step on the part of the council in the preparations for war. It was taken at a joint meeting of the Council of National Defense and its advisory commission.

The General Munitions Board will be headed by Frank A. Scott, vice president and treasurer of the Warner & Swasey Company, of Cleveland, a well-known manufacturer, who is one of the leading experts of the country in the quantity production of munitions. The full membership of the board is as follows:

From the Army: General Thomas Curse, Colonel F. G. Hodgson, Colonel H. Fisher, Lieutenant Col. J. E. Hoffer, Major P. E. Pierce, Major Charles Wallace, and Captain A. B. Barker.

From the Navy: Admiral H. H. Rousseau, Admiral W. S. Capps, Commander R. H. Leigh, Commander T. A. Kearney, Doctor R. C. Holcomb, Paymaster J. H. Hancock, Lieut. Col. W. B. Lemly, and Mr. L. McH. Howe, and representatives of the following committees of the Advisory Commission of the Council of National Defense:

Raw materials: Bernard M. Baruch, chairman.

Industrial, Howard E. Coffin, chairman.

Supplies, Julius Rosenwald, chairman.

Medicine, Dr. Franklin Martin, chairman.

The secretary of the General Munitions Board will be Chester C. Bolton.

The officers serving on the Board were designated by the chiefs of the several departments and bureaus, under authority of the Secretaries of War and of the Navy.

The purpose of the General Munitions Board is to assume the prompt equipping and arming, with the least possible disadjustment of normal industrial conditions, of whatsoever forces may be called into the service of the country. The immediate efforts of the Board will be directed on lines calculated to coordinate the making of purchases by the Army and Navy: to assist in the acquirement of raw materials and of manufacturing facilities, and to establish the precedence of orders between the Departments of War and of the Navy and between the military and industrial needs of the country.

It is not intended that the new Board shall have authority to issue purchase orders or to bind the Government in contracts for purchases. These things will continue to be done by the respective Federal Departments.

The order of delivery of military and naval material, both domestic and foreign, as provided under existing contracts will not be disturbed, unless absolutely necessary to meet requirements which may develop. The Board will fully recognize the importance of early and prompt delivery of material under contract, or subsequently to be ordered, for shipment abroad to belligerents friendly to the United States.

While the mission of the newly created Board is a broad one, and while its activities necessarily cover a wide field, its general and immediate purpose will be to assure the effective and immediate coordination and use of the resources of the country for the equipping and arming of the forces called into service, with the least possible interference with normal industry throughout the nation.

The following statement was made by Chairman Scott:

"Notwithstanding the great efficiency of the Army and Navy and the tremendous efforts of the officers and personnel of both branches to meet the vast demands of the existing situation, the difficulties that the board will have to encounter are very great. These difficulties are, however, such as are naturally inherent in our position as a nonmilitary nation forced into war. That the difficulties will be overcome is not doubted by any who have witnessed the spontaneous outpouring of patriotic enthusiasm of all classes, or who have observed that in the case of manufacturers and business men generally, this feeling is already making itself evident in practical ways in support of the Government.

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE GENERAL MUNITIONS BOARD, HELD ON FRIDAY, JUNE 1, 1917, AT 8:30 A. M., IN THE MUNSEY BUILDING

There were present: General Aleshire, Colonel Hodgson, Colonel Littell, Colonel Blunt, Major Pierce, Paymaster Hancock. Members of the Committee on Special Building: Mr. Coffin, Mr. Summers, Dr. Snow, Mr. Bulkley, Mr. Sager. Mr. F. A. Scott, presiding, and Mr. H. P. Ingels, Acting Secretary.

Publicity campaign.—At the suggestion of Mr. Coffin, the chairman advised that a publicity Campaign to guard against adverse public opinion was to be begun immediately. It was suggested that Major McArthur, Capt. Marshall, and Major Preston Brown be appointed members of this committee. The Chair advised that all information would have to come through Mr. Creel, chairman of the Committee on Public Information, and that he would take this matter up with Mr. Clarkson.

The meeting adjourned at 11:25 a. m.

H. P. INGELS, *Acting Secretary.*

EXHIBIT NO. 1251

EXCERPTS FROM MINUTES OF GENERAL MEETING OF THE GENERAL MUNITIONS BOARD HELD TUESDAY, JUNE 5, 1917, AT 11 A. M., IN THE MUNSEY BLDG.

Present: Admiral Capps, Admiral Mason, Admiral Zane, Admiral Rousseau, General Cruse, General Aleshire, Colonel Hodgson, Colonel Dunn, Colonel Blunt, Colonel Lemly, Colonel Fisher, Major Pierce, Major Kelly, Major Wallace, Major Stimpson, Paymaster Hancock, Commander Kearney, Commander Leigh, Mr. Summers, Mr. Van Dervoort, Mr. Starrett, Mr. Rosenwald, Dr. Holcomb, Mr. Howe, Mr. Rogers, Dr. Simpson, Mr. Scott, Mr. Bolton. Mr. Scott presiding and Mr. H. P. Ingels acting secretary.

Military instruments.—A communication from the Ordnance Department was submitted relative to a proposed arrangement with the Warner & Swasey Company of Cleveland, covering the manufacture of 3,000 panoramic sites for the use of the field artillery.

Chairman Scott retired and Colonel Blunt presided.

Colonel Blunt stated that this company had agreed to undertake this work only after considerable pressure from the Ordnance Department.

It was moved by Mr. Rosenwald and seconded by General Aleshire that the price of $300 being fair and just, the proposition would be approved, and it was recommended that orders be placed.

The meeting adjourned at 12:15 p. m. o'clock.

H. P. INGELS, *Acting secretary.*

EXCERPTS FROM MINUTES OF MEETING OF GENERAL MUNITIONS BOARD HELD TUESDAY, JUNE 19, 1917, AT 11 A. M., IN THE MUNSEY BUILDING

Present: Major Pierce, Colonel Hodgson, Commander Leigh, Major Wallace, Major Kelly, Commander Leigh, Colonel Dunn, Colonel Blunt, Dr. Hale, Dr, Simpson, Admiral Capps, General Cruse, Admiral Rousseau, Admiral Zane. Paymaster Hancock, General Aleshire, Admiral Richie, Mr. Rosenwald, Mr. Howe, Mr. Meyer, Mr. Zimmerscheld, Major Brown, Major Wood, Major Stimpson, Mr. Starrett, Mr. Toulmin, Mr. Bolton. Mr. Scott presiding and Mr. Bingham secretary.

The reading of the minutes of the previous meeting was dispensed with.

Organization—investigation by Major Stimpson.—Mr. Scott stated that now that the emergency in connection with the work of the Board is somewhat lessened, that it seemed right to so organize that the Board and the members of its subcommittees shall be free from reasonable criticism. This is particularly necessary in relation to the membership on a board or subcommittee of a man who is actively interested in a concern which may benefit by the awarding of a contract concerning the recommendation of which the subcommittee or board has some authority. To investigate this condition, Mr. Scott suggested that the Board ask Major Stimpson if he would be willing to give his time to this matter. Major Stimpson stated that he would be glad to do this. He thereupon asked what functions the Board and its subcommittees had and was informed that the final decision regarding the awarding of contracts did in no case rest with the Board or its subcommittees. He asked whether the final decision by the Government officer was simply based on the experience of the Board's recommendation and was informed that this was not always the case, as recommendations of the Board had been reversed on several occasions, the contractor for the cantonment at Chillicothe, Ohio, being mentioned, likewise reversal of the decision by the Secretary of the Navy of the recommendation of the Board regarding the price of gun forgings to be placed with the Bethlehem Steel Corporation.

Major Stimpson asked whether it would help matters if a small body of men, constituted by law, took the place of the heads of the Departments in making final decisions and awards. Mr. Scott stated that the present plan of the Board was to coordinate and supplement the work of the departments and that with the present arrangement the small-board idea is impossible.

Mr. Rosenwald gave his opinion that a central purchasing body was necessary.

Colonel Dunn stated that the order of the Secretary of War removing the necessity of bids for purchases led the Ordnance Department to believe that the prices submitted by the General Munitions Board were correct and thus accepted them.

Colonel Hodgson outlined for the benefit of Major Stimpson the method pursued in recommending purchases by the committee on supplies.

Major Pierce stated that the General Staff had been greatly relieved by the result of the methods used, and complimented the Board on the prices received.

It was moved and carried that Major Stimpson be asked to make the investigation and report to the Secretary of War and to the Secretary of the Navy; likewise to send a copy of his report to the General Munitions Board.

The meeting adjourned at 1 p. m.

(Signed) H. P. BINGHAM, *Secretary.*

EXCERPTS FROM MINUTES OF MEETING OF EXECUTIVE COMMITTEE OF THE GENERAL MUNITIONS BOARD HELD WEDNESDAY, JUNE 20, 1917, AT 8:30 A. M. IN THE MUNSEY BUILDING

Present: Major Pierce, Paymaster Hancock, Major Stimpson, Colonel Blunt, Colonel Hodgson, Mr. Rosenwald, Mr. Meyer, Mr. Bulkley, Mr. Bolton, Mr. Scott. Mr. Scott presiding and Mr. H. P. Bingham secretary.

Cantonments—contract for Yaphank, L. I., cantonment to be considered.—A memorandum from Colonel Littell, approved by the Secretary of War, was presented asking the Board to reconsider their recommendation for contractor to build cantonment at Yaphank, Long Island, because of the interest which Chairman W. A. Starrett had in the Thompson-Starrett Company, which firm had been previously recommended.

The matter was referred to Mr. R. J. Bulkley, to investigate the exact standing of Mr. Starrett relative to the Thompson-Starrett Co., and likewise the George A. Fuller Company.

The meeting adjourned at 11:45 a. m.

H. P. BINGHAM, *Secretary.*

EXCERPTS FROM MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE GENERAL MUNITIONS BOARD HELD THURSDAY, JUNE 21, 1917, AT 8:30 A. M., MUNSEY BUILDING

Present: Major Pierce, Colonel Hodgson, Colonel Blunt, Paymaster Hancock, Dr. Simpson, Mr. Meyer, Mr. Toulmin, Mr. Bulkley. Mr. Scott presiding and Mr. H. P. Bingham secretary.

Cantonments—request for reconsideration of Yaphank, L. I., recommendation.—In accordance with action of the Board, Mr. Bulkley presented a report showing that Mr. W. A. Starrett has not had any connection with the Thompson-Starrett Company for a period of more than four years.

The first paragraph of this communication was approved without changes. The second paragraph was altered by the addition of a list of contractors to be furnished by the Committee on Emergency Construction, who might have the ability to build the above cantonment.

Mr. Bulkley likewise reported by request, relative to Mr. Starrett's alleged connection with the George A. Fuller Company showing that Mr. W. A. Starrett has no connection with said company; but that one of his brothers is the president of the George A. Fuller Company. This report was accepted and ordered kept in the files of the board.

The meeting adjourned at 10:30 a. m.

H. P. BINGHAM, *Secretary.*

EXCERPTS FROM MINUTES OF MEETING OF THE GENERAL MUNITIONS BOARD HELD TUESDAY, JUNE 26, 1917, AT 11 A. M. IN THE MUNSEY BUILDING

Present: Commander Kearney, Commander Leigh, Major Wallace, Colonel Blunt, Colonel Dunn, Dr. Holcomb, Dr. Millikan, Major Bascom Little, Major Pierce, General Aleshire, Admiral Zane, Admiral Capps, Mr. Allen, General Cruse, Colonel Fisher, Colonel Lemly, Major Woods, Major Brown, Major Kelly, Paymaster Hancock, Admiral Richie, Mr. Meyer, Dr. Simpson, Mr. Howe, Mr. Rosenwald, Admiral Rousseau, Dr. Hale, Mr. Summers, Mr. Rogers, Mr. Bolton. Mr. Scott presiding and H. P. Bingham, secretary.

Prices—steel.—The chairman outlined the conference held with President Farrell of the Steel Corporation originally called to settle the matter of priority, and eventuating into a discussion as to the prices of steel for the Shipping Board, etc.

A memorandum submitted on the price question to the Secretary of War and to the Secretary of the Navy as being the sense of the conference was read, together with an answer by the Secretary of War asking that nothing be done at present, but stating that he had informed the governmental purchasing departments that steel should be bought now at pre-war-time prices and the difference in prices adjusted at a later date. It was thereupon suggested that Mr. Scott find out what was meant by "pre-war-time prices," and that if the prices previous to the war, August 1914, was meant, that the sense of the board was not in accord with the suggestion of the secretary.

The meeting adjourned at 1:15 p. m. o'clock.

H. P. BINGHAM, *Secretary.*

EXCERPTS FROM MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE GENERAL MUNITIONS BOARD HELD FRIDAY, JULY 13, 1917, 8:30 A.M., IN THE MUNSEY BUILDING

Present: Colonel Blunt, Colonel Hodgson, Dr. Simpson, Major Pierce, Paymaster Hancock, Mr. Meyer, Mr. Rosenwald, Mr. Bolton; also Mr. Cook, Major Starrett, Major Crowell. Mr. Scott, presiding and H. P. Bingham, secretary.

Machine Gun Committee—Resignation of Mr. Hanson.—A communication from Mr. Hanson, chairman of the Machine Gun Committee, was presented stating that due to his having accepted a position with the Colt's Patent Fire Arms Manufacturing Company, who were to receive and had received Government orders for machine guns, he felt it necessary to tender his resignation as chairman of that committee.

Mr. Hanson's resignation was ordered accepted and the secretary was instructed to advise Mr. Hanson of the regret of the Board at his action and to express the Boards' thanks for the valuable assistance he had rendered.

The meeting adjourned at 11:30 a.m.

(sgd.) H. P. BINGHAM, *Secretary.*

MINUTES OF THE THE MEETING OF EXECUTIVE COMMITTEE, GENERAL MUNITIONS BOARD, HELD SATURDAY, JULY 28TH, 1917, AT 8:30 a. m. MUNSEY BUILDING

Present: Colonel Pierce, Colonel Blunt, Colonel Hodgson, Paymaster Hancock, Mr. Meyer, Mr. Rosenwald, Dr. Simpson, Major Starrett. Mr. Scott presiding and Mr. H. P. Bingham Secretary.

Investigation.—A telegram from Mr. Rosenwald to the President bearing on the rider which was to be attached to the food bill relating to the employment of men in an advisory capacity, and regarding such men interested in companies receiving orders, was read and a copy of this telegram together with the President's letter to Senator McKellar on this subject was ordered made a part of the record.

The meeting adjourned at 12:15 p. m.

H. P. BINGHAM, *Secretary.*

Copy of a telegram forwarded July 2nd, 1917, to President Woodrow Wilson at the White House, Washington, D. C., from Mr. Julius Rosenwald:

"DEAR MR. PRESIDENT: It is of the most vital importance that the rider in the food bill referring to the Advisory Commission and its method of securing supplies be stricken out. To cast suspicion on men in many industries who without exception have been eager to serve the Government rather than themselves will destroy a spirit which should be encouraged. The committees representing these industries have succeeded in instilling and securing a loyalty to the Government from many in their own lines that could never have been produced under the old system. Even at this early stage of the war the savings to the Government due to this desire to serve runs into many tens of millions of dollars. Having been intrusted with a responsibility to protect and serve their Government interests, a patriotism has been aroused in these men which is absolutely necessary to secure rapid production. It is probably impossible to devise any plan which is dishonesty proof, but any man of standing in his profession or industry will sacrifice everything rather than be unfaithful to his trust. At any rate, such has been my experience with the men who have served as advisors to the commission which I have had the honor to appoint. The present system should not be destroyed until a better one is found. If changes in method are desirable they can be made after proper investigation. It is vital that the cooperation which has already been established should be maintained and furthermore it is of greatest importance that confidence exist between Government and industry and that suspicion which has existed on the part of both may be eliminated.

(Signed) "JULIUS ROSENWALD."

EXCERPTS FROM MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE GENERAL MUNITIONS BOARD, CALLED AT 8:30 A. M., MONDAY, AUG. 6TH, 1917

Artillery forgings.—Attention of the Board was called to the question of the distribution of forgings to the Midvale Steel Company and the Bethlehem Steel Company, particular attention being called to the plan of Midvale furnishing the Navy forgings and the Bethlehem Steel Company furnishing the Army forgings. Mr. Scott referred to an understanding with these two companies, that each of them was to furnish Army and Navy forgings at a certain fixed price, this price being based on the Navy forgings being divided equally between them. He stated that he did not believe Bethlehem would agree to accept only Army forgings at the prices agreed upon.

Reference was made to the recent order from the Bureau of Ordnance of the Navy Department placed with the Midvale Steel Company for 16 8″ howitzer units for the Marine Corps. No definite action was taken on this. However, a memorandum from the War Industries Board was sent to the Bureau of Ordnance of the Navy Department requesting information as to when this order was placed and for an explanation as to why they failed to have these howitzers cleared from this Board.

Artillery forging—United Engineering & Foundry Co.—Colonel Blunt called the Board's attention to the fact that the above company had refused to bid on certain forgings, such refusal based on the Government eight-hour law. After some discussion it was decided to drop the matter.

Meeting adjourned at 10:10 a. m.

H. P. INGELS, *Acting Secretary.*

"Exhibit No. 1252" is the Industrial Mobilization Plan, Revised 1933, approved by the Secretary of War February 1933; approved by the Secretary of Navy February 1933, and printed by the Government Printing Office 1933. It was ordered reprinted as a separate document by the chairman. (Reprinted as Committee Print No. 2.)

EXHIBIT NO. 1253

NOTES ON CHARTS [1]

Throughout the World War, the du Pont Company's chief product was smokeless powder. Other manufacturers in the United States were of course also actively engaged in making smokeless powder, but the du Pont Company produced the main bulk of the entire American output, and is believed to have supplied something like half the total requirements of the armies of the Allied Nations. The greater part of this volume, of course, was in cannon powder.

Almost if not quite alone among important products in great demand during the war, smokeless powder not only was not increased in price but was even reduced in price from time to time as the war wore on. Moreover, these price reductions were accomplished in the face of an enormously expanding demand for powder, and in spite of advancing labor rates and sharply increased costs for the necessary raw materials. This was made possible by the manufacturing economies of large-scale production and by improvements in methods which were developed through constant research and striving for economies throughout the war.

In the first two of the accompanying charts, the course of powder prices over the war years is plotted against the general course of values for all commodities, and in comparison also with a curve showing the cost of the raw materials required for smokeless powder manufacture. All price data used in these charts for powder and powder raw materials were taken from the War Industries Board's bulletins on the "History of prices during the war." The prices received by the du Pont Company for its powder were if anything slightly lower than those indicated by these charts, because when the United States entered the war some of the other American manufacturers of smokeless powder were able to show the Government that they could not meet the du Pont Company's costs, and on that account the Government paid them higher prices than the du Pont Company was charging.

The four basic raw materials of chief importance used for smokeless powder manufacture during the war, of which the monthly prices were weighted together proportionally to get the composite curve for "powder raw material costs", are cotton linters, nitrate of soda, sulphur, and alcohol.

The high export prices for smokeless powder at the beginning of the war in Europe were set in order to amortize the cost of the plants which had to be built to take care of the sudden enormous demand, and which would become useless when the war was over. No similar element was included at any time in the prices charged the U. S. Government by the du Pont Company, because the necessary facilities were provided before that country entered the war.

In the remaining charts, the course of prices throughout the war is similarly shown for some of the staple products of agriculture. The prices used in these charts were taken from the published tables of the Bureau of Agricultural Economics of the U. S. Department of Agriculture, and represent prices received at the farm.

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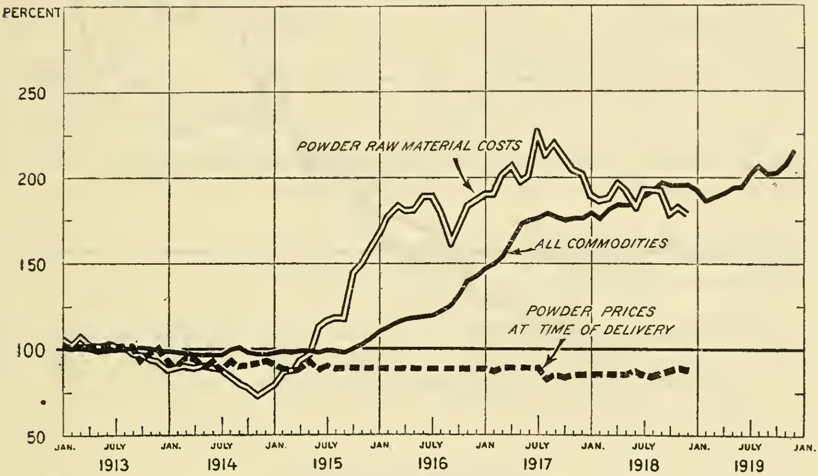
[1] "Exhibit No. 1253-A to 1253-F" See pp-3855-3857.

At the close of the war, the du Pont Company's military smokeless powder plants were dismantled, only a small nucleus of military powder manufacturing facilities being retained at the request of the U. S. Government. Over the past 10 years, only about 2% of the du Pont Company's total manufacturing profits has come from military products.

Exhibit No. 1353–A

PRICE PER POUND OF ARMY AND NAVY CANNON POWDER, AIR-DRIED

INDEX NUMBERS (1913 = 100)

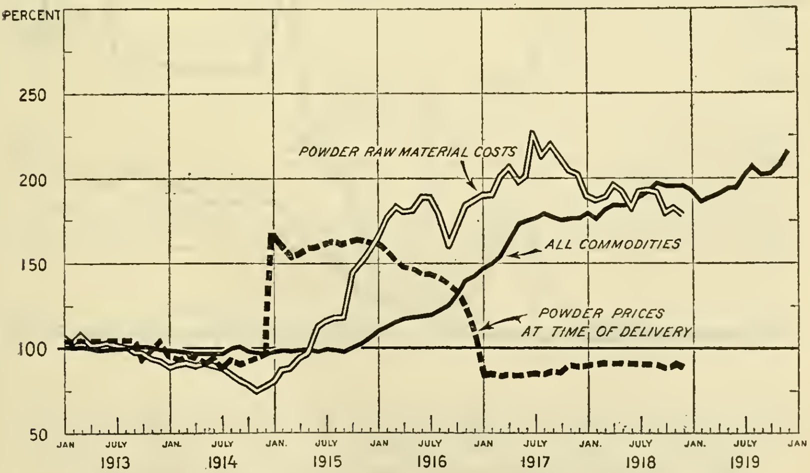


War Industries Board price data used for powder and powder materials. Raw materials prices weighted together per du Pont practice.

Exhibit No· 1253–B

PRICE PER POUND OF EXPORT CANNON POWDER, WATER-DRIED

INDEX NUMBERS (1913 = 100)

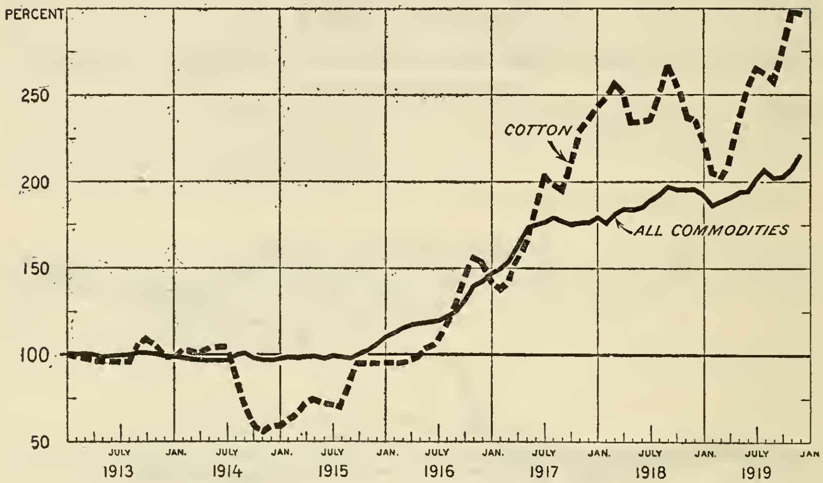


War Industries Board price data used for powder and powder materials. Raw materials prices weighted together per du Pont practice

Exhibit No. 1253–C

PRICE PER POUND OF COTTON RECEIVED BY FARMERS AND PRICES OF ALL COMMODITIES

INDEX NUMBERS (1913 = 100)

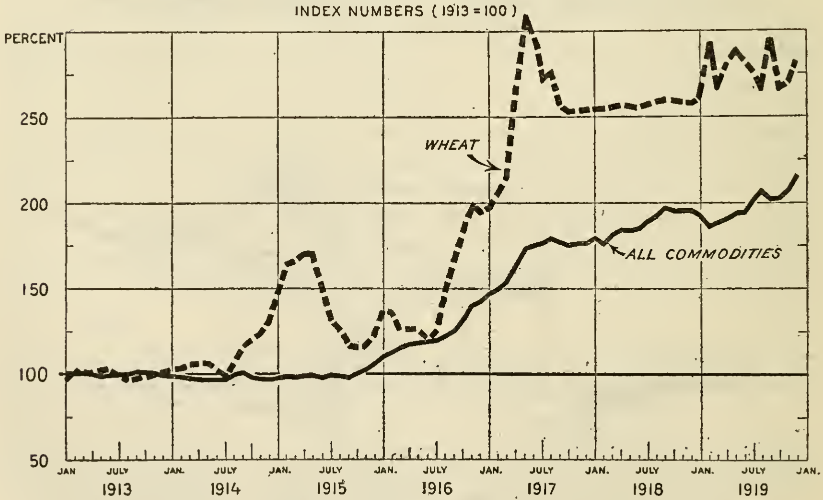


Cotton price data compiled from published tables of the Bureau of Agricultural Economics U.S. Dept. of Agriculture

Exhibit No. 1253–D

PRICE PER BUSHEL OF WHEAT RECEIVED BY FARMERS AND PRICES OF ALL COMMODITIES

INDEX NUMBERS (1913 = 100)

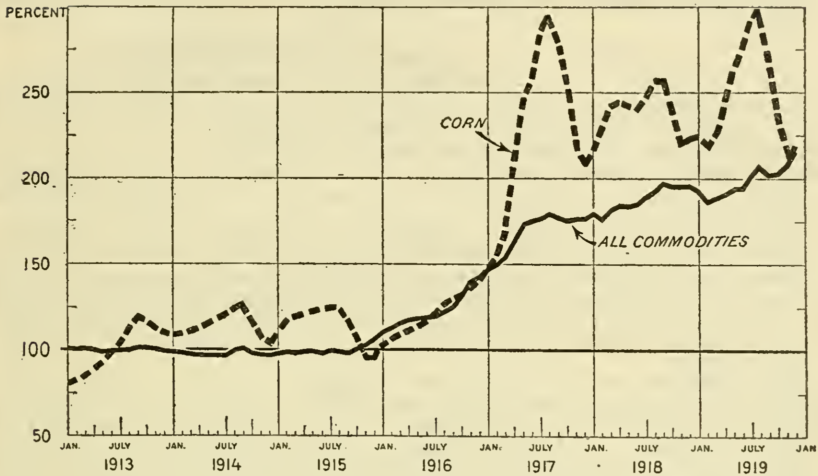


Wheat price data compiled from published tables of the Bureau of Agricultural Economics U.S. Dept. of Agriculture

Exhibit No. 1253–E

PRICE PER BUSHEL OF CORN RECEIVED BY FARMERS AND PRICES OF ALL COMMODITIES

INDEX NUMBERS (1913=100)

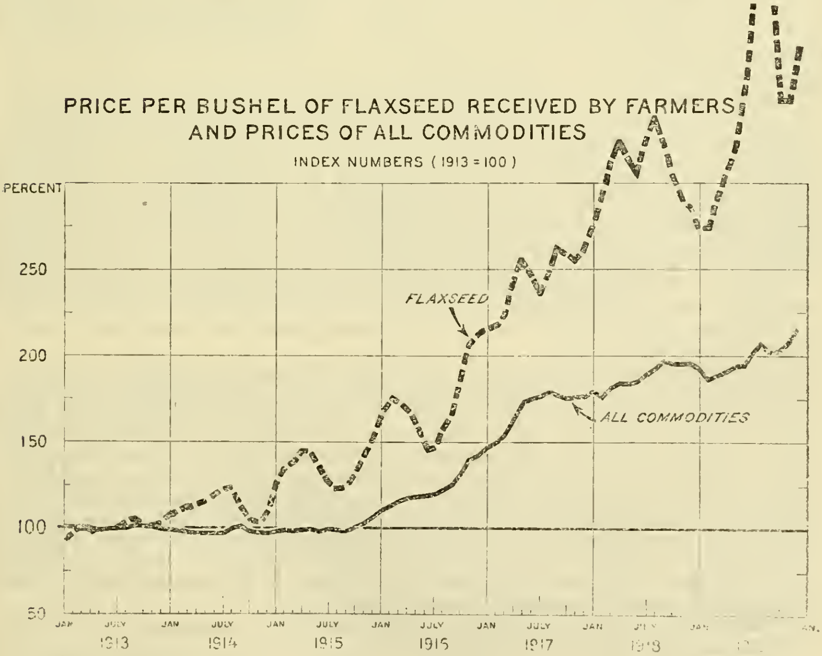


Corn price data compiled from published tables of the Bureau of Agricultural Economics U.S. Dept of Agriculture

Exhibit No. 1253–F

PRICE PER BUSHEL OF FLAXSEED RECEIVED BY FARMERS AND PRICES OF ALL COMMODITIES

INDEX NUMBERS (1913 = 100)



Flaxseed price data compiled from published tables of the Bureau of Agricultural Economics U S Dept of Agriculture

EXHIBIT NO. 1254

SUPERVISION OF INTERNATIONAL TRADE IN ARMS

Hearing before the Committee on Foreign Relations, United States Senate, Sixty-ninth Congress, first session, on supervision of international trade in arms

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D. C., Wednesday, April 28, 1926.

The committee met, pursuant to call, in the committee room, Capitol, at 11 a. m., Senator William E. Borah (chairman) presiding.

The CHAIRMAN. Gentlemen of the committee, I thought we would take up this morning the traffic-in-arms treaty, and I will ask Mr. Burton to favor us with his presence and his knowledge of the making of the treaty and its terms, objects, purposes, and so forth.

Representative BURTON. Mr. Chairman and gentlemen of the committee, it affords me pleasure to meet you in this room where I was a member for 4 years. The two treaties before you are the result of first an invitation conveyed to us through the State Department by the League of Nations in the autumn of 1924 to join in a conference at Geneva; prior to that invitation there had been a meeting of delegates, military and naval for the most part, to prepare the agenda for that conference.

The invitation was accepted, and five delegates were chosen from the United States, including your humble servant, Minister Gibson, our Minister to Switzerland, Admiral Long, Mr. Dulles, who is here today, connected with the State Department, and General Ruggles. The five delegates were aided by a corps of experts and translators, for it was no inconsiderable task to transcribe the messages that were sent back and forth to the State Department. The conference, with the agenda prepared by the experts before it, met at Geneva on the 3d of May 1925, and continued in session until June 17, 1925. Several treaties resulted from these deliberations, in all there were 5; but 3, 1 pertaining to Ifni, a dependency of Spain, we politely declined to ratify, and the other 2 were merely formal final actions, and so forth. So there are 2 proposed treaties, first the convention for the supervision of the international trade in arms and ammunition and the implements of war. Do you desire that I should go into this at some length?

The CHAIRMAN. No; not in any great detail so far as we are concerned. We are only going to give consideration to the traffic-in-arms treaty this morning.

Representative BURTON. And I may say that it would be of very substantial assistance to our delegation who go in response to an invitation to consider the limitation of armaments if that treaty could be ratified here. I may say in general that there were 44 nations represented at the conference, and they gave the utmost deference to the American delegation. We really gained all that we sought. One of our most difficult problems was to keep clear of any committal looking to membership, certain membership, or close association with the League of Nations. In that regard and having in mind the policy of our country in this connection we took a firm stand and the conference acceded to our wishes. The agenda, the original form for the convention, was very materially modified after elaborate discussion.

In brief, this is true: I do not claim for this treaty any very great scope in the prevention of war, but it is a step in that direction. The statistics in regard to the exportation of arms and ammunition from the various countries have shown a very peculiar condition. The volume of exports has been far and away greater than of imports, showing that armaments, ammunition, and arms are shipped from various countries and diverted somewhere and used for some purpose that presumably is not entirely legitimate. The aim of this convention and the central fact in it is that it requires publicity, so that the amount of arms shipped to any country or shipped from any country may be known and shown in the list of arms, implements of war, and kindred material. The convention agreed on five categories. Do you gentlemen have copies of this convention? This is complete; of course, it covers the whole thing.

"Category I. Arms, ammunition, and implements of war exclusively designed and intended for land, sea, or aerial warfare.

"Category II. Arms and ammunition capable of use both for military and other purposes" such as are used for sport or personal defense, and so forth.

"Category III. Vessels of war and their armament."

On that category there was a great deal of discussion. It was proposed in the first instance that warships, all vessels of war, should be included in category I along with arms, ammunition, and implements of war, but there was very substantial objection to that by Great Britain and other countries, and it was stricken from category I; but the result was, as sometimes happens in conferences, that an even stricter provision in regard to warships was adopted, which is set forth on page 39 (of the volume of the Proceedings of the Conference, Geneva), article 7, and which is in line with certain clauses in the treaties made here at Washington in the winter of 1921 and 1922. It provides that—

"The high contracting parties, in all cases covered by category III, undertake to publish within 2 months of the close of each quarter a return for that quarter, giving the information detailed below for each vessel of war constructed, in course of construction or to be constructed within their territorial jurisdiction on behalf of the government of another State:

"(*a*) The date of the signing of the contract for the construction of the vessel, the name of the Government for which the vessel is ordered, together with the following data:

"Standard displacement in tons and metric tons.

"The principal dimensions, namely, length at water line, extreme beam at or below water line, mean draft at standard displacement.

"(*b*) The date of laying the keel, the name of the Government for which the vessel is being constructed, together with the following data:

"Standard displacement in tons and metric tons.

"The principal dimensions, namely, length at water line, extreme beam at or below water line, mean draft at standard displacement.

"(*c*) The date of delivery, the name of the Government to which the vessel is delivered, together with the following data with respect to the vessel at that date:

"Standard displacement in tons and metric tons.

"The principal dimensions, namely, length at water line, extreme beam at or below water line, mean draft at standard displacement.

"As well as the following information regarding the armament installed on board the vessel at the date of delivery and forming part of the vessel's normal armament:

"Number and caliber of guns.

"Number and caliber of torpedo tubes.

"Number of bomb throwers.

"Number of machine guns."

The CHAIRMAN. Do I understand that these items, the date of laying the keel and so forth, all these matters are to be published?

Representative BURTON. They are all to be published within 2 months of the close of each quarter.

Category IV, about that also we had much discussion, some governments favoring a strict report of the manufacture of all aircraft, putting that in something of the same category with arms, and so forth. It was pointed out, and I think clearly established, that it was possible to put aircraft of particular kinds into classes and distinguish between the classes of material, those used for commerical and those to be used for warlike purposes. Some governments insisted, and England, Italy, and Japan opposed. Finally a compromise was reached, which appears on page 39 of the Proceedings of the Conference:

"ARTICLE 9

"The high contracting parties undertake to publish, within 6 months of the close of each quarter, a return for that quarter of the export of aircraft and aircraft engines, giving quantities exported and their allocation according to country of destination."

There is in this, it will be seen, no requirement for publication by the countries receiving the material.

The fifth category, perhaps has special reference to the less civilized countries, in which are included certain provisions given here in a chapter under the head of "Special zones." That includes gunpowder and explosives, except common black gunpowder. Common black gunpowder has a commercial use in firecrackers, and so forth. The articles under category V might be very formidable in a country where they used bows and arrows and spears, but would not be of importance in a country that was of advanced civilization where they had modern methods of destruction, and this category is not apparently of special interest to the United States.

Now there is to be a license or export declaration accompanying each shipment or export of arms from any of the contracting countries, and that shipment cannot be made except on permission of a country itself, or to some authorized agency such as a consulate or a——

Senator Swanson. Does that apply to all the countries ro to one special zone?

Representative Burton. No; it applies to all countries that join in the treaty.

The Chairman. Let me understand that. There must be a license before there can be a shipment?

Representative Burton. Yes, sir.

The Chairman. From whom does the license issue in a case——

Representative Burton. It issues from the Government——

The Chairman. Suppose they wanted to ship arms into Mexico, what would be the procedure under this?

Representative Burton. It would have to be handled so that permission was given by the country to which the shipment is made.

Senator Swanson. That is, from the government that we would recognize——

Representative Burton. From the government to which the shipment comes.

The Chairman. There would have to be permission from Mexico——

Representative Burton. Then that consignment would have to be visaed and license issued and export declaration——

The Chairman. How under those circumstances would a revolutionary coterie be able to get arms at all?

Representative Burton. There was a great deal of discussion about that and——

Senator Shipstead. Before you go into that matter—I want to ask you, in that case you would have to have permission from the government of the country into which the arms are to be shipped, would you also require the permission of the Government of the United States?

Representative Burton. Yes; that permission is practically formal, the object of it being part of the publicity program, but it would be virtually formal. There was a long discussion about that. Mr. Dulles, what is the number of the article that includes the word "belligerent"?

Mr. Dulles. We have it here.

Representative Burton. It is on page 49 of the proceedings, chapter V, General Provisions, article 33: "In time of war, and without prejudice to the rules of neutrality, the provisions of chapter II", as pertaining to license or export declaration "the provisions of chapter II shall be suspended from operation until the restoration of peace so far as concerns any consignment of arms or ammunitions or of implements of war to or on behalf of a belligerent."

That is if the United States recognizes a revolutionary party in any country as a belligerent shipments can be made to that belligerent, and the provisions suspending the requirements in time of war would apply to that belligerent. I am clear in my statement, I trust. That was the interpretation placed upon it in the convention. They displaced with another provision which would have limited shipments to an established, recognized government.

Senator Edge. If I get the intent of the chairman's question, suppose an actual revolution had not started, but they were preparing for it, and the country was not in the position of being a belligerent. Would it be likely to come to the United States and purchase arms for that purpose?

Representative Burton. I do not think so. Frankly speaking, I do not think it would a proper attitude for us to take to stir up trouble in that way, to take the initiative.

Senator Johnson. Is there any other provision relating to the subject concerning which the inquiry was propounded by the chairman, than the one to which you have just adverted?

Representative Burton. I think not. We regard that as sufficient. That was the interpretation placed upon it after very considerable consideration.

Senator Swanson. Lt me see if I get the import of this treaty correctly. In the first place, under this treaty arms cannot be exported except to a recognized government, or an agency which a recognized government designates. For instance, arms could not be exported to Mexico today except to the recognized Government of Mexico, or such agencies as that Government would designate.

Representative Burton. Yes.

Senator Swanson. If you deviated from that at all, you would be compelled to recognize the belligerency of some force contending in that country.

Representative Burton. That also is confined to time of war. All these provisions as to publicity are suspended in time of war.

Senator Swanson. If Greece and France were at war, then we would publish nothing in regard to the exports to those two countries, even if they have a revolution which we recognize as a belligerency. Then the news of the exports would cease to be published by us.

Representative BURTON. Yes. If there were a revolution in Greece and we recognized the belligerency of the revolutionists, we could ship arms.

Mr. DULLES. We would be under no treaty obligation to continue the publication. There would be no divergence from the treaty if we did continue, as we are doing now in time of revolution or war, to publish statistics; but we would be under no treaty obligation in that case.

The CHAIRMAN. This is the proposition in which I am interested right now—and I am looking back to the time when we were trying to get arms from France in 1774; under this treaty we could not have gotten them.

Representative BURTON. I think so. They recognized our belligerency.

The CHAIRMAN. The recognition of the belligerency did not come until after the surrender of Burgoyne.

Senator LENROOT. By France; yes.

The CHAIRMAN. Not until after the surrender of Burgoyne.

Senator SWANSON. They never recognized our belligerency.

Representative BURTON. That was 1777.

Senator SWANSON. As I understand, France never recognized our belligerency. She recognized our independence after the Battle of Saratoga, but there was never any recognition accorded us as belligerents, which would have enabled her to give us any assistance or ship any arms under this treaty. Is not that true?

Representative BURTON. I would like to study that a little. I am inclined to think so.

The CHAIRMAN. Under this treaty, as I read it—and I do not think article 33 changes it—no revolutionary movement could get arms from any one of the 44 nations signing until they reached a point in their movements which would earn for them recognition as belligerents.

Representative BURTON. Yes; that I understand to be the case.

Mr. DULLES. I am not quite sure. The word "recognized" is very carefully explained in article 2 and article 37. If they were a de facto belligerent, or if there were an authority existing, shipments could be made. The word "recognition" was stricken from the first draft, after a great deal of debate, making it clear that prior recognition was not required, either in the case of de facto belligerency or de facto government or of an existing government.

Senator LENROOT. I would like to ask this: If the treaty provisions are not observed, does that very fact necessarily constitute a recognition of belligerency?

Representative BURTON. If a contest assumes the magnitude of a war the treaty obligations are suspended. I wish again to call attention to the very important suggestion Mr. Dulles made in that connection that the word "recognition" was carefully avoided in the drawing of this paragraph, although it had been suggested.

Senator SHIPSTEAD. Under the provisions of this treaty, in case we sign it, could the Riffs buy ammunition here?

Representative BURTON. That very subject was considered. That is covered in chapter 3. In the first place, of course they are shut off from the sea, and it would be impracticable, except by sumggling, to send any arms there, because there is a blockade.

Senator JOHNSON. They are in a prohibited zone, too.

Representative BURTON. Yes; they are in the probibited zone, and that prohibited zone is part of the policy of this Government, under the treaty of Brussels, already in existence. This provision in regard to special zones, which includes chapter 3, while it enters into much more detail as to the operations of the means for excluding arms from less civilized people, is only a statement of the principles we have already adopted.

Senator JOHNSON. The Boers fought a war against Great Britain for a great many years. Could they have bought arms here, under this arrangement?

Senator SWANSON. The Boers were an independent nation, and Great Britain was fighting the rights of a minority there. The Boer Government was an organized government. I doubt whether the minority fighting for Great Britain in the Dominion of Oom Paul could have bought any arms under this treaty.

Representative BURTON. I think they could. They were belligerents, certainly.

Senator SWANSON. Who does the recognizing? Does that mean that the nation that is furnishing arms must in its own conscience and judgment consider that the contenders have the status of belligerents, even if we do not recognize them?

Representative BURTON. I should think so.

Senator Swanson. If other nations recognized them, that would not justify you shipping arms, unless you yourself considered that they had reached the status of belligerents.

Representative Burton. Each nation is free to pursue its own course, based upon its conclusions as to whether there are belligerents worthy, I will not say of recognition, but worthy of permission for the shipment of arms.

Senator Swanson. The only case where we should deviate from furnishing arms to an existing government, or such agencies as it may designate, is the case where a government recognizes belligerency existing within its own jurisdiction.

Representative Burton. They would not have to formally recognize belligerency.

Senator Swanson. Not formally, but recognize that the contest has reached the status of belligerency.

The Chairman. We would have to determine that for ourselves. Taking the world in its present condition, would not the effect of this treaty be to make it practically impossible for any revolutionary movement to get arms?

Representative Burton. I do not think so. Take the part of the world embracing Syria, and that region, Syria, Albania, Palestine, and Transjordania. You have to take into account the practical, actual situation. That is covered in chapter 3, on page 41. Those countries are under mandate. We have expressly recognized that mandate in treaties with France and England, in treaties under which we have certain privileges in return, such as a recognition of the so-called "open door." In addition to that, I do not see how we could ship any arms there, because the French and English control all ports and customs, and it is a part of our recognition of their mandate that they shall control those ports and customhouses.

The Chairman. I know, but take a country like India, for instance.

Representative Burton. That is included in this as well. I do not think we could very well ship any arms into India. I think your judgment would concur with mine, that if there is any change there, it will not be as the result of an armed revolution, but will be by more peaceable means.

Senator Edge. Would not the fundamental object of the treaty rather fail if we had any qualifying article which might, in a way, recognize a just revolution as against an unjust revolution? In other words, if we have a treaty at all, we must have a treaty that prohibits or does not prohibit, before the contestants are recognized as belligerents; so it seems to me that if we have any treaty, it is necessarily going to stop the purchase of arms by a country or people that may be fomenting a revolution. I do not see how you could have a treaty otherwise.

The Chairman. You could have a treaty providing for absolute publicity of what you are going to do, and leave it to your own judgment and discretion to sell to whom you would.

Senator Edge. But suppose they have not started the actual hostilities, but are buying arms for that purpose. It may be an unworthy purpose, the very thing I assume this conference was called to stop. We must be either on one side or on the other. Maybe sometimes it would be unfortunate. It might stop a very proper uprising.

The Chairman. I am only discussing this for the purpose of getting the terms of the treaty. I am not expressing my final views upon the matter. Under the terms of this treaty, it is absolutely under the power of an established government to get arms from other governments. But there is no way by which a revolutionary movement, or a people who are striving to get a position in the world, can get arms, except really by the acquiescence of the established powers.

Representative Burton. Not of the country in which they live. I cannot quite agree with you in that.

Senator Swanson. They can if they attain the status of belligerents.

Representative Burton. I do not think we would have assumed a position worthy of approval if we had taken the ground over there that we want to reserve rights so that we can send arms and ammunition to any agitator who is fomenting a revolution. It was sought to retain all rights by insisting that when a condition of belligerency exists, not necessarily requiring a formal recognition, a belligerency that amounts to a war, it does not matter whether one side is very much stronger than the other or not, if there is what would be normally considered a war, then we could ship to any insurgents or revolutionaries. The whole treaty would be suspended. It seemed to us that that was a proper place at which to draw the line.

Senator Swanson. I think under this treaty we could have gotten ammunition from France during the Revolution, for Great Britain herself recognized us as belligerents. They took prisoners, they had treaties with Washington about troops, so our belligerency was established during the Revolutionary War.

The CHAIRMAN. Not until after the Battle of Saratoga.

Senator SWANSON. At the beginning of the war, Great Britain, by the terms of her letters to Washington, recognized us as belligerents, but did not recognize our independence. Consequently Great Britain herself had accorded belligerency to us, because she took care of our prisoners, and we had truces. They did not consider us as mere outlaws. They did not hang our soldiers. So I think under this treaty possibly we could have gotten supplies.

Senator JOHNSON. If you are correct, I think any revolutionists may be able to obtain their supplies as well, because the moment a shot is fired beginning any revolution, it makes them belligerents.

Senator SWANSON. It depends greatly on whether it is large enough, so that the people who wage the war have a status that would entitle them to be considered as belligerents. For instance, there might be a revolution in Mexico in which the revolution would attain such a status that they would treat them as belligerents. Soldiers surrender and are kept in prison, truces are made, and so forth.

The CHAIRMAN. The South could not have gotten any arms from Great Britain at any time during the Civil War, under this treaty.

Mr. SWANSON. Yes, we could have.

The CHAIRMAN. Why?

Senator SWANSON. Because Lincoln himself recognized us as belligerents.

Senator LENROOT. Great Britain did.

Senator SWANSON. What do you mean by "a belligerent"? That means that one is waging war. You let troops surrender to you, you exchange prisoners, and so forth. Belligerency is a status.

The CHAIRMAN. We had a perfect right to hang Jeff Davis after the war.

Senator SWANSON. Not during the war. When an insurrection gets so large that it is a violation of the laws of humanity to apply the law of treason, they are treated as belligerents.

Senator JOHNSON. Upon that theory, then, today arms could be shipped into Morocco and into Syria.

Senator SWANSON. I do not know much about the status of those countries.

Senator JOHNSON. There is a belligerency there.

Senator SWANSON. I would think under this treaty arms could be shipped to Morocco.

Senator JOHNSON. I would like to see you try it under this treaty.

The CHAIRMAN. Senator Lenroot said that Great Britain recognized the South as a belligerent. When did they do that?

Senator LENROOT. Very early in the war. I have a reference to it here in this book. It does not give the date, but at the close of the war there was a very lengthy correspondence between the two governments upon Great Britain's right to recognize the belligerency of the southern States. This quotes a decision of the Supreme Court of the United States in which, in speaking of England, they refer to "her neutrality between the two belligerents." Evidently they were so recognized in 1861.

The CHAIRMAN. I know she declared her neutrality as between the South and the North, but my recollection is that that was one of the great triumphs of Adams, as our ambassador, that he finally prevented the recognition of the belligerency of the South.

Senator LENROOT. No, that was independence that he prevented the recognition of.

The CHAIRMAN. No, it was not. I am not speaking about independence. Of course, they never suggested for an instant that they were going to recognize their independence.

Senator SWANSON. Oh, yes.

Senator LENROOT. A proclamation of neutrality necessarily recognizes a state of belligerency, does it not?

Senator BORAH. I will bring the history of that and show it to the Senator.

Senator SWANSON. We sent men to have us recognized as independent.

The CHAIRMAN. Russell refused to receive your men.

Senator SWANSON. As citizens of an independent nation, because we had not established our independence.

The CHAIRMAN. I am talking about belligerency. You gentlemen will find that Great Britain did not recognize the belligerency, that that was one of the great triumphs of Adams as ambassador. He finally prevented it.

Representative BURTON. Here is a reference to this in the article in regard to exports in time of war.

"There are two kinds of war, namely, war and civil war. The text applies to both.

"It was unnecessary to state that in speaking of civil war one did not have in view a revolt. * * * One had in view a struggle of a lasting and more serious character, such, for example, as the War of Secession, which broke out in 1861 in the United States of America."

(Thereupon Representative Burton read at length from the proposed treaty.)

Representative Burton. There are a number of points in regard to this, gentlemen. For one thing, we find it necessary to exempt 4 or 5 countries from the provision in regard to publicity—Finland, Lithuania, Estonia, Rumania, and Poland. They maintained they were adjacent to Russia, and that a publication of the importation of arms would enable their possible enemy to know just what their situation was. We argued with them to this effect, "Do not the military attachés from Russia and other countries really find out those facts pretty well?" We rather remonstrated. At one time it really looked as if the conference would break up. Turkey and China and other countries were insisting on a recognition of their exceptional position. There was a committee in which I think the American delegation performed a most excellent service. We told them, "If you go on with this, the conference will fail. We are willing to extend it to a reasonable degree, but if we extend it to all contiguous countries, it means that the convention will amount to nothing." But we did feel that we were compelled to recognize the exceptional position of those five countries.

I do not think chapter 3 has any very special significance as regards the United States. That begins on page 41. Our rights are defined in reference to those special zones by article 27, on page 47. That provides:

"The high contracting parties agree that the provisions of articles 16 to 26 inclusive and of annex II of the present convention establishing a certain regime of supervision in the special zones shall not be interpreted, as regards such high contracting parties as have no territory under their sovereignty, jurisdiction, protection, or tutelage within or immediately adjacent to the said special zones, either as constituting an obligation to apply the regime defined in the abovementioned provisions or as involving their responsibility with respect to the application of this regime."

That is, we are virtually left out of that.

Are there any questions you gentlemen desire to ask?

The Chairman. As I understand, the real thing which was sought by the conference, and which you think you have accomplished by this treaty, is the publicity of the shipments of arms?

Representative Burton. Yes. It became evident that we had to restrict our activities with reference to this treaty to publicity. Indeed, by implication, the invitation was restricted to publicity.

Senator Edge. How many countries have ratified the treaty?

Representative Burton. Aobut 18 ratified it immediately. I cannot state as to the number that have ratified since.

Mr. Dulles. We have no data on that.

Representative Burton. It is open to ratification until the 26th of November next.

Mr. Dulles. Pardon me; open to signatures.

Representative Burton. Of course, there are certain special provisions. There is the right to withdraw after 4 years. The present convention may be denounced by any high contracting party thereto after the expiration of 4 years from the date when it came into force in respect to that party. A denunciation shall take effect 1 year after the receipt of the notification thereof. The signatures and ratifications are all to be reported to the French Republic.

The Chairman. Have France and Great Britain ratified this treaty?

Representative Burton. I do not say that they have ratified; they have signed. Mr. Dulles, you have no official notification that they have ratified, have you?

Mr. Dulles. I understand Great Britain is prepared to deposit its ratification. The treaty only enters into effect when 14 of the powers are simultaneously prepared to deposit ratifications. Whether there are 14 ready, I am not informed.

Representative Burton. In the original draft presented to us in the so-called "agenda", certain countries were specified as having to ratify. We did not think that best, because any one of those might have defeated the whole treaty by holding out. So there was a substitution for that of a provision that the treaty should become operative when 14 countries ratified.

Senator Lenroot. Going back to article 33, before we could ignore this treaty, we would have to find as a fact that a state of war existed, would we not?

Representative BURTON. Of course, there is a good deal of latitude as to what amounts to war. "In time of war, and without prejudice to the rules of neutrality." There must be something we consider to be war. Just what the magnitude of the contest may be is, I think, left to the judgment of each respective country.

Senator LENROOT. Is there not a general rule? It may not be very definite, but is there not a general rule of international law as to what constitutes war?

Representative BURTON. I do not think you can say it is written in the books or is thoroughly established.

Senator LENROOT. What I am getting at is this, suppose we determine as a fact that a condition existed where we were not bound by the treaty, and shipped arms. Might not a claim be made that we had violated the treaty, and consequently might we not have to pay damages for a violation of it?

Representative BURTON. Possibly so. "Without prejudice to the rules of neutrality" is inserted as a provision. But I regard that as highly improbable. Of course, there would have to be more than excuse. There would have to be more than a plausibility for reaching a judgment that war existed. Nevertheless, there is a very wide latitude in regard to that. I do not think we would justify ourselves by insisting we can ship arms into any crowd of agitators or rioters. We want to reserve that right, because that would mean we would be giving our assistance to trouble-makers the world over.

Senator SWANSON. They would have to get arms of some sort from somebody before they could reach a status of belligerency.

Representative BURTON. It is strange how those people get arms. Sometimes they get them from merchants of the very countries with which they are at war.

The CHAIRMAN. There is no trouble in telling how Turkey got her arms.

Senator SWANSON. How would this treaty operate as to China?

Representative BURTON. We have a special agreement in regard to China.

Senator SWANSON. To what extent does this modify the present situation in China?

Representative BURTON. It would be no more severe than it is now. Congress by joint resolution approved January 1, 1922, gave wide authority to the President with regard to the shipment of arms.

Senator SWANSON. That does not exactly tell me how this treaty would affect China.

Representative BURTON. That is not in the special zone.

Mr. DULLES. That is specially provided for in existing agreements, which go beyond the scope of this treaty, so that the provisions of the embargo with regard to China will remain in effect. Where this treaty provides additional details of publicity, they would apply. But this would not mitigate any more severe restrictions which now exist.

Representative BURTON. This is rather to confirm existing law and regulations.

Senator SWANSON. As I understand, there are now three factions in China, the Japanese faction, the Russian faction, and the Southern faction. If the Russian people supply arms to their faction, there is more or less of a contest with Japan. Under this treaty, to what extent could we supply arms to people who were supposed to look after the interests of China, in a general way, and not be dominated either by the Japanese or the Russian faction?

Representative BURTON. The present status with reference to China is determined by that article.

Senator SWANSON. Does that treaty make that proclamation such that it could not be changed?

Representative BURTON. I think not. Under present circumstances anyone can recognize at first blush that there is a condition of war that would suspend the treaty. There is no doubt of that.

Senator SWANSON. The condition in China would be such that this treaty would not apply?

Representative BURTON. It would not apply. We could ship anything there we wanted to.

Senator SWANSON. You are satisfied of that?

Representative BURTON. I think so. There are very large armies there fighting with each other. Perhaps the number of factions is not limited to three.

The CHAIRMAN. We are very much obliged to your for the information you have given the committee.

(Thereupon, at 12 o'clock meridian, the committee proceeded to the consideration of other business.)

Exhibit No. 1255

69th Congress, 1st Session. Confidential. Executive H.

Supervision of International Trade in Arms

MESSAGE FROM THE PRESIDENT OF THE UNITED STATES TRANSMITTING A CONVENTION FOR THE SUPERVISION OF THE INTERNATIONAL TRADE IN ARMS AND AMMUNITION AND IN IMPLEMENTS OF WAR, SIGNED AT GENEVA, SWITZERLAND, ON JUNE 17, 1925

January 12, 1926.—Convention read the first time and referred to the Committee on Foreign Relations, and, together with the message, ordered to be printed in confidence for the use of the Senate.

To the Senate,

To the end that I may receive the advice and consent of the Senate to the ratification, I transmit herewith a certified copy of a convention for the supervision of the international trade in arms and ammunition and in implements of war, signed at Geneva, Switzerland, on June 17, 1925.

I further transmit for the information of the Senate in connection with the consideration of the convention, a communication from the Secretary of State transmitting the report of the American delegation to the Geneva conference.

Calvin Coolidge.

The White House,
January 12, 1926.

The President: The undersigned, the Secretary of State, has the honor to lay before the President, with a view to the transmission to the Senate to receive the advice and consent of that body to ratification, if his judgment approve thereof, a certified copy of a convention for the supervision of the international trade in arms and ammunition and in implements of war, signed at Geneva, Switzerland, on June 17, 1925.

There is also submitted for the information of the Senate the report of the American delegation which took part in the negotiation of the convention.

Respectfully submitted.

Frank B. Kellogg.

Department of State,
Washington, January 11, 1926.

Exhibit No. 1256

[Senate Executive Report No. 4, Seventy-third Congress, second session]

Supervision of International Trade in Arms

Friday, May 18 (legislative day, Thursday, May 10), 1934—Ordered to be printed

Mr. Pittman, from the committee on foreign relations, submitted the following report (to accompany Executive H, 69th Cong., 1st sess., a Convention for the Supervision of the International Trade in Arms and Ammunition and in Implements of War, signed at Geneva, Switzerland, on June 17, 1925):

At a special meeting of the Committee on Foreign Relations held on May 1, 1934, the chairman was instructed to report favorably to the Senate Executive H, Sixty-ninth Congress, first session, being a Convention for the Supervision of the International Trade in Arms and Ammunition and in Implements of War, signed at Geneva, Switzerland, on June 17, 1925, with a reservation as set forth in the resolution of ratification, said resolution and reservation being as follows:

"*Resolved* (*two-thirds of the Senators present concurring therein*), That the Senate advise and consent to the ratification of Executive H, Sixty-ninth Congress, first session, a Convention for the Supervision of the International Trade in Arms and Ammunition and in the Implements of War, signed at Geneva, Switzerland, on June 17, 1925, subject to the reservation that the said convention shall not come into force so far as the United States is concerned until it shall have come into force in respect to Belgium, the British Empire, Czechoslovakia, France, Germany, Italy, Japan, Sweden, and the Union of Soviet Socialist Republics."

This convention was transmitted by President Coolidge to the Senate for its advice and consent to ratification on January 11, 1926, and since then has been pending before the Committee on Foreign Relations. In the meantime, the Department of State has, on several occasions, urged that the convention be given favorable consideration; President Hoover, on January 10, 1933, recommended that the Senate advise and consent to its ratification, and President Roosevelt is entirely in accord with the views of former Presidents Coolidge and Hoover.

These facts, together with the recent history of the convention, and the reasons of the Department of State for early ratification, are fully set forth in a letter under date of April 12, 1934, from the Honorable Cordell Hull, Secretary of State, to the chairman of this committee, which letter is as follows:

Department of State,
Washington, April 12, 1934.

My Dear Senator Pittman: It is my understanding that the Convention for the Supervision of the International Trade in Arms and Ammunition and in Implements of War, signed at Geneva, June 17, 1925, and transmitted by President Coolidge to the Senate for its advice and consent to ratification on January 11, 1926, is still before the Committee on Foreign Relations. I should greatly appreciate it if you could take such steps as you may deem appropriate to secure favorable action on this convention by the committee and by the Senate.

Since this convention was transmitted to the Senate, the Department has, on several occasions, urged that it be given favorable consideration, and President Hoover, in a message of January 10, 1933, recommended that the Senate give its advice and consent to its ratification. The President is entirely in accord with the views of his two immediate predecessors in regard to the advisability of the ratification of this convention by this Government.

Enlightened public opinion throughout the world has, for many years, urged the adoption on the international plane of measures of supervision and control of the international traffic in arms. A convention to this end was signed by the representatives of 28 governments, including our own, at St. Germain en Laye and Paris on September 10, 1919. This convention was in several respects unsatisfactory to this Government, and it was never submitted to the Senate. As long as the United States, which is one of the principal arms-manufacturing powers, refuses to ratify the convention of St. Germain, the other powers naturally refused to subject themselves to limitations which would have resulted, not in the control of the arms traffic, but in its transfer to those countries which were not parties to the convention. Other governments, realizing the necessity for some measure of supervision and control of the international traffic in arms, urged us on several occasions to state our objections to the convention of St. Germain in order that a new convention might be drawn up from which these objections would be eliminated. As a result of this attitude on the part of other governments, meetings, at which this Government was represented, were held in Geneva in 1924, and these meetings resulted in the drafting of a new convention, which contained none of the features of the convention of St. Germain to which this Government had made objection. The Arms Traffic Convention of 1925 is, in all essentials, based upon this draft convention. The whole history of the convention is, therefore, such as to constitute for this Government a moral obligation to ratify it.

The important provisions of the convention are those limiting the export of arms to those intended for the direct supply of the Government of the importing state, or with the consent of such government for the supply of a public authority subordinate to it, and those setting up a machinery of licenses or export declarations for all arms exported or imported and for full publicity in regard to the international traffic in arms. These measures would go far to curb the abuses of the international traffic in arms. The convention has already been ratified by a number of the signatories. Some of these ratifications are, however, conditional upon ratification by other specified powers, including, among those which have not ratified, the United States. We have reason to believe that ratification by this Government would probably result, within a brief interval, in the other ratifications necessary to put the convention into effect. The ratification of this convention is an important contribution which the American Government and people can make at this time to the cause of world peace; its remaining unratified cannot fail to produce, with justification, the impression that we are indifferent to the important problems with which the convention deals.

Sincerely yours,

Cordell Hull.

Hon. Key Pittman,
United States Senate.

To the end that the Senate may be more fully advised in the premises, the committee desire to direct its attention to a letter, under date of January 11, 1926, to the President, from the Honorable Frank B. Kellogg, Secretary of State, transmitting the report of the American delegation which took part in the negotiation of the convention, as well as to the said report of the American delegation, which letter and report are, respectively, as follows:

The PRESIDENT:

The undersigned, the Secretary of State, has the honor to lay before the President, with a view to the transmission to the Senate to receive the advice and consent of that body to ratification, if his judgment approve thereof, a certified copy of a convention for the supervision of the international trade in arms and ammunition and in implements of war, signed at Geneva, Switzerland, on June 17, 1925.

There is also submitted for the information of the Senate the report of the American delegation which took part in the negotiation of the convention.

Respectfully submitted.

FRANK B. KELLOGG.

DEPARTMENT OF STATE,
Washington, January 11, 1926.

[American Delegation to the International Conference on the Traffic in Arms Held at Geneva May 4 to June 17, 1925]

WASHINGTON, *December 16, 1925.*

The Honorable The SECRETARY OF STATE,
Washington.

SIR: The undersigned, appointed by the President as chairman of the American delegation to the International Conference held at Geneva May 4 to June 17, 1925, to consider the conclusion of a convention for the supervision of the international trade in arms and ammunition and in implements of war, has the honor to submit the following report on behalf of the delegation, which was composed as follows:

Honorable Theodore E. Burton, chairman.
Honorable Hugh S. Gibson, vice chairman.
Rear Admiral Andrew T. Long,
Mr. Allen W. Dulles,
Brigadier General Colden L'H Ruggles.

The delegates of the United States of America, after preliminary conferences held in Washington and at Geneva, met at Geneva on May 4, 1925, with representatives of forty-three other States, including: Germany, Austria, Belgium, Brazil, the British Empire, Canada, the Irish Free State and India, Bulgaria, Chile, China, Colombia, Denmark, Egypt, Spain, Esthonia, Abyssinia, Finland, France, Greece, Hungary, Italy, Japan, Latvia, Lithuania, Luxemburg, Nicaragua, Norway, Panama, the Netherlands, Persia, Poland, Portugal, Rumania, Salvador, Siam, Sweden, Switzerland, the Kingdom of the Serbs, Croats, and Slovenes, Czechoslovakia, Turkey, Uruguay, and Venezuela.

In the forty-five days of its sessions, the conference drew up a convention to regulate the international trade in arms and war material, a certified copy of which is appended. This instrument was signed on behalf of the United States by the chairman and the vice chairman, and by the representatives of twenty-one other States, as indicated below:

SIGNATORIES TO THE CONVENTION [1]

Germany (Allemagne)
United States of America
Austria
Brazil
British Empire
India
Chile
Spain (Espagne)
Esthonia
Abyssinia (Ethopie)
Finland
France
Hungary
Italy
Japan
Latvia
Luxemburg
Poland
Roumania
Salvador
Kingdom of the Serbs, Croats, and Slovenes.
Czechoslovakia (Tchécoslovaquie)

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[1] The order of signature and of the above list is alphabetical according to the French spelling of each State.

In the consideration of the work of the American delegation to the Arms Traffic Conference of Geneva, it is important briefly to indicate the reasons for the holding of this conference and to outline the preparatory work which served as a basis for the deliberations of the various delegates assembled.

During the Paris Peace Conference of 1918–1919 there was elaborated and signed at Saint Germain-en-Laye on September 10, 1919, by representatives of the United States and by those of twenty-two other powers a convention to regulate the trade in arms and war material, known as the Saint Germain Convention. This convention was not submitted to the Senate nor ratified by the United States for the reasons set forth in a communication of September 12, 1923, from the Secretary of State, the Honorable Charles E. Hughes, to the Council of the League of Nations, in replying to a communication from the acting president of the Council of the League, which quoted a resolution of the Assembly of the League to the effect that:

"The Assembly considers it highly desirable that the Government of the United States should express the objections which it has to formulate to the provisions of the convention of Saint Germain as well as any proposals which it may care to make as to the way in which these objections can be overcome."

Secretary Hughes in his communication of September 12 stated that "the Government of the United States is in cordial sympathy with efforts suitably to restrict traffic in arms and munitions of war" and referred to the steps taken by the Executive under legislative authorizations of 1898, 1912, and 1922 for the regulation of the trade in war material with other countries in this hemisphere and with countries where the United States exercised extraterritorial jurisdiction. Secretary Hughes pointed out, however, that the Saint Germain Convention, while not undertaking to restrict the purchase of arms by countries signatory thereto, would prohibit such sale to States not parties to the convention, and that under such provisions this Government might be required to prevent shipments of military supplies to such Latin-American countries as had not signed or adhered to the convention, however desirable it might be to permit such shipments, merely because they were not signatory powers and might not desire to adhere to the convention.

The Secretary of State further pointed out that the provisions of the convention relating to the League of Nations were so intertwined with the whole convention as to make it impracticable for this Government to ratify, in view of the fact that it is not a member of the League of Nations.

In acknowledging Secretary Hughes' communication the acting president of the council of the League of Nations, on December 14, inquired whether the Government of the United States, having indicated that it was "in cordial sympathy with efforts to restrict traffic in arms and munitions of war" was prepared to cooperate with the Temporary Mixed Commission, the organ of the League which then was considering questions of disarmament, in the preparation of a draft convention, or conventions, for the purpose of controlling this trade.

This inquiry having been answered in the affirmative, the American Minister to Switzerland, Mr. Grew, and later Mr. Gibson, met informally with the Temporary Mixed Commission of the League of Nations, which drew up a draft of a convention for the control of the international trade in arms which was intended as a basis for the consideration of this subject by an international conference which it was proposed later to convoke. The documentary material covering these preliminary conversations which were held at Geneva and Paris in February, March, and July 1924, is fully set forth in the appended publication (annex 1).

Subsequently, the Council of the League of Nations on October 7th communicated to the Secretary of State an invitation to attend the International Conference in question. The text of this invitation is quoted herewith:

"Sir: At its meeting held on September 30th, the Council adopted the following Resolution:

"'On the proposal of the Assembly the Council decides to authorise the secretary general to submit to the Governments of the States, Members and nonmembers of the League of Nations, the draft convention relating to the control of the international trade in arms, munitions, and implements of war drawn up by the Temporary Mixed Commission, and to request these Governments to inform him, before the Council meets in December, whether they are prepared to take part in a conference to be convened in April or May 1925, for the purpose of discussing the draft convention.

"'The secretary general will communicate to the various Governments the report of the Temporary Mixed Commission, the minutes of that commission and the minutes of the Permanent Advisory Commission relating to the discussion of article 9, together with the minutes of the present meeting of the Council, in order that the representatives of the Governments on the International Conference may have the requisite information to enable them to come to a decision on the problems raised on this question during the present meeting.'

"In execution of this decision, I have the honour to enclose herewith the draft convention on the control of the international trade in arms, munitions, and implements of war which was drawn up by the Temporary Mixed Commission (Document A 16. 1924 IX, annex IV).

"The next meeting of the Council is to be held on December 8th, 1924, and I should be grateful if you would kindly inform me, if possible before that date, whether the United States Government would be prepared to take part in an International Conference to be held in April or May, 1925, for the purpose of discussing this draft and concluding a convention on the control of the international trade in arms, munitions, and implements of war. The exact date of this conference will be fixed by the Council at its December session.

"In accordance with paragraph 2 of the Council's resolution I am also enclosing herewith the report of the Temporary Mixed Commission for the reduction of armaments and the report of the 3rd committee of the Assembly.

"The report of the Temporary Mixed Commission contains that part of the minutes of the commission which relates to article 9 (document A. 16. 1924 IX. annex V).

"Further information relating to the preparations for the conference will be forwarded to you as soon as possible.

"I have the honour, etc.

(Signed) Eric Drummond,
Secretary General."

To the foregoing communication the following reply was made, on December 7, by the American representative in Switzerland under instructions from the Department of State:

"I beg to inform you that I have been instructed by my Government to acknowledge the receipt of your communication of October 7, 1924 transmitting the text of a resolution adopted by the Council of the League of Nations with respect to the holding of an international conference of the States members and nonmembers of the League of Nations April or May 1925 for the purpose of considering the conclusion of a convention with respect to the international trade in arms, munitions and implements of war. In this communication you inquire whether my Government would be prepared to take part in such a conference.

"In reply I take pleasure in referring to the communication addressed to you on August 29 in which it was stated that my Government would be disposed to give favorable consideration to an invitation to participate in an appropriate international conference of the powers for the aforementioned purpose. My Government still holds this attitude and is agreeable to the suggestion that the time of holding the conference should be in April or May 1925."

THE GENEVA CONFERENCE

The attitude of the American Government toward the control of traffic in arms and the program and policy of the American delegation was clearly set forth in the following statement of the chairman of the American delegation, of May 5, the day after the opening of the conference:

"In accepting the invitation to be represented at this conference, the Government of the United States cordially welcomes the opportunity to collaborate in the present movement. The people of the United States earnestly desire to give substantial evidence of their sincere interest in aiding in any constructive effort directed toward the maintenance of peace, and it is hoped that such efforts will be promoted by the proper control of the international trade in arms through the suppression of illicit trade in war material and by securing the fullest and most accurate publicity as to the extent and character of this trade. It is with this intention and with this spirit that the American delegation will take part in the discussions of the conference, in the hope of contributing towards attaining concrete results.

"As an evidence of our sincere desire to contribute to the inauguration of an era of continuing peace and to aid in preventing the horrors of war, the Government of the United States, in 1921, took steps to convene the Washington Conference, the results of which are known to the world. In addition to the definite achievements of this conference, it is believed that the spirit which actuated the delegates at that meeting was a striking indication of the intent of the powers participating to continue the work initiated there.

"As regards the specific object of the present conference, namely the control of the traffic in arms, our Government has in recent years followed the policy of counselling its nationals against engaging in such trade with the troubled areas of the world where military arms might be particularly used for purposes of disturbing the peace. Further, under the authority of existing legislation, our Presidents have, from time to time, imposed absolute or partial restrictions on the exportation of arms from the United States to certain areas where such measures appeared to be particularly necessary. In addition, the flotation of foreign loans in the United States for the purpose of purchasing armament has been consistently and, it is believed successfully, discouraged.

"Our part in the international trade in arms has not been large during the past few years, and the policy of the Government, already outlined, has helped to keep it within proper channels. But our Government is glad to be able to cooperate with other powers in an effort to secure precision and uniformity in the measure and manner of control.

"In the forthcoming discussions of the draft convention which has been placed before the conference as a basis for its deliberations, we shall offer certain constructive suggestions and modifications which, it is felt, might appropriately be embodied in the proposed convention and which might assist in achieving the objects of the conference. One of the most important of these suggestions, which I shall present in detail on a more appropriate occasion, concerns additional measures to deal with the traffic in poisonous gases with the hope of reducing the barbarity of modern warfare.

"The delegation of the United States realises that it is important to consider the problem of the traffic in arms not only from the point of view of the producing but from that of the nonproducing States. No program has yet been adopted which is effective for general disarmament and it is clear that the trade in arms cannot be eliminated. Nevertheless a solution may be reached which will assure to sovereign States the means of securing what may be necessary to their national defense and the maintenance of internal peace and order and which will, at the same time, properly control the international trade in arms.

"I desire to express my appreciation of the excellent remarks of M. Dupriez * and I also wish to express my thanks to M. Matsuda * for his expression of friendship to the United States. Let that expression be indicative of the mutual confidence and good will which should exist between the two nations on either side of the great Pacific—Japan and the United States of America.

"In conclusion, let me say that it is with optimism that we enter upon the work of this gathering, in the hope that by friendly consultation something may be accomplished worthy of the best efforts of the delegates here assembled and which may substantially promote the cause of peace."

The details respecting the organization of the conference, the questions considered, the positions taken by the various delegates, together with the proceedings of the various committees and subcommittees, are fully set forth in the attached publication (annex 2). While it is therefore unnecessary, and would only result in repetition to review the entire work of the conference in this statement, a brief indication of the scope of the convention, of the special problems met by the conference, and of the American interests involved may not be out of place.

SCOPE OF THE CONVENTION

(1) In articles 1 to 5 of the convention provision is made for the supervision of the international trade in arms, munitions and implements of war with a view to keeping such trade within the proper channels. This control of the trade is to be exercised by each sovereign State within its own territory according to its own laws enacted or to be enacted to make the convention effective.

(2) A system of publicity is provided for the international trade in the implements of war comprised in categories one and two, that is, arms exclusively designed for war and those susceptible of use both in war and for peaceful purposes. Provision is also made for publicity for the trade in aircraft and aircraft engines and for publicity of the most detailed character in connection with the sale or transfer of any vessel of war.

(3) Provision is made for special control with regard to the shipment to, and the disposition of arms within, certain areas of the world where, experience has shown, there is particular need for close supervision of the arms traffic. These areas include Central Africa and the territory formerly a part of the Ottoman Empire but now detached from Turkey as defined in article 12 of the convention.

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* The heads of the Belgian and Japanese delegations, who had spoken just preceding the statement of Mr. Burton.

SPECIAL PROBLEMS

During the deliberations of the conference, certain special problems arose which merit brief explanations.

(1) The conference recognized that the trade in war vessels could not, from its nature and the place of such vessels in international law, be dealt with on the same basis as trade in rifles or ammunition. With a view to meeting this situation, the American delegation proposed and found ready acceptance for the suggestion that the regime outlined in article XVI of the Washington Treaty of February 6, 1922, limiting naval armament, should be adopted. According to this regime as outlined in article 7 of the convention, the high contracting powers undertake to supply full information with regard to the construction within their territory of a ship of war for delivery to any foreign power.

(2) The problem which the conference had to face with respect to the trade in airplanes was of a slightly different character in view of the recognized commercial uses of airplanes, as well as the practical difficulty of distinguishing between an airplane adapted for war purposes and an airplane adapted for the ends of peace. It was felt, therefore, that a provision (article 9) stipulating that full publicity should be given to the foreign trade in aircraft and aircraft engines would meet the situation, without interfering with legitimate commerce.

(3) At an early stage in the conference it became clear that the States bordering on Russia had a special problem to face in connection with the publicity of their military purchases. The Soviet regime declined to be represented at the Geneva Conference and has indicated no interest whatever in adherence to the Arms Traffic Convention. The States bordering on Russia represented at the conference are for the most part States which are dependent upon imports for the supply of the military equipment which they consider necessary for their national defense. The border States considered that an obligation on their part to publish full statistics of their importations while Russia was under no obligation to give similar publicity to its importation would be detrimental. For this reason, therefore, the conference agreed to incorporate in the treaty a provision (article 29) freeing certain States bordering on Russia from the obligation of publicity pending the adhesion of Russia to the convention.

(4) Throughout the conference the delegates of the so-called "producing States" were constantly reminded that the problem which the nonproducing States had to face was of a different character than that of the producing States and that the former could not properly acquiesce in any treaty provisions which would prejudice their right to secure the arms necessary for their national defense. In considering this situation the American delegation was also impressed by the fact that any regime of control which restricted the right of the nonproducing powers to purchase arms abroad might have the unfortunate result of forcing States at present nonproducers of arms to introduce on a large scale the manufacture of arms and war material. Many a State might thus become more or less of an armed camp and the result would be detrimental to the cause of peace. Therefore, there have been introduced into the convention no provisions which prevent a State from securing arms for its national defense from other countries under certain safeguards and guaranties and with the publicity which should act as a preventive against the undue accumulation of imported arms in any given country.

(5) It was brought to the attention of the conference that in States where extraterritorial rights were exercised there would be obvious difficulties in enforcing the provisions of the convention as against foreigners enjoying such extraterritorial rights. This situation unless corrected might result in opening to foreigners, enjoying extraterritorial privileges in certain countries, the opportunity of engaging uncontrolled in an illicit trade. For these reasons article 30 was included in the convention, according to which the "high contracting parties who possess extraterritorial jurisdiction in the territory of another State party to the present convention undertake in cases where the rules of this convention cannot be enforced by the local courts as regards their nationals in such territory to prohibit all action by such nationals contrary to the provisions of the present convention."

(6) The question of the control of the trade in arms in time of war presented a particularly difficult problem. It is a recognized principle of international law that a neutral State is under no obligation to prevent the shipment of arms from its territory on behalf of a belligerent; provided, of course, as specified in the laws of the United States, that the territory of the neutral State shall not be used as a base for fitting out military expenditions. On the other hand, it is

contrary to the obligations of neutrality, as recognized in the laws of the United States as well as in the law and practice of nations, for a State itself either directly or indirectly, to supply arms to a belligerent. Under the regime outlined in the convention the approval of the government of the exporting country is normally required in the case of the shipment of arms in category one. If such approval were also required in time of war the neutrality of a power formally approving the shipment of arms to a belligerent might be called in question. If therefore the convention were applicable in its entirety in time of war, the result might be that it would be rendered impossible to permit shipments of arms to a belligerent although such shipment might otherwise be unobjectionable, and although the country in question might not desire to intervene to prevent shipments.

In view of these considerations it was the unanimous opinion of the delegates assembled that it would be unwise to endeavor to apply with respect to belligerents the articles of the convention which involved the approval of the exporting government as a necessary prerequisite to a shipment. Consequently the fol. lowing article (article 33) was introduced into the convention:

"In time of war and without prejudice to the rules of neutrality the provisions of chapter 2 shall be suspended from operation until the restoration of peace so far as concerns any consignment of arms or ammunition or implements of war to or on behalf of a belligerant."

AMERICAN INTERESTS INVOLVED

(1) The United States has for some time given full publicity to the statistics of its foreign trade, including publicity of its trade in war material. The American Delegation therefore felt that it would be according to American traditions of publicity and frankness to agree to continue such publicity and that it would be in our interest that other countries should likewise make public their trade in arms.

(2) The method of supervision provided for in the convention for the trade in arms is adapted to meet the special conditions existing in the United States. In particular it should be noted that the forms now used for export declarations are specifically recognized in the convention and it is provided that these forms may, under certain safeguards, be employed to secure the requisite control and publicity. Thus the necessity for the creation of elaborate boards of control for the issuing of licenses in individual cases of shipments of arms is obviated.

(3) The convention does not provide for the control of the international trade in arms by any international body. Each country is to exercise its control within its own jurisdiction and according to its own laws, without dictation, advice, or interference by any international commission.

(4) In connection with the provision for the enforcement of a strict control of the arm trade within certain areas of Africa and Asia, the American delegation, while recognizing the reasons for such a control and agreeing that shipments from the United States to the areas in question should be under strict supervision as far as their clearance from the United States was concerned, proposed and secured the insertion in the convention, in article 27, of a provision that would relieve the United States from any responsibility with respect to the application of this regime in territorial or maritime zones beyond the jurisdiction of the United States.

(5) The present convention, superseding as it would the applicable provisions of the Brussels Act of 1890 and the unratified Saint Germain convention, helps to clarify the situation and defines the conditions under which arms shipments from this country may properly be permitted. Its provisions would in no way conflict with the control which may now be exercised with respect to the export of arms to certain countries under existing provisions of American law.

CONCLUSIONS

The delegates at the conference impressed upon the American delegation their view that any international convention for the control of the trade in arms would be ineffective unless adhered to by the United States, one of the important arms producing powers. With a view to facilitating American adherence, the conference did not press for the inclusion of any provision for the supervision or control of the arms trade by an international commission, recognizing that such control would be inacceptable to this Government. Further, the various proposals advanced from time to time by the American delegation received the full and sympathetic consideration of the conference, and in every case where American principles and interests were involved, solution which the American delegation considered acceptable were adopted. The American delegation desire to record their recognition of this attitude and, in submitting the treaty, to state that in their opinion the success or failure of the present convention will be in no small measure dependent upon the position assumed by the American Government in the matter.

While registering this view, the American delegation would point out that in their opinion the adherence of all the important arms-producing powers, and not only that of the United States, is essential to the realization of the objects of the convention. For the United States to ratify and to make the convention effective prior to the ratification by other arms producing powers would only result in placing a premium upon nonratification by certain producing powers, since they would then be free to sell arms to other powers without control and without publicity. If, therefore, the convention meets with the approval of the Senate, and if the legislation which will be necessary to make it effective in the United States is assured, the delegates of the United States consider that the deposit of ratifications on the part of the United States should be conditioned upon the deposit of ratifications by the other great producing powers of the world. The American delegation would not of course suggest any delay in the submission of the convention to the Senate or its consideration by that body, but considers that in the event of senatorial approval the deposit of ratifications, which would make the convention binding upon the United States if thirteen other powers deposit ratifications, should only take place when among the ratifying powers are included the other principal arms producing States.

The American delegation appreciates that the present convention does not specifically provide for any restriction in the volume of the trade in arms, although the control of this trade should indirectly result in such restriction through the reduction of the illicit traffic in war material. It is felt, however, that pending the realization of a definite disarmament program it would be futile, and possibly harmful, as indicated above, to attempt the arbitrary restriction of the trade in war material, which would place the nonproducing powers at the mercy of the producing power, force production by all powers and, far from accomplishing the purposes of disarmament, might tend toward the increase of the military establishment of certain powers.

In addition to the convention itself, there is also appended (annex 3) a copy of the protocol of signature and a copy of the final act (annex 4) which describes the calling of the conference and includes two declarations of the delegates assembled. Neither of these documents call for ratification. In addition, there was signed at Geneva a declaration relating to the inclusion of the territory of Ifni (in Spanish Morocco) in the special zones. This declaration was not signed on behalf of the United States, and it is not felt that it calls for action at this time on the part of this Government.

In conclusion, the American delegation desire to express their appreciation of the invaluable assistance rendered by the secretary of the American delegation, Mr. Alan F. Winslow, and by the technical advisers, Mr. Charles E. Herring, commercial attaché at the Embassy in Berlin, Major George V. Strong and Major Earl J. Atkisson of the War Department, and Commander Herbert F. Leary, assistant naval attaché at the Embassy in London.

The delegation also take this occasion to record their appreciation of the effective and impartial manner in which the proceedings of the conference were directed by its president, M. Carton de Wiart, former Prime Minister of Belgium, and in the latter's absence, by the vice president of the conference, Mr. Guerrero, of Salvador. The delegation also desire to pay tribute to the efficient services rendered by the secretary-general of the conference, M. Madariaga, and by the other members of the secretariat general of the conference.

Respectfully submitted,

(signed) THEODORE E. BURTON.

Enclosure: Annexes, as stated.

("EXHIBIT No. 1257" appears in text on p. 3676.")

EXHIBIT No. 1258

All communications should be accompanied by carbon copy and addressed to—

To insure prompt attention in replying, refer to—

WAR DEPARTMENT,
OFFICE OF THE CHIEF OF ORDNANCE,
Washington, April 27, 1931.

00 No. 47149, 1888. Attention of ——— ———
REMINGTON ARMS CO., INC.,
25 Broadway, New York City.

Att: Mr. Egbert C. Hadley.

GENTLEMEN: This will acknowledge receipt of your letter of April 23, 1931, addressed to Major J. S. Hatcher, inquiring about the use of the accuracy test figures obtained in official tests of forty million rounds of Kleanbore cartridges recently furnished Springfield Armory.

Your letter also expressed a desire to use for advertising purposes Colonel Whelen's letter of February 26th addressed to the Chief of Ordnance on the subject of report of inspection test of Remington ammunition and Colonel Schull's letter addressed to your Bridgeport plant, dated November 30, 1928, a photostat copy of which was inclosed.

In reply, you are informed that there is an Army regulation forbidding the officers or other agencies of the War Department from making statements on the merit of services or supplies furnished for the Army, for use in advertising by commercial firms. This would clearly prevent this office from authorizing you to use either Colonel Whelen's or Colonel Schull's letter in full or in part in any advertising.

It would not, however, in the opinion of this office, prevent you from incorporating in the advertisement a statement as to what accuracy figures were obtained in the official test of the forty million rounds of caliber .22 long rifle Kleanbore ammunition recently furnished to the Government. The statement of the accuracy figures should appear as your own statement and not as the statement of a Government official.

For the Chief of Ordnance.

Very truly yours,

(Signed) O. J. GATCHELL,
Major, Ord. Dept., Executive Assistant.

("EXHIBIT No. 1259" appears in text on p. 3679.")

EXHIBIT No. 1260

NOVEMBER 17, 1933.

Dict. 11/16/33.
Lt. Col. TOWNSEND WHELEN,
Headquarters Seventh Corps Area,
Office of the Corps Area Ordnance Officer,
Omaha, Nebraska.

MY DEAR T. W.: I had a fine letter from Paul Estey with an account of his trip to the Peace River Country. He has given us a splendid testimonial and a couple of good photographs.

He sure is all "het up" over the performance of the .30–.06 Remington in 180 grain bronze pointed. Thanks to you for all this good publicity.

I have the story that you wrote for the export department. It is fine. I have turned it over to them. I don't think I want to accept this without compensating you in some form. Isn't there a rifle or a shotgun that you need? Let me know about this. I would suggest if it is a shotfun that you take the model 31 in 16 or 20 gage, but if you want a model 17 in 20 gage, it is all right with me.

About the small-bore handbook. Jim Byrnes has read this over and is very enthusiastic about it. He agrees with me that it is the best thing that has ever been written and I am going to try and get this out as soon as possible. I want to get that scorebook out too.

There are so many things in the fire I am almost afraid to say anything about anything.

I want you to know that I appreciate the help you are giving me. Also thanks about the Sod Poodle. We will have that ad in the February sporting magazines.

Sincerely,

FRANK J. KAHRS,
Promotion & Advertising Mgr.

FJK/PB

EXHIBIT No. 1261

(Pencil Note): *2/14/34* Frank Kahrs. C Me *EEH*

LT. COLONEL TOWNSEND WHELEN, ORDNANCE DEPARTMENT, U. S. ARMY,
HEADQUARTERS, 7TH CORPS AREA

OMAHA, NEBR., *Feb. 9, 1934.*

Mr. FRANK J. KAHRS,
Remington Arms Co.,
Bridgeport, Conn.

DEAR FRANK: I have your letter of Feb. 6th relative to the position in your New York office. It sounds very attractive, and a splendid opening, and I wish so much that I could accept it, but unfortunately I cannot do so.

About ten years ago, when General Harbord retired from the Army to accept the position as president of the Radio Corporation of America, certain soreheads in Congress, peeved because he was bettering himself so much, introduced and passed a law which provides that if a retired officer is employed by any firm which does business with the Government, that officer cannot draw his retired pay. This position which you have in view would prevent my drawing my pay, which in event of retirement would be $375.00 a month, and of course I could not therefore consider it.

Perhaps I had better tell you just how I am situated. I had planned to retire last fall after my daughter's marriage, but the expense of the wedding, and the general financial depression at that time, made me hesitate. Just now I am approaching my promotion to full colonelcy, and should get it within eight months, perhaps a little less. It seems wise to wait until that time, when I will then be entitled to slightly more retired pay, and will also have the satisfaction of retiring with the highest rank which I can normally expect. Mrs. Whelen and I have practically made up our minds that we will then retire, that is, next fall or early winter.

When I do retire I have been planning that I would go back to Washington, where I own a home, and there hang out my shingle as a consulting ordnance engineer, specializing on design, publicity, and selling counsel. In this way, being in business for myself, I shall be free to work for Remington, or for any other individual or company, billing them in the usual manner for the work done.

In the eyes of the law I will not then be employed by any firm doing business with the Government or otherwise. I will simply be selling my own product as any other business man might. In fact, I have already done a little of such work. Recently, you will remember, I did work of this kind, and sold my own product to you for the Remington Arms Company. I have also done a small amount of work for other companies from time to time.

It seems to me that I might do work for the Remington Arms Company from time to time under such conditions in a way that would be very satisfactory to you, and also more economical to you than under the conditions you suggest. I will be a free lance, and I can go anywhere, or do anything that you might wish, merely billing you for the services on completion of the project. I have no idea of charging exorbitantly, as you already know.

I also have the same idea that you have that I should continue my writings and my magazine work, and this I could do under the arrangement I have in view. I think that this writing work gives me a certain amount of prestige; it keeps me before the public, it enables me to undertake publicity work more efficiently, and to arrange for publicity in a way so that it actually goes over better and does not appear like publicity. The correspondence with shooters that is entailed in this writing and magazine work also serves to keep me in touch with shooters, with their desires, and with the arms and ammunition market as I could in no other way. In fact, the whole arrangement seems to me to be quite ideal from my own standpoint, as well as from that of those with whom I may work.

I have also the great advantage of being a retired officer of the Ordnance Department. We have always enjoyed a very unique position with relation to the arms and ammunition companies, who have always appreciated that they could confer on anything under the sun with us without any danger whatever that anything told us would be carried to their competitors.

Under these conditions I do not see why I cannot do any work that the Remington Arms Company desires, and it will be the greatest pleasure to cooperate with them. Indeed, I have always tried to do so in the past, and I think that from time to time I have been of some little help. Of course, until I am actually retired I cannot travel, but my pen is at your service now as always. After retirement I am a free lance.

Will you be kind enough to show this letter to Mr. Davis and Mr. Handy, and tell them how much I appreciate the offer, and that I regret that I am unable to accept it under the particular conditions which exist.

Very sincerely,

(Signed) Townsend Whelen.

("Exhibit No. 1262" appears in text on p. 3685.)

("Exhibit No. 1263" appears in text on p. 3686.)

Exhibit No. 1264

Remington Arms Company, Inc.,
Cunard Building, 25 Broadway, New York City.

April 27, 1929.

Mr. Saunders Norvell,
Pres., 25 Broadway.:

Attached is a letter from Col. Townsend Whelen on the subject of legislation, both State and National. It all has to do, of course, with the flood of bills before the State legislatures seeking to regulate the sale, ownership, and use of firearms and ammunition for sporting and other purposes. Of course, the fundamental idea behind this legislation is to prevent the use of firearms by law breakers.

Col. Whelen's letter is the result of one I wrote at the suggestion of Mr. Strugnell, that we try to get the War Department on record as being opposed to legislation of this type, as it affects the War Department's plans for mobilizing industrial and manufacturing concerns in time of peace for war service.

The thought was inspired by a telegram sent by the War Department to the Legislature of Massachusetts early in the present legislative season, requesting that certain stringent firearms bills before the Massachusetts Legislature be not passed. My purpose in bringing this to your attention is to recommend that you write the letter to The Assistant Secretary of War, recommended by Col. Whelen, and, knowing the colonel as I do, I am sure that he has everything prepared in Washington so that favorable action will be taken.

I should like to have you return to me the correspondence attached for our file records, and also that I may follow out the suggestion of Col. Whelen that the matter be brought to the attention of our road force.

(Signed) Frank J. Kahrs,
Assistant Advertising Manager.

FJK: MG
CC: Mr. H. J. Strugnell.

Exhibit No. 1265

April 30, 1929.

Hon. Patrick J. Hurley,
Assistant Secretary of War,
War Department, Washington, D.C.

My Dear Mr. Hurley: We are addressing you on a matter which is of considerable moment to us, partly because you are president of the national board for the promotion of rifle practice and partly because the National Defense Act charges you with supervision of industrial mobilization in the time of war.

The Remington Arms Company has always done all that was in its power to promote rifle practice in the United States, partly from a patriotic point of view and partly from a business point of view. It has also subscribed in every way to the War Department plans for industrial mobilization, likewise partly from a patriotic point of view, and partly from a business point of view.

In these two connections we find that our business throughout the country is being constantly jeopardized and in some cases injured by injudicious legislation which is introduced and sometimes passed in the legislatures of the various States. We refer particularly to legislation to curb the use of firearms in the commission of crimes. Some of this legislation is good, some of it we realize is necessary, but the great mass of bills so introduced will, we believe, not accomplish the results desired and they interfere with the legitimate use of firearms in the promotion of rifle practice and of healthy sport. It is necessary for this company to combat such unwise legislation or matters would soon reach such a state that our company would be obliged to discontinue the manufacture of arms and ammunition, which, in turn, would be very detrimental to national defense, as we believe our own company, together with other manufacturers of arms and ammunition, forms a very considerable asset to the United States Government in the event of war.

We have found that one of the best ways to combat such legislation in the various States is to have it done by our traveling representatives and our salesmen, who bring attention of the legislatures to the unwise character thereof. In this connection our own standing and that of our representatives would be very greatly strengthened if we could have from you, as representative of the War Department, a statement as to the War Department policy regarding such legislation. I hope you will understand that we do not complain about that legislation which is wise and necessary and well thought out to curb the use of firearms in the commission of crimes, but we do consider that our work could be very greatly assisted could we have from you a statement that the War Department is opposed to any legislation which would restrict legitimate use of rifles and shotguns in target practice and in proper sport, or any legislation which would seriously interfere with the properly controlled manufacture of arms and ammunition in this country.

If you can see your way clear to send us such a letter, giving the War Department policy on these matters, we shall be exceedingly obliged to you.

Very sincerely yours,

REMINGTON ARMS COMPANY, INC.,
——— ———, *President.*

("EXHIBIT NO. 1266" appears in text on p. 3691.)

("EXHIBIT NO. 1267" appears in text on p. 3691.)

("EXHIBIT NO. 1268" appears in text on p. 3695.)

EXHIBIT NO. 1269

EXCERPTS FROM MINUTES OF MEETING OF THE COUNCIL OF NATIONAL DEFENSE JULY 28, 1917

The meeting reconvened at 2:00 o'clock p. m. All members of the council nd the director were present.

There ensued a discussion of the reorganization plan, which was finally approved and released for the press in the following form:

"The Council of National Defense today decided, with the approval of the President, to create a small body to be known as the War Industries Board. The War Industries Board, in addition to other duties, will assume those formerly discharged by the General Munitions Board. The new board will be composed of seven members, working under the direction and control of the Council of National Defense and responsible through it to the President. Its members will be direct representatives of the Government and of the public interests. It will be composed of Mr. F. A. Scott, chairman; Lieutenant Colonel Palmer E. Pierce, representing the Army; Rear Admiral Frank F. Fletcher, representing the Navy; Mr. Hugh Frayne, Mr. B. M. Baruch, Mr. Robert S. Brookings, and Mr. Robert S. Lovett.

"The board will act as a clearing house for the war industry needs of the Government, determine the most effective ways of meeting them and the best means and methods of increasing production, including the creation or extension of industries demanded by the emergency, the sequence, and relative urgency of the needs of the different government services, and consider price factors, and in the first instance the industrial and labor aspects of problems involved, and the general questions affecting the purchase of commodities.

"Of this board, Mr. Baruch will give his attention particularly to raw materials; Mr. Brookings, to finished products; and Mr. Lovett, to matters of priority. These three members, in association with Mr. Hoover, so far as foodstuffs are involved, will constitute a commission to arrange purchases in accordance with the general policies formulated and approved.

"The Council of National Defense and the Advisory Commission will continue unchanged and will discharge the duties imposed upon them by law. The committees heretofore created immediately subordinate to the Council of National Defense; namely, Labor, Transportation and Communication, Shipping, Medicine and Surgery, Women's Defense Work, Cooperation with State Councils, Research and Inventions, Engineering and Education, Commercial Economy, Administrations and Statistics, and Inland Transportation, will continue their activities under the direction and control of the council. Those whose work is related to the duties of the War Industries Board will cooperate with it. The subcommittee advising on particular industries and materials, both raw and finished, heretofore created, will also continue in existence and be available to furnish assistance to the War Industries Board.

"The purpose of this action is to expedite the work of the Government, to furnish needed assistance to the Departments engaged in making war purchases, to devolve clearly and definitely the important tasks indicated upon direct representatives of the Government not interested in commercial and industrial activities with which they will be called upon to deal, and to make clear that there is total disassociation of the industrial committees from the actual arrangement of purchases on behalf of the Government. It will lodge responsibility for effective action as definitely as is possible under existing law. It does not minimize or dispense with the splendid service which representatives of industry and labor have so unselfishly placed at the disposal of the Government."

It was voted that the five civilian members (exclusive of the two Army and Navy representatives) of the War Industries Board should receive a salary of $400 per month.

Thereupon, at 4:00 o'clock, p. m., the meeting adjourned.

Attest:

(Signed) W. S. GIFFORD, *Director.*

EXHIBIT NO. 1270

MEETING OF THE PRICE FIXING COMMITTEE OF THE WAR INDUSTRIES BOARD, HELD ON WEDNESDAY AT 2:15 P.M., IN ROOM 52 OF THE C.N.D. BUILDING. (IN PENCIL—3-20-18.)

Present: Mr. Brookings, chairman; Mr. Baruch, Dr. Taussig, Mr. Frayne, Paymaster Hancock, Paymaster Fuller, Mr. Replogle, Mr. Legge, General Pierce, Lieut. Col. Young, Dr. Taylor, Mr. Wooster, Mr. Colver, Dr. Francis Walker, Mr. T. J. Herman, Mr. Blanvelt, Mr. H. P. Ingels, acting secretary.

The same representatives of the steel industry were present as at the meeting held at 10:00 a.m., March 20th, 1918.

Further consideration was given to the question of costs of producing pig iron and steel, special attention being given to the question of price and distribution of scrap. No definite action was taken. Verbatim copy of the discussion attached hereto and made a part of the minutes of this meeting.

The meeting adjourned at 6:15 p.m., to reconvene at 10:00 a.m., on March 21st.

(Signed) H. P. INGELS, *Acting Secretary.*

Meeting of the Price Fixing Committee, March 20, 1918

SUBJECT—STEEL PRICES

(Morning and Afternoon Meetings of March 20)

Present: Mr. R. S. Brookings, Judge E. H. Gary, U.S. Steel Corpn.; Mr. Hugh Frayne, Francis J. Hall, Central Iron & Steel Co.; Mr. John M. Hancock, John B. Guernsey, John B. Guernsey & Co.; Col. F. S. Young, Willis L. King, Jones & Laughlin Steel Co.; Genl. P. E. Pierce, J. A. Farrell, U.S. Steel Corpn.; Mr. J. L. Replogle, John R. Topping, Republic Iron & Steel Co.; Mr. Alex Legge, E. G. Grace, Bethlehem Steel Co.; Mr. B. M. Baruch, A. C. Dinkey, Midvale Steel & Ordnance Co.; Mr. Blauvelt, U.S. Fuel Administration, F. H. Gordon, Lukens Steel Co.; Mr. F. J. Herman, U.S. Fuel Administration, J. B. Bonner, Am. Iron & Steel Institute; Mr. Fuller, Navy Department, A. H. Cordery, Phoenix Iron Co.; Dr. F. W. Taussig, Edmund Blanchard, McCoy Linn Iron Co.; Mr. W. B. Colver, Federal Trade, E. T. Burnside, McCoy Linn Iron Co.; Mr. M. C. Wooster, Federal Trade, David Reeves, Phoenix Iron Co.; Mr. Francis Walker, Federal Trade, E. A. S. Clarke, Lackawanna Steel Co.; H. Laird Curtin, Eagle Iron Co., J. A. Campbell, Youngstown Sheet & Tube Co.; Scott Stewart, N. J. Rainey, L. E. Block, Inland Steel Co.; R. A. Rainey, N. J. Rainey, Clarence H. Howard, Commonwealth Steel Co.; Mr. Hale, Interstate Steel Co., Jos. F. Savage, Am. Tube & Stamping Co.; B. L. Sommer, Keystone Steel Wire Co., J. V. N. Reynders, Chairman, Steel Makers; H. O. Dimick, Keystone Steel Wire Co., Chas. N. LaPorte, Secretary, in Class 3.

Mr. Brookings. Judge, we are ready to hear from you.

Judge Gary. I don't think they are all here yet.

Mr. Brookings. Since we last met there has been some change in our organization here. The President has appointed a price fixing committee, consisting of four members of the board, a representative of the Army and the Navy, and there are three other members, the chairman of the Tariff Commission, the chairman of the Federal Trade Commission, chairman of the Fuel Administration. The President has felt that we have dealt with price fixing in rather too casually a way. A day or two before the meeting we would be presented with figures from the Federal Trade Commission about which we knew little, and we would try to acquaint ourselves with these figures so as to be able to negotiate or discuss with you gentlemen in regard to price fixing. We hope to get for the committee the attention in measure it has in importance. We only received our figures from the Federal Trade Commission yesterday afternoon. My own thought was to ask you to postpone this meeting a couple of days, but it was decided we would meet to get what information and data you had for us. You remember that at our last meeting it broke off with the statement that we did not want you gentlemen to make more money than you could take care of, and keep you from starving the other fellow. We want to stabilize price without making it too difficult for any company to give us the products we need. We know you have had a lot of trouble since we last met; transportation has been impossible, and we know from our figures that you have been laboring under a handicap. We know we have to take the bitter with the sweet, and it is over a period of time we are compelled to exercise our judgment in fixing prices. I think we had no opportunity, no time, to consider steel problems. We have given it no thought since we last met, not until yesterday or the day before. I have gone into the figures from the Federal Trade Commission, and note they are more or less disappointing. With that little preamble, I would be glad to hear from you regarding the situation as you see it.

Judge Gary. There are involved a good many problems, all of which are difficult of solution. So far as I am acquainted with the facts, the feeling of the steel fraternity is the same as the disposition of the members of the board. We are anxious to get at facts and figures, and to arrive at some conclusion that is fair and reasonable to all concerned. If it was a question of bargain only, then the manufacturers would be trying to secure as much as possible for their product, and your board would be endeavoring to secure as low prices for the Government, its Allies, and the general public as possible. But we don't feel like approaching the subject from any such point, and I am sure you don't. Now, there are certain facts that cannot be changed. Some of the manufacturers can realize a reasonable profit on one base of prices, and others would be manufacturing on that basis at a loss. As to just what these figures would be as applied to the above manufacturers, you know better than I do, as I am not familiar with the books or the method of accounting of some of the concerns, and you are. I think we are all agreed that it is highly essential that manufacturers generally be left in a position where their profits are fair. I know that apparently the profits of the manufacturers who are situated the best, whose plants are integrated, seem to be very large for 1917, and I think that idea has been exaggerated in the minds of the general public. I do not say wholly justified, but I do say exaggerated. Take as the worst offender, the United States Steel Corporation. It is the most completely integrated perhaps. Its profits last year from the report just made up and which will be published in two or three days, its net profits before deducting taxes was $478,204,000. Deducting the Federal income and the excess profits tax, as ascertained as far as possible at the present time depending upon the final interpretation of the laws by those in authority, $24,781,000 federal income tax and $208,683,000 excess profits tax, leaves a balance of net profits after paying the Government tax of $244,740,000.

Mr. Brookings. This is from the U. S. Steel Corporation and its subsidiaries?

Mr. Gary. It is. The actual investment of that corporation at this time is not less than two billions and a quarter. I think two billions and a half, but not less than two and a quarter. It is true the report of the Department of Commerce made the values $1,100,000,000. Last year the unusual profits would make about 12% on the total investment, and we figure that to turn over the total investment requires about 2½ years, because of the fact that we are all the time increasing our resources, necessarily so in order to protect our business. It seems to me that even last year the profits were not extraordinary. That is not involved here, and I am not discussing it. I am only trying to make a point. Now you wish to arrive at a basis which will not permit those companies best integrated to receive any more than a reasonable profit and yet permit the smaller, less integrated plant, with high costs, to receive also a reasonable profit. I may say that the larger concerns, including our own, are willing to assist a few of the smaller plants if a practicable basis would be ascertained. This question is being studied. I don't know yet how it can be done. The chairman, and some of his associates at least, are familiar with the views of our general committee as to what ought to be the basis of settling this question, and I must say I have been surprised that the Government representatives generally have not fully considered and adopted this basis. That is by allowing every branch of industry to realize fair and liberal profits and then by taxation, in our case the excess profits tax, leveling these profits. It seems to all of us so simple, so easy, that the Government should adopt that method. Increasing the excess profits tax if it is desired so as to compel such a corporation as ours, for instance, to pay enough taxes to bring down its net results to practically the basis which would be fair and reasonable to the smaller manufacturers and at the same time allowing them to realize a good profit, fair profit. That would be entirely satisfactory to all of us and certainly ought to be satisfactory to the Government, because by adopting that you are maintaining prosperity to the company and it would enable all manufacturers to realize reasonable profits. It would be an easy as well as logical method. It would protect all concerned, especially the Government. There must be reasonable profits in all lines of business. The manufacturers must have reasonable profits in order to do their duty. I have been speaking of the United States Steel Corporation because it is typical. We are expending at the rate of 13 to $14,000,000 a month for extensions to our business largely for the benefit of the Government. I would refer to the different departments here in Washington who have requested us from time to time to extend our capacity in certain lines for the benefit of the Government for the purpose of supplying its military needs. We have immediately gone to work along that line without considering our cost for the last year which has been two or three times normal. We must mark off a large part of the expenditure and charge it to operations. It is true of all of those concerned. We have shown large profits and a larger surplus but no one knows better that our surplus does not mean money; that that surplus has been expended on improvements. It is represented by extensions to our capital which in some way must be protected. I know that what I have said on that subject is not necessary to ascertain the price but it is pertinent to the question. It would be a very great mistake to adopt any base that is calculated to put any fear of the prosperity of our concern into the industry of this country. Now, Mr. Chairman, there is another thing that is more or less troublesome. In considering these questions, what is going to be the future of our business practically? What is going to be the cost of operations? The question of labor is only one of the things to be considered. Now it is well known that many of the manufacturing companies do not have organized labor. They do not deal with the unions as such and the Government has said wisely that that question is going to be left out of the discussions and decisions during the war. We must all set aside these differences for the present. That is only right, but that does not relieve the employers from their obligations to treat labor as they believe fairly and liberally. So far as I am concerned regarding the charges against me and our corporation, I will never intentionally consent to a position I think unfair and unreasonable to labor. Just now there is pending the question of hours of labor. In our corporation we commenced to reduce hours from 10 to 8 about three years ago. We have an 8-hour labor now in our mines in the Northwest, Illinois, Pennsylvania and Birmingham. We have instituted eight-hour labor in some of the works of the National Tube Company, in some of the works, if not all, of the American Sheet & Tin Plate Company. We are considering them again. We are forced by circumstances and largely by the Government, I would say, who has taken a decided position in regard to the eight-hour day as a basis. What is going to be the result of this I do not know. I will say that the steel manufacturers themselves from the standpoint of what are good economics, and what is fair and reasonable, will seriously consider that subject. If it were a question only of determining from the standpoint of production, and the physical condition of employees working eight hours or more, it would be very easy for settlement, but when one establishes eight hours as a basis of pay and allows work to go on the same. it establishes difficulties and particularly in these plants whose costs are now high as compared with the prices they are receiving under the prices which have been fixed. Those questions can be settled. They are going to be decided by employers on the basis of what is right and fair. This railroad problem has been and is still very difficult. You know what trouble we had in January, and somewhat less trouble in February and what trouble we are having now with transportation. The chairman has stated it is hoped at least conditions will be very much better. I wish that could be guaranteed. I feel we are going to have a good deal of difficulty during the present year in regard to transportation. Of course all practical men know when the operations are interfered with cost increases rapidly. I believe with respect to a great many plants, the profits during January and February of this year were very much lower than they were last year. I do not see as large profits this year as last year. It will be a different range in different plants. The profits of our corporation in January would not seem to have been one-half as large as they were last year in January and the chairman has suggested that it is owing largely to interruptions to business at our mills. Now, because of these conditions and others our general committee has been concerned with problems presented by the smaller plants and those whose costs are high. We have had a great many means and spent a great many hours studying conditions and trying to get by their costs and trying to furnish some relief to those companies by those better able. I am very sure that with respect to many of the lines of business they cannot expect to make much at the present basis of cost. Take, for instance, the present basis of ourselves. Iron ore is fixed at $5. The producers of underground ores find it very difficult to mine at that price. Some of the producers have underground mining and open-pit mining, too. Others have all open pit; others have all underground. How shall we take care of them? It is not practical to make a price for underground mining and a price for open-pit mining. If we did that we would have to fix a price for those whose costs are higher and a price for those whose costs are lower, and the whole business structure of the country would not only be interfered with, but it would be disorganized. Because when that is once invoked then you must say to one man that his profit is better than the other, his profit must be reduced. Notwithstanding, it may be by energy, economics, or thrift that he is better situated than his neighbor. He must expect to realize less profits. You then interfere with the natural contact of business affairs of the whole country and preclude this country from keeping up in competition with other countries of the world from an economic standpoint.

It is not practical to have different prices for different mills as I see it. Take the mining industry, you have conditions as above stated. I might say with respect to the mines we have had three meetings with the operators. At the first meeting they showed by the figures they produced, that underground mining could not realize a profit and there would be some loss on a fair basis of the ore in the ground at the present prices. The mining people, on the whole, have agreed that if it is the opinion of the War Industries Board this price ought not to be increased they will get thru some way. With respect to steel porducing pig iron, a large majority of producers of that seem to think that while they must have an increase for pig have been fixed that they can get along with these prices. The foundry iron men believe they ought to have an increase on the basis of a fair and reasonable profit. There are many cases like that. Take the question of plate: I wish I were as familiar with the cost as I believe Dr. Walker is. We have become convinced that some of them ought to have an increase. We think that the manufacturers are going to keep themselves in a position where they can meet the demands or the requests of the Government to make extensions whenever it is necessary to supply military necessities, they should have a good profit to pay their employees and their workmen fair and reasonable wages and also sufficient to enable them to make proper extensions when called upon. Now, Mr. Chairman, I just want to add one word: We have found the members of the War Industries Board very frank. Personally, I am glad to say very reasonable, altho you know by your experience with our committee that we have been disappointed at times. I feel, however, you have been very reasonable. I think you have considered the facts and circumstances and I believe every member of the board knows at the present time that costs are increasing, they are bound to increase. I believe you recognize the disposition of the manufacturers and I am asking your committee now to be just as frank as you have been in the past on your information. With your knowledge of the cost to all of us and the profits realized covering my statement to serve the Government as you are serving the committee, tell us, in your opinion, in what way you think the manufacturers are entitled to an increase. Tell us what you think ought to be done at the present time in order to serve the country and protect the business of the country. I really think it is up to you at this time to tell us what you think we ought to do and why. See if you disagree with us in respect to the general prices, tell us where we are wrong, tell us. Then see if the steel fraternity is not willing to come up and do its share in serving the Government. Excuse me for taking such a length of time.

Mr. Brookings. We appreciate the attitude the steel people have always shown. We are in entire sympathy with practically all of the things you have stated. We have been following you as closely as we can. You started out with the theory that the general publicity might influence our minds. Personally, I do not speak for the balance of the committee. I do not find that the profits of the Steel Corporation are the largest in the trade. I have taken your investment at about $1,500,000,000 and I have found by taking your investment, that there are other concerns which have been making quite as much money as the United States Steel Corporation. Many of the so-called "Class A" concerns, according to the figures I have, would bear this out. I have also found that some of those concerns that are not as highly integrated have made on their capital invested more money than the United States Steel Corporation. I am trying to show you that we undertake to go below the published information and endeavor to get down to the fundamental facts of the industry. We have always been committed to maintain a fair and reasonable price for labor. As we all know, contrary to our understanding, you advanced labor 10%. Following you still further, while it is hardly germane to this discussion because it is beyond your reach and ours, regarding the high prices and excess profits, that is the question which I thought you people, especially, had realized. The question is whether we will alter values and take back excess profits in taxes equalizing the price in that way or whether we should endeavor to keep prices to some suitable basis. I do not think that the theory that it does not make any difference to the Government how high prices go so long as the Government takes sufficient portion of profits and calls it "Excess profits tax", is fundamentally sound. Our problem is to stabilize prices. The general disposition of the market is to run away and it is involving the Nation in a problem which every student of economics will understand. I gather in a summary of what you have said, you make it perfectly clear to us that the cost of mining has probably made the prices, which we thought liberal, too low. I do not recall anyone kicking about the $5 price on ore. I think when we fixed the $6 price on coke, the same general argument prevailed. When we fixed the price on pig iron, it was generally thought high. All of the people realized that when we established the $33 price, it was an emergency price. Many of the operators were loaded up with contracts, many as high as $15. In any event, there was a general feeling that we wanted to stimulate the pig iron situation and help out furnaces which we made a temporary price of $33. I think while there was no decision that the price should be reduced on January 31, it was the general impression at our last meeting there had been some advances in cost and it was agreed that we ought to continue the $33 on pig iron for the time being. None of us are steel people and therefore we have been perfectly willing to be more or less guided by you and I think we have been wisely guided. We have reinforced what business judgment we have with the information that the Federal Trade Commission has been able to give us. Even to you gentlemen who know the steel industry there has in the various operations of steel production grown up so many producing concerns that tried out on the cold logic of economics which do not seem to have any right to exist. I think most of us would have no difficulty in reducing the price of steel to-day. Take the cost of producing ore, assemble it, and follow it around thru the production of the different grades of steel. I find it difficult to justify in my mind the prices that exist today, but we have not that sort of problem. We believe it necessary to stimulate production.

On the other hand, we cannot keep out of our minds the figures. We have taken your ore at $5, your coke at $6, and your freight at $1.50. We followed it thru the process to the pig iron cost of $23. We know that pig iron has been produced during the last three or four months at a much less price than that. We get in these costs practically every furnace in the country. It has been argued by some that it is false business to keep alive some concerns who are consuming coke while more efficient plants have been idle. We have the argument that they should be left to die. I am just mentioning the fact to show you that the problem has been gone into to some extent by us. If we arbitrarily reduce the price of pig iron, some maintain that we can get more pig iron. Some concerns would cease to produce and some would produce more. We feel absolute confidence in the fact that you wish to reach the same men that we do. We want to keep alive all concerns that ought to be kept alive. I do not think you nor the Government should endeavor to keep alive concerns which could not live in normal times. We have had all of these arguments, you understand. As I see the situation, it is this: That you feel while the prices that have been fixed are not as profitable for the different processes as you had hoped they would be, you are recognizing the general situation and the desire to stabilize prices. It has become very vital as to whether we should keep alive things we ought not to keep alive, reducing the production in some other product. I gather your opinion is that if the Government believes the present prices should be maintained the steel industry will do all they can to live up to it. We do not want to be influenced by old figures but there is a skeleton of the steel trade which is in my mind. I think I have in mind now exactly your statement what it costs you through the various processes of the steel business. It is a skeleton. We tried to get a certain line on the steel production as it exists today. Now, frankly, the committee has not gone through these prices and arrived at any decision. I don't see any justification for considering an advance in the prices. I am perfectly willing to take it up with any concern and thrash it out with them. We can see no justification for complaint in regard to these prices. There may be some reason for some of the people upon whom we are most depending to feel that they ought to have a reduction in the price of pig iron. I always felt that we ought to get down to the $30 price. Perhaps a careful analysis might show. It would be better to make a lower price and allow certain furnaces to shut down, increasing other furnaces' production. Assuming it is not wise to do that, we think the price of $33 could be allowed to stand. There are some of you who can produce pig iron at a very low price. We have figures from many companies which are not the largest companies who get very much below $5 on their pig furnaces. I think that presents our side of the situation. I want to be fair. I would not ask concerns to run without giving them a fair profit. We have been trying to arrive at some figure. Whether it is through extras on plates or through sales for the month, the figures show higher prices than our prices on plates. Sales and profits tell the story. We have shipments per month and profits per month. Some will require help from you highly integrated companies. We can help them out. I think your companies are at liberty in making the industry. We have thought of pulling schemes, but there are problems we had which at times seems to me hardly equitable and fair. There seems to be no necessity for discussing problems of that kind so long as the steel industry works to keep prices and values where they are justified. I know of none more pertinent than you, Judge, and the other people of determining which are weak links in the chain and the sort of assistance they ought to have in order to give us the production we ought to have. So we really look back on that first meeting as showing a group of men big enough to grasp a situation and handle it. I think we all appreciate that.

EXHIBIT No. 1271

A STATEMENT OF SOME OF THE PROBLEMS HANDLED IN SOME OF THE MEETINGS OF THE WAR INDUSTRIES BOARD DURING THE MONTHS FROM DECEMBER 10, 1917, TO JANUARY 10, 1918

(Drawn from minutes of the War Industries Board)

NOTE.—These 12 meetings cover only part of the work of the board during this 30 days' period.

Subject: December 10, 1917. 12 o'clock special meeting to consider steel prices with representatives of the steel industries

Special meeting—To consider steel prices with representatives of the steel industries (verbatim report of meeting on file).—Mr. Willard, chairman, explained that while the cost data in course of preparation by the Federal Trade Commission was not yet at hand it had been felt advisable to call the representatives of the steel industry to Washington to discuss the general situation as brought about by the prices fixed and by general conditions in order that the board could approach the subject more intelligently and a decision be arrived at more expeditiously when the Federal Trade Commission data came to hand, it being understood that in the terms of the previous price agreements it had been stipulated that prices would be reconsidered prior to January 1st, 1918.

Present—The War Industries Board: Mr. Willard, chairman, Mr. Baruch Mr. Brookings, Mr. Frayne, Judge Lovett, Col. P. E. Pierce, Mr. Bingham, secretary, also Mr. Legge, Mr. Replogle, and Mr. Davies of the Federal Trade Commission, Mr. Blavalt, representing the fuel administrator, also the following representing the steel industry: F. N. Beegle, president, Union Drawn Steel Co., Pittsburgh, Pa.; James B. Bonner, representative, American Iron and Steel Institute, Washington; James A. Burdon, president, Burdon Iron Co., Troy, N. Y.; E. A. S. Clarke, president, Lackawanna Steel Co., New York, N. Y.; A. C. Dinkey, president, Midvale Steel & Ordnance Corp., Philadelphia, Pa.; James A. Farrell, president, United States Steel Corp., New York, N. Y.; W. J. Filbert, comptroller, United States Steel Corp., New York, N. Y.; Judge E. H. Gary, chairman, United States Steel Corp., New York, N. Y.; F. H. Gordon, gen. mgr. of sales, Lukens Steel Co., Coatesville, Pa.; E. G. Grace, president, Bethlehem Steel Co., South Bethlehem, Pa.; W. S. Horner, president, Nat'l Ass'n of Sheet & T. P. Mfrs., Pittsburgh, Pa.; A. F. Huston, president, Lukens Steel Co., Coatesville, Pa.; Eli Joseph, member of firm, Joseph, Joseph & Bro., New York, N. Y.; Willis L. King, vice president, Jones & Laughlin Steel Co., Pittsburgh, Pa.; W. Vernon Phillips, president, F. R. Phillips & Sons Co., Philadelphia, Pa.; Karl C. Roebling, gen. mgr. of sales, John A. Roebling's Sons Co., Trenton, N. J.; Chas. M. Schwab, chairman, Bethlehem Steel Co., South Bethlehem, Pa.; John A. Topping, president, Republic Iron & Steel Co., New York, N. Y.; Roy A. Rainey, Rainey Coke Co., New York, N. Y.; Scott Stewart, ass't to Roy A. Rainey, Rainey Coke Co., New York, N. Y.

Meeting adjourned 2:15 p. m.

(December 13, 1917. 10 a. m.)

Subjects:

(1) Chemicals—Plan from war minerals committed to increase supply of pyrites.

(2) Machine guns—Arrangements covering royalties for Lewis machine gun patents.

Also present at this meeting: Major Bascom Lihle, chairman of the machine gun section and Mr. Calfee and Mr. Powell, representatives of the owners of the Lewis machine gun patents.

(3) Chemicals—Compact for power for Muscle Shoals nitrate plant.

Adjourned 12:15 p. m.

(December 14, 1917. 2 p. m.)

Subject: Special meeting with Copper Industry to consider conditions in copper industry as bearing on possible revision of prices.

Present: Mr. Willard, chairman, Mr. Baruch, Mr. Brookings, Mr. Frayne, Judge Lovett, Col. Pierce, Mr. Bingham, secretary, Prof. Walter M. Adriance, representing the War Trade Board, Mr. Sidney H. Solomon, representing the war trade board, also Mr. Lewis A. Haney, representing the Federal Trade Commission, Mr. Eugene Meyer, Jr., of the raw materials division, Mr. Pope Yeateman, of the raw materials division.

Representatives of the copper interests: C. F. Kelley, Anaconda Copper Co.; Joseph Clendennin, American Smelting & Refining Co.; R. Agassiz, Calumet & Hecla Mining Co.; S. Rosenstamm, Miami Copper Co.; T. Wolfson, United Metal Co.; Jas. Mac Naughten, Calumet & Hecla Co.; P. Todd, Copper Range-Quincy Copper Co.; N. L. Amster, Shannon Copper Co.; Jas. A. Nelson, Cuba Copper Leasing Co., Norfolk Smelting Co.

Adjourned 4 p. m.

(December 20, 1917. 10 a. m.)

Subject: T. N. T.—Royalty agreement with Flurscheim for manufacture of T. N. A.

T. N. T.—Royalty agreement with Flurscheim for manufacture of T. N. A.—Mr. Brookings presented a communication from the gun division, Ordnance Department, dated December 17th, No. G. P. 471.8694/43 submitting copy of proposed royalty agreement between that department and Bernhard Jacques Flurscheim covering royalty payments for the manufacture of T. N. A., and asking the War Industries Board to submit their opinion as to the reasonableness of this agreement and the fairness of the compensation named.

Present: Mr. Willard, chairman, Mr. Baruch, Mr. Brookings, Mr. Frayne, Col. Pierce, Mr. Bingham, secretary.

Adjourned 11:45 a. m.

(December 21, 1917. 10 a. m.)

Subject: Chemicals—Order for smokeless powder with Aetna Explosives Co.

Chemicals—Order for smokeless powder with Aetna Explosives Company—Mr. Brookings presented a communication from the purchase section, gun division, dated December 20th, No. GP 471.5/99 asking the approval of the War Industries Board for proposed order for 12,000,000 pounds of smokeless poeder with the Aetna Explosives Company on terms stated.

Present: Mr. Willard, chairman, Mr . Baruch, Mr. Brookings, Mr. Frayne, Judge Lovett, Col. Pierce, Mr. Bingham, secretary.

Adjourned 12 o'clock.

(December 22, 1917. 10 a. m.)

Subject: Steel—Price fixing.

Present: Mr. Willard, chairman, Mr. Baruch, Mr. Brookings, Judge Lovett, Col. Pierce, Mr. Bingham, secretary, also Mr. Davies of the Federal Trade Commission, Mr. Blauvelt of the fuel administration, and Mr. Repogle, director of steel supply of the War Industries Board.

Adjourned 12:35 p.m.

(December 24, 1917. 11 a.m.)

Subject: Steel—Price fixing

Steel—Price fixing.—Mr. Willard presented a proposed communication to the president relative to recommendation of the board covering price to be arranged for steel and its components up to April 1st, 1918, together with suggested public statement should the President agree to this arrangement.

The board approved of this communication subject to the agreement by the steel interests of all terms of the arrangement proposed.

Present: Mr. Willard, chairman, Mr. Baruch, Mr. Brookings, Col. Pierce, Mr. Bingham, secretary.

Adjourned 12:20 p.m.

(December 28, 1917. 10 a.m.)

Subject: Steel—Price fixing

Present—The War Industries Board: Mr. Willard, chairman, Mr. Brookings, Admiral Fletcher, Mr. Frayne, Judge Lovett, Mr. Bingham, secretary, also Mr. Davies of the Federal Trade Commission, Mr. Blavalt of the fuel administration, Mr. Replogle of the raw materials division, Mr. Legge of the raw materials division, also the following representatives of the steel industry: E. H. Gary, chairman, United States Steel Corp., New York, N.Y.; J. A. Farrell, president, United States Steel Corp., New York, N.Y.; J. A. Topping, chairman, Republic Iron &

Steel Co., New York, N.Y.; E. A. S. Clark, president, Lackawanna Steel Co., New York, N.Y.; J. A. Burdon, president, Burdon Iron Co., Troy, N.Y.; E. C. Grace, president, Bethlehem Steel Co. South Bethlehem, Pa.; A. C. Dinkey, president, Midvale Steel & Ordnance Corp., Philadelphia, Pa.; E. A. Dalton, of Pickands, Mather & Co., Cleveland, Ohio; W. J. Filbert, comptroller, United States Steel Corp., New York, N.Y.; J. B. Bonner, vice chairman, American Iron & Steel Institute, Washington; Willis L. King, vice president, Jones & Laughlin Steel Co., Pittsburgh, Pa.

The meeting reconvened at 2:00 p.m. with the same present except Mr. Alexander Legge.

(January 2, 1918. 10 a.m.)

Subjects:

(1) Intelligence—Attitude of Swiss manufacturers.

(2) Chemicals—Order for 30,000,000 pounds of smokeless powder from the Hercules Powder Co.

Under the advice of Mr. Brookings the board approved of the amended contract with the opinion that while the board considers 70¢ a high price and that as 7¢ per pound charged was for amortization of a new plant, that this should have been so shaped that this plant paid for by the Government in price should have been the property of the Government but that however as Captain Peters reports it was impossible to secure this and that it was either necessary to pay the 70¢ per pound or go without this powder and that having had nothing to do with the negotiations and acting only as Captain Peters' statement of the case and considering its emergency nature, the board can see no reason why the contract should not be made.

(3) Chemicals—Action to secure necessary raw materials for explosive program.

(4) Chemicals—Request for assistance in securing explosives from ordnance department.

(5) Allies, cooperation.

Adjourned 12:30 p.m.

(January 4, 1918. 11 a.m.)

Subjects:

(1) Chemicals—Explosives, crude T.N.T.

(2) Nickel—Price fixing.

Present: Mr. Willard, chairman; Mr. Baruch, Mr. Brookings, Admiral Fletcher, Mr. Frayne, Judge Lovett, Mr. Ingels, acting secretary, also Dr. Haney and Mr. Eckert of the Federal Trade Commission, Mr. W. A. Bostwick, president of the International Nickel Company, Mr. Pope Yeatman, consulting engineer, Mr. Eugene Meyer, Jr.

Adjourned 12:35 p.m.

(January 9, 1918. 10 a.m.)

Subjects:

(1) Copper—Price fixing.

(2) Aluminum—Price fixing.

Adjourned 12:35 p.m.

(January 10, 1918. 10 a.m.)

Subject: Aluminum—Price fixing.

Present: Mr. Willard, chairman, Mr. Baruch, Mr. Brookings, Admiral Fletcher, Mr. Frayne, Judge Lovett, Col. Pierce, Mr. Ingels, acting secretary.

Adjourned 12:55 p.m.

EXHIBIT NO. 1272

MEETING OF THE PRICE-FIXING COMMITTEE OF THE WAR INDUSTRIES BOARD, HELD SATURDAY, JUNE 1ST, AT 9:00 A.M. IN ROOM 810 OF THE C. H. D. BLDG.

Present: Mr. R. S. Brookings, chairman, Dr. F. W. Taussig, Lt. Col. Montgomery, Mr. W. W. Phelps, acting secretary, Mr. Edgar, acting director of lumber, Mr. Channing, legal section.

Organization.—The minutes of the meeting held March 22nd, at 2.00 p.m. were read and approved.

Colonel Montgomery presented his credentials from the Acting Chief of Staff detailing him for duty as the War Department representative on the price-fixing committee of the War Industries Board, and took his seat as a member of the committee.

Lumber.—At this point Mr. Brookings surrendered the chair to Dr. Taussig, as he had an interest in this industry and did not wish to take part in the committee's deliberations.

A general discussion on this subject was held preliminary to the meeting of the West Coast Lumber Association on Wednesday, June 5th. It was deemed advisable that Dr. Taussig and Mr. Edgar should hold a conference with Mr. Baruch and report the substance of this conference to the committee on Tuesday at 3.30 p.m.

Copper.—At this point Mr. Brookings took the chair.

Mr. Brookings read a letter from M. R. L. Agassiz of the Calumet & Hecla Mining Company, taking issue on several points which occurred in the meeting with the representatives of the copper industry on May 22nd.

A discussion pertaining to the form of reply thereto followed, no action being taken.

The meeting adjourned at 10:00 a.m.

Wm. Walter Phelps,
Acting Secretary, Price-Fixing Committee.

Exhibit No. 1273

Meeting of the Price Fixing Committee with Representatives of the Iron Ore, Pig Iron, and Steel Industries. Room 52, June 21, 1918, 10:30 a. m.

Present: Mr. R. S. Brookings, chairman; Mr. B. M. Baruch, Commander J. M. Hancock, Lt. Colonel Montgomery, Dr. F. W. Taussig, Mr. High Frayne, Mr. W. B. Colver, Mr. W. W. Phelps, acting secretary; Mr. Ritchie, attorney for the War Industries Board; Mr. Replogle, director of steel; Mr. Blauvelt, fuel administration; Mr. J. C. McLauchlin, steel section; Mr. Paul Mackall, steel section; Mr. George Armsby, tin section; Mr. Dillon, Mr. Wells, Federal Trade; Mr. Wooster, Federal Trade; Dr. Walker, Federal Trade; Mr. Alexander Legge, requirements division; Capt. W. M. MacCleary, War Department; Paymaster S. R. Fuller, Navy Department; Paymaster Auld, Navy Department; Mr. Herman, fuel administration; Mr. H. P. Ingels, secretary, War Industries Board.

Also the following representatives of the steel industry: Judge Gary, United States Steel Corporation; Mr. Farrell, United States Steel Corporation; Mr. Filbert, United States Steel Corporation; Mr. Dalton, Isabella Mining Co.; Mr. E. A. S. Clarke, Lackawana Steel Co.; Mr. James A. Burden, Burden Iron Co.; Mr. James Bonner, American Iron & Steel Institute; Mr. Willis L. King, vice-president, Jones & Laughlin Steel Co.; Mr. A. F. Huston, president, Lukens Steel Co.; Mr. J. V. W. Reynders, chairman steelmakers in class 3, American Tube & Stamping Co.; Mr. J. A. Campbell, The Youngstown Sheet & Tube Co.; Mr. L. E. Block, Inland Steel Co.; Mr. W. G. Grace, Bethlehem Steel Co.; Mr. A. C. Dinkey, Midvale Steel & Ore Co.; Mr. H. L. Rownd, Republic Iron & Steel Co.; Mr. W. V. Phillips, chairman, subcommittee scrap iron and steel; Mr. W. H. Smith, Tennessee Pig Iron Association; Mr. A. A. Fowler, Rogers Brown & Co.; Mr. Francis J. Hall, Central Iron & Steel Co.; Mr. Clarence H. Howard, Commonwealth Steel Co.; Mr. H. G. Moore, Keystone Steel & Wire Co.; Mr. R. C. Allen, State of Michigan State Geologist; Mr. B. D. Burtler, Michigan Board State tax commissioners (secretary); Mr. W. G. Mather, Cleveland Cliffs Iron Co.; Mr. R. A. Rainey, W. J. Rainey; Mr. Scott Stewart, W. J. Rainey; Mr. Thomas K. Glenn, Atlantic Steel Co.; Mr. C. D. Dyer, W. P. Snyder & Co.; Mr. G. A. Sin-Clair, Vermillion Range of Minnesota Section 30 Mining Co.; Mr. E. W. Mudge, E. W. Mudge & Co.; Mr. W. L. Tinker, Lake Superior Iron Ore Association; Mr. J. D. Ireland, M. A. Hanna & Co.; Mr. John A. Savage, John A. Savage & Co.; Mr. O. B. Warren, Mace Iron Mining Co.; Mr. T. D. Heed, Judson Mining Co.; Mr. M. Andrews, The Newport Mining Co.; etc., Mr. C. N. Turner, The Newport Mining Co.; Mr. H. G. Dalton, Pickands, Mather & Co., Cleveland, Ohio.

Mr. Brookings. Gentlemen, we will come to order, if you please. We apologize for keeping you gentlemen waiting a little while. There was some question raised as to whether or not several gentlemen, who had interests of various kinds, were justified in being here in this meeting, or whether they be heard later. They had no direct interest, except representing the States of Michigan and Minnesota. They had an interest in the ore problem which they wished to submit.

Judge GARY. As far as the steel industry is concerned, I do not think it would object to the gentlemen appearing, briefly stating their point, and then retiring.

Mr. BROOKINGS. We gave them their choice of appearing and stating their case in this meeting, or appearing later. It has been 2 or 3 months since we met. If there is anything you would like to present, Judge, we would be very glad to hear from you.

Judge GARY. We are more interested in the benediction than in the operation.

Mr. BROOKINGS. There is a very close relationship between the two, Judge. You always get the benediction.

Judge GARY. Mr. Chairman, I want to say just a word. At the present time the entire steel industry is thoroughly mobolized and are as patriotic citizens as could be expected, and have in so many words stated they would cheerfully observe any decisions that might be made, and live up to the decisions, notwithstanding there might be some sacrifice. In the mind of the manufacturers generally, there is an opinion that costs have increased and are increasing, and quite a large percentage of the steel people think they ought to have some increase in prices. The question presents itself first, and in the mind of our committee most emphatically, from the standpoint of the Lake Superior iron representatives. About 48 members of the producers are so-called "Independents" and a very large percent of their ore is underground mining. In order to secure the full production of their mines, it is necessary for them to have living prices and prices which will enable them to explore far in advance their properties and open up their mines for future mining. They are in the mines of those operations at the present time. At the beginning of our consideration of the prices, these ore people have believed their prices were low and that they should be higher. There has lately been put in force an increase in freight rates on the ore carriage roads that adds to the Lake Superior iron producers about 34 cents additional cost. That is because their ore is sold and always has been sold deliverable at Lake Erie ports, so that the iron ore people have to absorb the freight charge on land and on lake. Their costs, which they have produced and to which they invite inspection by anyone interested, show that the underground miners at the present time, in view of this increase in freight, are obliged to pay a cost of about 5 percent per ton more than the price they are receiving, and manifestly, on the basis of their realizing a proper profit, or any profit, they must have an increase in their prices. Our committee does not appear here as an advocate, but more as a judge, or as an advisory committee, having in consideration the interests of the Government and the interests of the steel-producing and iron-producing fraternity. The iron ore people have appointed a committee to present their views which we have approved and which we are glad to have them do. If, Mr. Chairman and associates, you will permit Mr. Savage, in behalf of the committee, to present their case, they will be grateful and we will be pleased.

Mr. BROOKINGS. Very glad to hear from Mr. Savage.

Mr. SAVAGE. Mr. Chairman and gentlemen, in this very brief statement that I will read, I desire to have it understood that is a statement of an industry and not of an individual. We have a committee here of six men, each a practical, experienced operator, representing separate districts. There are six "iron ranges", so-called, each of them, however, has interests in the other ranges and is familiar with the subject in a broad way.

Judge GARY. Six ranges in the Northwest?

Mr. SAVAGE. Yes. We come from the iron-mining country. The statement follows: (Reads statement which is filed with the secretary). No. 1 attached. I wanted merely to state that we have summarized costs, which we are ready to present and to which we invite the closest scrutiny by such accountants as you may have available.

Mr. BROOKINGS. May I request that you leave that paper, with such other statements as you wish to make with us. I think I can state that it has always been the purpose of the price-fixing committee to analyze process from ore in the ground to the finished product, with the view of stimulating production at every stage, and every possible consideration will be given to statements that you gentlemen have to make in connection with ore. Of course we will take this up with the steel people, who are more familiar with its details, and we can either see you later, if you wish—unless there are some others who are connected with the ore problem who would like to be heard—it would be perfectly proper, I think, for you to leave this statement with us, or any other figures, and if it is necessary we might plan to see you later, or at least give you the result of the conference we may have with the steel people when we finish. Are there any other ore people who would like to be heard, or does that present your case? How many gentlemen are there here representing ore industries?

Mr. SAVAGE. We have a committee of six men.

Mr. BROOKINGS. Judge, might I inquire as to whether or not these gentlemen have any further interests in the meeting, and whether it would not be better for a committee to be appointed by your people to take up their ore matter with us and investigate it?

Judge GARY. I would like to ask, Mr. Savage, a question of the independents. What proportion of their underground mining is leased?

Mr. SAVAGE. A very large proportion is leased.

Judge GARY. Now I would like to suggest that inasmuch as if there should be an increase in the price of ore, it would have to be absorbed by someone—whether or not the pig-iron people, who are here represented by able and fair-minded men, would be willing to state in this meeting whether or not the pig-iron people, taken as a whole, could absorb any increase in ore if there should be any increase. Mr. Dyer is president of the Pig Iron Association.

Mr. DYER. Mr. Chairman, we have not had an opportunity for a very full meeting of pig-iron people since this question came up. Such conferences as we have had developed very clearly the fact that there are certain districts that could not make pig iron without a loss—I might say such as eastern Pennsylvania and Tennessee. By the way, the Tennessee people are represented here today. The central district, composed of the districts, the valleys and the lake-front furnaces, could get along without a loss, with some individual exceptions. There are some blast furnaces so built of such architecture that they would lose money if these freight increases, coupled with the labor increases as we have had, should be forced upon them. I am speaking for merely the representatives of the pig-iron industry what we have been able to gather in the short time we have had, but those are the facts of the case. The central districts could get along without suffering a loss, but outside of that, I think everybody else would have to be helped, except Chicago.

Mr. BARUCH. Mr. Chairman, may I ask a question. What was the difference in cost between the underground and the shoveling mines? I do not recollect that. The underground is 48% and the shovel is 52% production?

Mr. SAVAGE. 48% and 52%.

Mr. BARUCH. What is the difference in cost?

Mr. SAVAGE. The difference of $1.22 per ton in favor of the open-pit ores.

Mr. BARUCH. I thought he made a statement that at this price the open pits made money and the underground lost money. I did not quite get the difference in the costs.

Mr. SAVAGE. That is just what we do state.

Mr. BARUCH. Yes; but bearing that out, there must be consequently a difference of how many cents a ton? I carried it in my mind something like 50 cents.

Mr. SAVAGE. We have this all thoroughly summarized.

Mr. BROOKINGS. A committee will have to thresh this out in detail anyhow.

Judge GARY. Mr. Clark, what have you got?

Mr. BARUCH. I think the chairman is quite correct that it has to be thrashed out.

Mr. BROOKINGS. As a matter of fact it involved the pig-iron people and the steel people, and a small group will have to get around and summarize this. I do not believe, in an open meeting like this, we can go into the details and get any place. A small committee, who have a knowledge of it, comprised of the pig-iron men, the steel men and yourselves, probably will have to thresh it out and arrive at some sort of conclusion.

Judge GARY. With reference to the general steel loss. It seems to me, Mr. Chairman, that considerable difficulty would be removed if the basing price—Chicago as a basing price was changed so as to return it to its original and long-established custom, viz, making Pittsburgh the basing price—that would furnish some relief to some of the groups who have heretofore been claiming and who were sellers of some of the products which are involved in this point. That, together with the disposition on the part of the director of steel distribution to favor those particular mills to some extent in giving them whenever possible a class of material which they are best adapted to, it seems to me put them in a living position. Pittsburgh was long established as a basic price on iron and steel, and that has done more to stabilize production, to increase production and to bring about extensions in the mills already established, and more particularly in the establishment of new mills, than anything else. At the beginning of our considerations here, it was suggested by Mr. Replogle, for reasons which we found good but which I think now have entirely disappeared, that Chicago be made the basing price for shapes, plates, and bars. That has removed from certain producers, including particularly the Interstate, the Wellins Co., and some others, protection which they had before and which they are entitled to under the long-established rules of business procedure, as applied to the steel industry. Therefore I think our committee is in favor of removing that difficulty and reestablishing Pittsburgh as the basing price, instead of Chicago, as to these three articles.

Mr. Brookings. Is it your opinion that if that were done it would help the pig-iron people to an extent that would enable them to absorb some additional cost in the way of ore?

Judge Gary. I think it would help the whole industry, and I am of the opinion that the pig-iron people, taken as a whole, could absorb some increase in ore prices.

Mr. Brookings. Mr. Replogle, do you see any objection to the proposed change in the base price?

Mr. Replogle. I have changed my opinion. I think that the ruling originally made was right, in view of the enormous tonnage of Government necessities we would have to get in that district, which are produced there and are produced there largely by low-cost manufacturers on account of the fact that they have no freight rate on their ore, but the percentage of the tonnage we now have to distribute to the Pacific coast shipyards, to the car shops in Chicago, and to the St. Louis districts, is entirely out of line with the tonnage of those products, plates, shapes, and bars, which are produced in those districts. That necessitates going to the eastern mills for a very heavy tonnage of material which at this present time we would have to get from the eastern mills, and some of them even east of Pittsburgh.

If we went to the Pittsburgh base, those eastern mills would still have to absorb a portion of the rate to the consuming point, whether it would be Chicago, St. Louis or the Pacific coast. In view of the heavy tonnage, as I say, which is entirely out of line with the tonnage produced there, I feel that a change to the Pittsburgh base would be a proper one.

Mr. Brookings. Anything to be said about that by any other gentlemen in interest present? Of course I do not know what the change means to the purchaser or consumer.

Mr. Baruch. Does that mean one dollar a ton, or what?

Mr. Replogle. The freight in some cases would be up as high as $5.00 a ton. The thing I am getting at—it means an advantage to the mills there, but the disadvantage to the eastern mills is, in my opinion, becoming too great. In the case of Mr. Huston, he has a particularly heavy disadvantage—his rate I should say, is 30 cents now.

Mr. Huston. It is over that; it is over 30 cents now.

Mr. Replogle. That is over $6.00 a ton that Mr. Huston would have to absorb.

Mr. Huston. It runs $8.00 or more.

Mr. Replogle. Of course, Mr. Chairman, in Mr. Huston's case, that is only a small percentage of his output and probably on the larger percentage he has a great advantage to the eastern point.

Mr. Huston. We have always had to depend on that freight differential to live. Pittsburgh has it coal and cheaper iron; we had to depend on the near markets largely, in order to enable us to live—that had been our salvation.

Judge Gary. On the whole, you favor Pittsburgh base, don't you?

Mr. Huston. Yes.

Mr. Brookings. Judge, there is such a lot of deatil—I imagine it reaches everywhere and I suppose we could not determine very much about it—those of us on the committee here. Mr. Replogle, of course, as our expert, probably knows just how the purchasing communities, or consumers, would be affected by it, and whether it would affect the advance of price, or not, to the large part of the consuming country. In any event, as I understand it, the normal basic arrangement has been as it was now proposed, and always was before we changed it and made the basing price Chicago, and if this makes no very radical change in the average of the market price of steel (it means $1.00 or $2.00 a ton in the whole situation) and if it does not effect adversity on the part of the others—of course you steel people cover the whole field, and you will know whether it is practical of not—and if it does not involve very much and if it does open the way to absorb an additioal price in ore, I think we are all agreed that if on examination of the facts, it is found that a large part of the ore that ought to be produced is being produced at a loss and considerable fear, there ought to be an adjustment some way in the price. I think that is the principle upon which we have always acted. It is a matter of investigation, and we never, as a rule, act upon anything but very authentic, or rather governmental information, which we get through the Federal Trade Commission. They will check these figures and whatever action is then I presume will be dependent upon the condition of those figures being found correct. Assuming, however, that they are correct, I presume some arrangement will be made among the steel people, keeping alive that production and absorbing that in some places, and if a proper method is found that may need a slight advance to the consumer, that becomes a matter of price again, Judge, and we ought to take it up more in detail.

Judge Gary. I would like to inquire, Mr. Chairman, if there are any others of the pig-iron people who would like to be heard at this time.

Mr. Smith. I will just read a brief general statement on the condition in Tennessee. [Mr. Smith reads a paper which was filed with the secretary.] Number 2 attached.

Mr. Brookings. You will leave that statement with us I presume? [Tenders statement to Mr. Phelps.]

Judge Gary. Your iron is all foundry iron, isn't it?

Mr. Smith. Some is high-silicon iron. Three furnaces made high silicon.

Mr. Brookings. It is not steel-making iron then?

Mr. Smith. No, sir.

Judge Gary. Mr. Chairman, there in another question which has been raised relating to making the valley a basic point for pig iron that involves a good many questions as to a great many manufacturers of pig iron, and if it is the disposition of the price-fixing committee, I think that question ought to be referred to a special committee for full consideration. Mr. Dalton as chairman of the subcommittee of the general committee of pig iron, believes he ought to give opportunity to all the pig-iron people who attend the meeting to discuss that question among themselves, and I believe that if all sections were represented at that meeting and Mr. Replogle could be present, perhaps that might be thrashed out with the report made and one accepted as satisfactory by our general committee and perhaps by your board. Now if there are others here representing any special lines of steel and wish to be heard on this general proposition at this time, I would be glad for the chairman to give them an opportunity.

Mr. Brookings. We would be glad to hear from anyone here who is interested in any steel product who has anything to say regarding it. We are here, as you know to consider all of the problems involved in the fixing of the price of practically all steel products. We may possibly ask the special committee to consider several problems that we have not already taken up and which we think it is necessary for us to act on in the near future. Rails for instance; there are only five or six manufacturers interested in rails. We will ask those manufacturers to meet us separately to discuss the rail problem. I think that would be better Judge.

Judge Gary. Yes.

Mr. Brookings. Later we want to take up, when we get further information regarding costs, the matter of wire rope and probably steel castings, and I don't know whether Mr. Replogle will want to take up the question of high-speed tool steel now or not.

Mr. Replogle. We are making up a schedule.

Mr. Brookings. Judge, what would you suggest now as next.

Judge Gary. I think Mr. Chairman, in view of the fact that the whole iron and steel industry was represented; after a day's session it was voted and placed in the hands of our committee, all their interests, that our general committee is now ready to meet your board and discuss these questions that have been presented here.

Mr. Brookings. If there are any gentlemen that are not interested in this, they should retire, isn't that right, Judge?

Judge Gary. Yes.

Mr. Frayne. In submitting the extra overhead costs by the ore-producing companies, I didn't hear that they made any statement as to the average amount of cost for labor. I would like them to include what that extra additional cost for labor is in their statement and I would also ask that they present a statement as to wages, what wages are paid to their ore miners at the present time. That ought to be made part of the statement so we would know whether it is the falling down of the men that is producing these rates or whether it is necessary for them to move around somewhere else.

Mr. Savage. If I may take a minute to state our views on that question.

Mr. Frayne. I would like to have it part of your written statement.

Mr. Brookings. Is it so segregated that we can see what the labor costs—what it is per day?

Mr. SAVAGE. The labor cost is thoroughly defined per ton. We have reluctantly desired—that is some of us wanted to state more fully the wage question. We are sure that upon an inspection of it, which we will be very glad to present that it will be very obvious that our wages are generous and probably the highest wages paid any miners in America today.

Judge GARY. What is the average rate?

Mr. SAVAGE. The average underground contract rate for miners, that covers all the underground miners, is over $6.00 for 8 hours.

Mr. FRAYNE. What is the contract rate?

Mr. SAVAGE. The contract rate is defined as the average daily wage of the miners. They work at so much per car, so much per set or as it is defined, underground. They have gone up considerably over 100 percent in the last few years. They are we think, very generous and very fair and there is not the slightest complaint in our district on the subject of wages from any source whatsoever. The reason the miners move around so much is because of the shortage of miners and the readiness with which they can procure work anywhere.

Mr. FRAYNE. Does that $6.00 per day include the payment part of that to the miners' labor or is that clear to the miner, clear of all expense, supplies, etc.?

Mr. SAVAGE. It is net for everything save that the miner buys his own clothes and his own lamp. All tools, all explosives, all lubricants, etc. are furnished at the company's expense. That is outside of this $6.00 a day that I refer to. Common labor is receiving $4.35 per day and most all common laborers, after they have been on the job a few weeks, become classified to a degree and get anywhere from 15¢ to 50¢ a day more than that.

Mr. FRAYNE. I will tell you why I want specifically to get that information. We are trying through the various departments, expecially through the Department of Labor, to induce men to go to localities where there is a shortage of labor and by having that information as to the wages and other conditions, it is a strong argument to advance why they should take up that kind of employment or go to those points.

Mr. SAVAGE. I assure you Mr. Frayne that you will find on investigation that our wages are without any fault, that we can see, and that no trouble can possibly arise in our country on that question.

Mr. BROOKINGS. Are there any other members of the committee who would like to ask any questions before the ore men leave us? (No answer.) You gentlemen that represent the ore interests, I don't suppose you would be interested in the details of other matters that we have to thrash out here. It has been our custom always to hear the different interests separately and while we dislike to dismiss your company, we would probably have to unless you have something to state further in connection with ore, we will have to excuse you and go along with other matters.

Judge GARY. Would there be any objection in having Mr. Savage from the ore people and Mr. Dyer from the pig-iron people to remain with our committee?

Mr. BROOKINGS. We would be very glad to have them. Mr. Savage would remain representing the ore people and Mr. Dyer, the pig iron. That would give them representatiton in the other lines.

(Ore people leave at 11:30 a. m.)

EXHIBIT No. 1274

MEETING OF THE WAR INDUSTRIES BOARD WITH REPRESENTATIVES OF THE AUTOMOBILE INDUSTRY FOR THE DETERMINATION OF WHAT ACTION IS TO BE TAKEN WITH REGARD TO STEEL SITUATION, INSOFAR AS THAT INDUSTRY IS CONCERNED. MAY 7, 1918. 12:00 M.

Present: Mr. B. M. Baruch, chairman; Mr. Alex. Legge; Mr. Geo. N. Peek; Admiral Fletcher; Mr. Brookings; Mr. Hugh Frayne; Judge Parker; Mr. Replogle; Mr. Ingels, secretary.

Also: Mr. Noyes, Fuel Administration; Mr. Whittier, Shipping Board.

Also (representing the industry): Mr. W. C. Durant, General Motors Co., chairman of committee; Mr. W. E. Flanders, Maxwell Motor Co.; Jno. N. Willys, Willys-Overland Co.; Mr. C. C. Hauch, Studebaker Corp.; Jno. F. Dodge, Dodge Bros.; Mr. Hugh Chalmers, Vice Pres., National Automobile Chamber of Commerce; Alfred Reeves, General Manager, National Automobile Chamber of Commerce; D. D. Dort, Dort Motor Company; Geo. N. Graham, Pierce-Arrow Motor Co.; F. W. A. Vesper, Pres., National Automobile Dealers' Assoc.; Mr. R. P. Jones, Ford Motor Company.

Mr. Replogle. To give you the analyses of the principal products: On projectile steel there is thirty-six weeks' work, and much of it is very far behind, as much as nine months; that is, of course, directly United States and Allied Government orders; on standard rails the orders now on the books of the rail mills are enormous, and we cannot see that we can increase that shipment without cutting in on the projectile steel. There is ninety-two weeks, at the rate we have been rolling—over a year and a half—right now on the books, and the Director-General is demanding heavier shipment of rails. On sheets, there is twenty-four weeks' work; on seamless tubes, there is twenty-seven; on structural shapes, despite the falling off of railroad construction, there is thirty-three weeks; on bars, the product in which you gentlemen are largely interested, there is twenty-eight weeks on the books now; on tin-plate, there is twenty-three weeks; on tubular product, pipe, and tubes, which is another item that you use, twenty-eight weeks. Take the total, the average of shipments of all products, there is thirty-one weeks right now on the books of the steel manufacturers; that is over seven months, and the orders are coming in almost every week faster than we are getting them out. Now the direct Government necessities are being delayed in a great many places. It is true that at some shipyards we have a little surplus; but Mr. Schwab feels that we have to have a very greater tonnage than we are counting upon. There is the case we had the other day of the six-inch shells for the British Government, for which they are in very urgent need—three or four months behind. Deliveries to some of our Allies are in frightful shape, and we've got to make that up.

The finishing capacity is greater, but the finishing capacity is limited by the amount of pig iron they can get and that in turn goes back to fuel and transportation.

Mr. Durant. I think the points involved, Mr. Chairman, are these: In preface, I wish to say that we want to be helpful; we want to help. We assume you want to administer this fairly and that you are going to do so. The point with me would be this, Mr. Replogle: Can we do anything to change conditions, improve conditions, by speeding up matters? That is the first point. Then, again, are the orders booked in such a manner that the requirements are spread over to meet everything that you need and still give to the industries of this country what they require to carry on their business, preserve their organizations, and avoid unnecessary distrubances? If you had twice as many tons placed on your books, the situation would be twice as bad. It is a question of whether that situation has been aggravated by putting the orders on the books for immediate deliveries when there is no real immediate need and that you couldn't use the material if you had it. Then, again, getting back to the first proposition, which has to do with the speeding up. Are the mills in operation today up to their capacity, to their fullest efficiency? I don't know whether we are getting the information correctly or not, but we read of some things and we hear of some things in general conversation, and we like to be specific. We like to get at the facts. But we do hear that this mill is running on a 60% capacity, another only running 75%, another only 50% of its capacity, and the question naturally arises, "What are the reasons?"

Mr. Replogle. Pig iron.

Mr. Durant. Can we increase the supply of pig iron and what would it be necessary for us to do to obtain the increase?

Mr. Baruch. Those suggestions are referred to us daily; we have made every move possible to increase pig-iron capacity. It has been a matter of fuel and transportation; all of those things have occurred to us, and, no doubt, have occurred to you, because you have perhaps made a more intensive study of the situation. We don't approach this subject any different from any one of you; I realize this is a mutual problem and we have to look to you to help us, and we don't take from the producer of steel a market of steel. We don't want to take from the consumer of steel his ability to use it; but it wouldn't be well to have this production of steel lie around for no purpose. We want suggestion from you as to how we are going to meet the problem. Here is our problem: We have been trying to get a study along the lines that have occurred to you: "Will this steel be needed at the time it was ordered?" We have taken it up when the matters come up for priority and thrashed out there, and the users of the steel have to appear before Judge Parker to prove that they would be able to use it at that time. We do not want it to lie around the yards and the concerns close down. On the other hand, if there is a surplus, we want the manufacturers other than the essential war-need manufacturers to use it in such a manner that would be most helpful to the Government.

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EXHIBIT NO. 1275

MEETING OF THE PRICE-FIXING COMMITTEE OF THE WAR INDUSTRIES BOARD HELD THURSDAY, MAY 9TH, AT 2:00 P.M., ROOM 52, C. N. D. BUILDING

Present: Mr. R. S. Brookings, *chairman;* Mr. Hugh Frayne, Dr. F. W. Taussig, Mr. H. P. Ingels, *acting secretary;* also Mr. Wooster, Federal Trade Commission; Mr. N. G. Chambers, Federal Trade Commission; Mr. J. E. Riddell, U.S. Tariff Commission; Mr. Pope Yeatman, nonferrous division; Also Mr. A. V. Davis, president of the Aluminum Company of America.

Aluminum—Fixing of maximum price.—Mr. Davis, president of the Aluminum Company of America explained to the committee the increased production costs. After considering the information submitted by Mr. Davis and figures submitted by the Federal Trade Commission it was decided to fix a maximum price of thirty-three (33¢) cents per pound for pig aluminum fob the various plants of the Aluminum Company of America. This price to be effective on June 1st and subject to revision on (Mr. Davis stated that he would personally prefer to have the price effective for the following three months but asked that he be given time to discuss this with his sales department. This request was granted).

Verbatim copy of the discussion attached hereto and made a part of these minutes.

Meeting adjourned at 4:00 p. m.

(Signed) H. P. INGELS, *Acting Secretary.*

MEETING OF THE PRICE FIXING COMMITTEE TO FIX THE PRICE OF ALUMINUM FOR THE NEXT FOUR (BEGINNING JUNE 1) MAY 9, 1918. 2:00 P.M.

Present: Mr. R. L. Brookings, *presiding;* Mr. Pope Yeatman; Mr. Frayne; Mr. Taussig; Mr. M. Wooster; Mr. J. C. Riddell, U. S. Tariff Commission; Mr. N. G. Chambers, Federal Trade Commission; also representing the industry, Mr. Davis, president of the Aluminum Company of America.

Mr. BROOKINGS. I want to ask a question. I see figures here for 1918 production. Does that include the new operation, the new development, you have in Tennessee?

Mr. DAVIS. It includes that portion of the new development in Tennessee which is now in operation.

Mr. BROOKINGS. Is the whole thing in operation now?

Mr. DAVIS. No, there is about 40,000 horsepower that will be in operation next year.

Mr. BROOKINGS. That only includes what is in operation now?

Mr. DAVIS. Yes.

Mr. BROOKINGS. I notice you have made some mention of your $20,000,000.00 plant; that takes in the other plant as well?

Mr. DAVIS. A part of the $20,000,000.00 is made up of this Tennessee plant which is coming through now.

Mr. BROOKINGS. It is in your $20,000,000.00 estimate?

Mr. DAVIS. Oh, no, it is the part that is actually working now.

Mr. BROOKINGS. That is what I wanted to know.

Mr. DAVIS. That $20,000,000.00 comprises not only this plant in Tennessee, which is some $2,000,000.00 or $3,000,000.00——

Mr. BROOKINGS. Gentlemen, we might as well get to work on this and I will give you a sketch of our former meeting. I think most of you were not present when we fixed the price some months ago. It was before the price-fixing committee was established. As I understand, the situation is this: We had before us at that time cost sheets furnished by the Federal Trade Commission, and we have had nothing since. You now have further information. These costs were made up on a basis of operation for the first six months of last year.

Mr. WOOSTER. 1916 and 1917. The first six months of 1917 compared with 1916.

Mr. BROOKINGS. The latest were the first six months of last year. According to these cost sheets, without going into the detail of it, this aluminum, of course, is made from bauxite, which is a raw material that comes from Arkansas, and they give every facility of production. A pound would cost at that time 15$^{23}/_{100}$ cents.

Mr. DAVIS. In your communication you call attention to the fact that it did not include resmelting, but looking into the details, it does. It mentions especially the items that go into the resmelting and go into the ingots, something like $21.00 a ton was allowed for that.

Mr. Wooster. The pig ore, you know, resmelted only was fourteen and some odd cents.

Mr. Brookings. This seems to have been a product that drifted along for a period of time, just before the war, 1914–15, from 18 to 20 cents a pound, and then as the demand grew, it ran up very rapidly, as high as 60 cents a pound, or something like that. Then it dropped back again to something like 40 odd cents a pound. The details are here. When we fixed this price, Prcffesor Taussig, we took into consideration a number of things. Mr. Davis raised the question as to what the Allies were now paying; what Great Britain was paying Canada; what France was paying to some other countries—Norway and Sweden, where this was being produced. After arguing the matter for some length, we fixed the price at 32 cents, which seemed to be fair and seemed to offer Mr. Davis and his people an opportunity to make a fair profit, a liberal profit. We recognized the fact, however, that there was more or less a monopoly, and we felt that he met us not in the spirit of a monopolizer at all, but a good American citizen who wanted to be a patriotic citizen; in fact, he had shown that disposition in the price he made the Government, and the supplies he had furnished the Government, and we recognized it when we adopted that price. We felt, after hearing all Mr. Davis had to say about it, and taking into consideration the probable increase as raises were going up, and we fixed the price at 32 cents. You have been increasing your output. Have you received a statement at all from the Government as to their needs this year, or ours and the Allies'?

Mr. Davies. I never received any comprehensive statement. We are supplying practically our entire output for the United States Government and the Allies.

Mr. Brookings. I wonder whether or not there was much, if any, demand outside?

Mr. Davis. There is quite a demand, but we are treating it as diplomatically as possible. Up to date we have kept the industry as——

Mr. Brookings. When you speak of practically all your output going to the Government, does that include much, if any, finished metal stuff?

Mr. Davis. It includes a good many canteens, but the tonnage, after all, does not run up to much.

Mr. Brookings. Includes all that?

Mr. Davis. Yes.

Mr. Brookings. Which isn't stuff that you ohly produce yourself, but stuff your customers produce?

Mr. Davis. Yes.

Mr. Brookings. Now, we have a letter here. I do not know as this ought to be read. It is a communication from Mr. Davis here, addressed to Mr. Yeatman. Mr. Davis calls attention to the fact that the cost of producing this has been growing; and he also calls attention to the fact that the increased capacity has involved them in an investment of considerable increased capital, something like $27,000,000. That was, of course, in process all last year.

Mr. Davis. No; no. What I said, or tried to say, was that we have now still to pay, in order to complete these plants, which are now under process, $20,000,000, which we must pay in order to complete these plants.

Mr. Wooster. Further increase of capital?

Mr. Davis. Yes.

Mr. Brookings. Of course that is not our problem. Our problem is to determine just what, if any, conditions are nivolved in the extension of these.

Mr. Yeatman. How long did we fix the other price for?

Mr. Brookings. Little over three months.

Mr. Yeatman. How long is it proposed to fix it now?

Mr. Davis. I might say we are a monopoly. I suppose it has always been our aim to foster this industry. We started in this industry many years ago, making 30 pounds a day; we have built it up and we consider ourselves, with some pride, the father as well as creator of this industry; it has always been our conception that the stability of price was the basis on which to build the industry—I mean the consuming industry; not the making of the aluminum itself. You made a statement that the price had gradually risen to 60 cents a pound, and that is not a fact inasmuch as the Aluminum Company of America is concerned; we have always held our price down to 38 cents a pound. The customers that would buy it at 38 cents would take advantage of the willingness to pay higher prices, but so far as we are concerned, we stuck to that price in order to stabilize the market. If the price could be put on what seems to us a proper basis—of course the more we could stabilize the market by letting the people know that it was not to be taken up again soon—I think the consumer would like it. If they knew it was to be left in our hands they would know there was not to be a sudden upheaval. To answer your question concretely, of course, from our standpoint if the price was fixed too low, we would not want it fixed for too long.

Mr. Brookings. We will get around very quickly to the question of price. Now, I can just call out the essentials of this letter. Professor Taussig, he cites in here a request that we restore the original base price of 38 cents. [Mr. Brookings continues to point out to Mr. Taussig the essentials of Mr. Davis' letter.]

Mr. Davis. Could I just say a word? You see on this question of costs, we all know there is no such real thing as cost. All we can do in ascertaining costs is to group together a certain number of expenditures and divide them by a given output. As a matter of fact, when the Federal Trade Commission sent a group of intelligent auditors to our plant, they grouped together a set of expenditures and arrived at a price even higher than 15½ cents. Then that did not seem to suit, so they hired an auditor to come to our plant who went over the same set of expenditures. They rejected certain expenditures and arrived at a price of 15¼ cents, and that was the price when these people left our plant, that was the figure. I have never been informed as to what the final figure was. I want to explain that I based my statement on what was the figure when they left our plant, all of which goes to show that the matter of ascertaining the cost is largely a matter of personal opinion after all, for now we have had three costs.

Mr. Wooster. I do not agree with you at all. The question of certain people getting certain figures—those people collected costs and collected figures, as to how they should be accumulated; they brought them back and the Federal Trade Commission made one report only, and that report showed a definite figure which was a definite cost.

Mr. Davis. I perhaps expressed myself rather badly. I did not mean to say at all that the Federal Trade Commission had put up several costs, I meant to say there is a sort of expenditure that is difficult to say whether usual or unusual—after all, you have to get back to your expenditures of whatsoever nature they may be.

Mr. Wooster. Those are the items of costs. You were saying that you could not tell what the cost is because you can only base it upon expenditures that are costs.

Mr. Brookings. They are spending money for property which, of course, has nothing to do with the cost of the goods. Mr. Davis has also fixed, however, if they were very enterprising and wanted to double their products, somebody ought to be equally enterprising and get ahead and double it. You have been functionally successful; of course you have not paid any dividends because it is more profitable to put your dividends into developing the business. I will take your letter and analyze it as we go. [Goes through letter and analyzes the costs.]

Mr. Taussig. Bauxite is selling to how many at that price?

Mr. Davis. The principal buyers of bauxite, aside from ourselves, are the manufacturers of artificial abrasives and different chemical companies making aluminum sulphate.

Dr. Taussig. What is the proportion of your consumption of bauxite as compared with the others?

Mr. Davis. I suppose we use perhaps 66⅔ per cent of the total consumption of the country; we produce practically all there is produced in this country.

Mr. Wooster. You fixed the price on it? Do you say it is selling at $10.00 a pound, that is your price, and you practically make the price on bauxite throughout the United States?

Mr. Davis. That never has been the case, because the French people have always fixed the price on bauxite.

Mr. Wooster. What is the duty?

Mr. Taussig. It is free.

Mr. Brookings. That same question came up before and we simply sidetracked it and said, we are treating your investment and capital as one, and your return on your capital, and to be consistent, inasmuch as you had fixed the price under which bauxite is sold, we must take the cost to you, and the cost to you is what we have given you credit for.

Mr. Davis. Our contention in that is a little different, I think, from what you put it. As a matter of fact 25 or 30 years ago—we having practically invented the use of bauxite for aluminum—bauxite was nothing but dust with no value, but we went to our concern, and of course we did not realize how large this industry was going to grow, and we bought for two or three hundred thousand dollars some bauxite land. We have spent nearly $2,000,000 for bauxite, within the last two years, in cash. My point is, Mr. Brookings, that because we were fortunate enough to buy this bauxite 30 years ago at a cheap price that anybody should say that aluminum can be made with bauxite at 25 cents a ton, for it could not, unless somebody should take our place.

Mr. Wooster. The fact is that it is made for that. It costs you $.50c I think.

Mr. Davis. We are not denying that we were fortunate in getting this bauxite thirty years ago at this price.

Mr. Brookings. We admit that. While we discuss it, we are always open to any arguments, although we go very slow on valuing large deposits of raw material because a market condition might shove this up. Now there may be a large war demand, but if the war shut off and it would drop down again, your bauxite price would be gone.

Mr. Davis. If these gentlemen were going to take bauxite, they ought to take our bauxite from the time we began up-to-date. But they said, "now what you have bought recently at these high figures, that is a reserve, the only thing that fixes your costs is what you bought thirty years ago." I don't think that is fair. I am sorry that I wrote this letter; I prepared just a few notes which I intended to talk about, I didn't put this up as a bookkeeping argument. I showed it to Mr. Yeatman and it was suggested that I throw it into the form of a letter. I don't want to be responsible only to this extent.

Mr. Brookings. We won't hold you responsible.

Mr. Davis. Now, what I object to more than anything else is the failure to recognize the difference between a fair price for water power and the operating cost of water-power plants. It is just as I say in that letter. If we spend $5,000,000.00 to build a canal, we admit that the water runs down that canal without any operating cost, but in some way or other, that $5,000,000.00 ought to appear in the cost, because you can't say that water runs down hill without cost.

Mr. Wooster. It does appear in the cost. There is depreciation allowed on that. Eventually you get your money back that you spent.

Mr. Brookings. It is part of your investment that profits should be paid on.

Mr. Davis. You take the depreciation on a canal at two percent, it hardly makes a profitable investment.

Mr. Brookings. You might put $5,000,000 in the canal or you might put $1,000,000 in the canal and if there was an uplift of water, that would have some operating expense connected with it. In other words, if you got a fair investment for your return, in the final fixing of the price, it would absorb the use of the canal whether there is any operating expense or not. All of these things we recognize as being perfectly proper as an argument on one side.

Mr. Davis. If you will look at my first paragraph, I think you will say that I approach it with some reluctance. [Mr. Brookings continues to read letter.]

Mr. Brookings. I might say that I agree with you there. The only difference is that I would not add that to your cost, I would say to take the cost and we will allow you the six percent on this large investment and we will fix the price on aluminum based upon that. You would get a lower price than you do today.

Mr. Davis. If we only had the operating expenses plus our interest, we would.

Mr. Brookings. I think if I were you, I would leave that clause out.

Mr. Davis. I think that my argument was perhaps not very well expressed, but what I attempted to do was to express my inherent idea. My idea is that a man that has a million dollars and puts it into the bank or into a mortgage at six percent, he is getting six percent. If he puts in into a business that is subject to hazards and to which he has to devote his personal time, he does not get anything on his money.

Mr. Brookings. It was intended as an expression of what was a fair profit on your investment, it would make a reduction on the price of aluminum.

Mr. Davis. If we were satisfied with six percent, we would get mortgages.

Mr. Chambers. I was wondering how much of this recent construction and investment was due to the competition that may or may not come up after the expiration of the Hall patents. Is it a fact, Mr. Davis, that when the Hall patents expire, are other companies starting up in the South and Middle West?

Mr. Davis. The Hall patents expired in 1886 plus 17 years, 1903. They have expired a long while ago and during the time since these patents have expired, there has only been one company that ever attempted to make aluminum in this country. It was our French friends.

Mr. Wooster. Didn't you have other basis patents issued you in 1900?

Mr. Davis. No, we have had no patent protection now for several years.

Mr. Brookings. Well, that seems to be all there is here. There is reference made again to the foreign markets to the fact that Great Britain is still buying in Canada at the price that we had fixed, $.32c and that France still pays a very much higher price to concerns that they have made some arrangements with in the early part of the war, and you remember Mr. Davis, that in the opinion we expressed at that time was simply this, that so far as our Allies are concerned, they are our partners in the War and we know of no way in discriminating between them and ourselves. If their needs in the early part of the war were such as to force them to the development of expensive and artificial means and had to pay a high price for it, that added to their misfortunes. They are fighting our war and they have paid a much higher price than we can pay. It has been our attitude always that anything that we had, we insisted that they have it at the price that it cost us.

Mr. Davis. I really feel that that subject ought not really to be dismissed quite so simply. As a matter of fact, European nations have not been driven to the acquisition of aluminum in any expensive manner. They are making aluminum today in the same manner and cheaper than we are making it, and the position in France is that the French Government pays our competitor $.60c a pound. We are compelled, under that arrangement, to sell to our competitor at $.32c a pound. The French Government does not get it at $.32c. Our French competitor gets it at $.32c and then he turns around and sells it at $.60c pound, it is a joke. They think we are asleep over here. I don't think that it is either fair or patriotic.

Mr. Brookings. We have assumed that the French Government was getting the advantage of this. You say you sell to a competitor, is it because we cannot sell direct to the French Government? They are represented here, why is it the French Government isn't buying this direct as it is everything else?

Mr. Davis. I cannot answer the question as to why, but I can explain the procedure which will perhaps answer the question. This concern, which is an incorporated pool, it originally started as a pool, they naturally are the dominating factor in France, they are the only aluminum producers in France and the French Government has made an arrangement whereby this company gathers together and acquires all of the aluminum in France even though the French Government does the actual negotiating themselves.

Mr. Brookings. Who do you bill it to?

Mr. Davis. I don't know, but not to that company.

Mr. Brookings. To the French Government?

Mr. Davis. To the French Government. They book it through. There is no doubt as to this.

Mr. Brookings. We are not going to follow it. I got the impression from Mr. Yeatman that you were billing it direct to a dealer and the dealer in turn was billing it to the French Government. We ought to stop it in that case. Having placed the French Government on that measure of obligation, having shown good faith with them, we told them they could have anything they wanted in this country—if they were buying it from a dealer and we were compelling the dealer to pay that price and the dealers are charging a profit, that would be an entirely different proposition. We would say, "Now if we are giving this to the Government, the Government must buy it from you people and must pay this price for it." If they choose to give it away afterwards, if they have some sort of an arrangement, that is their funeral.

Mr. Davis. I agree, it is not your funeral. It is the Aluminum Company of America's funeral. These are the very people who started in to hurt our business. They have been the most aggressive competitors that we have had. We have to look forward to conditions after the war—we are looking at that. Our competitors are going to take this same money and come back to us.

Mr. Brookings. We will find out about that. Mr. Yeatman, let us take it up with the French people here. They are spending our money for this and they are spending it under our supervision here. Every dollar the French Government spends in this country is spent by consultation with us daily here and under supervision of ourselves, and is distinctly stated only for the French Government, and as a rule for war needs. Now we don't propose that that should redound to the disadvantage of our manufacturers. We never have expected that, and if they were agreeing to take their stuff at $.60¢ from a French concern and you were sellng to that concern at $.32¢, we think it would require an investigation.

Mr. Yeatman. You think that the distribution is made by that French concern?

Mr. Davis. Yes.

Mr. Yeatman. It is distributed by them?

Mr. Davis. They are the aluminum agents.

Mr. Brookings. Do you know that they make the difference between this $.32¢ price and the distributing price?

Mr. Davis. I know they think they do. I have always had an idea that this thing would not stand the light of day and that they would be flipped out of it before they got through. But there is no question but that they think today they are making it.

Mr. BROOKINGS. That is a matter of investigation.

Mr. YEATMAN. We will take that up and find out about it.

Mr. DAVIS. So long as we feel that we get a fair price, the other men can do as they please.

Mr. BROOKINGS. We object to it because it throws some responsibility on our own people. What else is to be said about this? Mr. Yeatman, have you given much, if any, thought to this? We look to you to analyze these things for us and to give us the benefit of your judgment about this. Just dealing in rough figures, I should say if these people make 125 or 133 million pounds of this stuff this year, and they had approximately 130 million dollars, we will say, invested, and they make 12 cents a pound, it would be something like fifteen or sixteen million dollars, and that, of course, would be something like 12½ or 13% on their increased capital of $120,000,000 or $130,000,000—whatever it is. According to their original cost, they would make something like 17 cents. If there has been some little advance in labor on actual items of production so that their costs would aggregate two or three or four cents a pound more, there would still be at this price what would seem to be a large margin of profit, 12 to 13 or 14 cents a pound. Now Mr. Davis makes the statement in a general way, only he makes certain suggestions here. I have a distinct recollection that Mr. Davis thought 32 cents was too low before, while you thought it was entirely too high and we ought to have a lower price. We want always to do the fair thing, and we know Mr. Davis would not want us to do anything more. I have no doubt whatever that whatever we determine is fair he will submit to it just as gracefully as before.

Mr. DAVIS. I not only said it, but I wrote it.

Mr. BROOKINGS. Having proved by your actions that you would be that way, what do you think under the circumstances that we ought to do?

Mr. TAUSSIG. May I ask a question? Mr. Davis, you speak of your total investments of March 1918, as one-hundred-six-odd-million dollars, does it remain at that figure on your books stationary for some time?

Mr. DAVIS. No, no; that grows as we keep putting the money back.

Mr. TAUSSIG. How do your present profits during the war, and your presumable profits at the price stated, compare with your pre-war profits?

Mr. DAVIS. I would say they are substantially the same per pound, they are a little more.

Mr. BROOKINGS. We have those figures here.

Mr. TAUSSIG. Not so much per pound.

Mr. DAVIS. We have averaged about 17% on our capital invested, that is about what averaged last year.

Mr. TAUSSIG. As earnings, what you return for income-tax purposes?

Mr. DAVIS. Yes. I realize that everybody who comes in here tells you that this business is peculiar and Mr. Riddell queried whether we were not building up ourselves against possible competition. We have never taken that attitude; we have always assumed that we are the aluminum people. We have occupied it so long that we have rather grown into it. We have felt it our duty to provide this country with aluminum that it requires. Many a time we would have preferred to pay regular dividends and to handle it in that way more profitably and agreeably. This industry is growing very rapidly. I believe next year the war will require a great deal more aluminum.

Mr. YEATMAN. Many will tell you that every indication is to that effect. It is just in that kind of business you have got to make money, if you are going to keep pace with its growth; that is all there is to it. The only thing we have ever learned is to make money, save it and put it back into the business.

Mr. BROOKINGS. Make more; all the men that I know who have made a large amount of money have done it that way.

Mr. TAUSSIG. We won't criticize that.

Col. YOUNG. You say you have made 17% on your capital this past year and 17% prior to the war. This 17% that you made during the war, is that net after deducting the income tax?

Mr. DAVIS. Yes, last year.

Col. YOUNG. So that perhaps you might be making 25%.

Mr. TAUSSIG. I would ask you whether 25% was the earnings that you returned?

Mr. DAVIS. I beg your pardon, I thought you said "retained."

Mr. TAUSSIG. No; on which you made a return. No, to go back, I take it, with wastes added to surplus of profit, that 21% is your net figure for purpose of income tax.

Mr. Davis. We have averaged right through our career about 17%, and we paid last year 2% on capital invested, 2% on dividends on the capital invested.

Mr. Brookings. You are incorporated for $20,000,000, and you pay——

Mr. Davis. If we make 17% and put back 15%, that has been our history, and if you take and build that right up, you will land just where we landed. If you make 17% a year, keep out 2%, and turn in 15%, that is a replica. That is not a normal profit.

Mr. Wooster. Seventeen per cent is on capital and surplus, accumulated capital and surplus?

Mr. Davis. Yes. If you cannot earn on what you put back, you better take it out.

Mr. Brookings. Mr. Yeatman, in order to enable these gentlemen to maintain a monopoly, I think it would be a very healthy thing to keep the price down. Don't you? Keep these other fellows from getting in; that is the best way to promote a monopoly. What do you think about a 25-cent price? That was your old price.

Mr. Yeatman. I think, due to the fact that costs are going up somewhat; due also to the fact that they are increasing their plants, to meet the increased needs of the Government, that we ought to leave the price as it is. I would, however, recommend a little change in what we call the differentials; that is, the price for the different kinds of sheet. The reason I suggest that is because I believe that a good many of the competitors of this company, who are in the rolling business, find considerable difficulty in making what might be called a reasonable profit.

Mr. Brookings. They buy the ingot of these people and put it into sheet metal?

Mr. Yeatman. Yes. We have to treat them all the same way. If we have one differential for the Aluminum Company of America, or its subsidiaries, we must naturally have the same differential for the others, and I would suggest, for your consideration the continuance of this price, but a slight raise in the price of the sheet, more for the other companies than for the interests of the Aluminum Company of America, so that it will help him also.

Mr. Brookings. How much of a raise?

Mr. Yeatman. A cent a pound.

Mr. Davis. Practically 90 percent of the material is sold on an 8¢ differential, so that the suggestion—you see that always strikes me as a rather big thing. Here comes the Aluminum Company of America and we tell you what it costs. As soon as somebody else tries it they have to have more money. I don't think you ought to give us 32¢; you ought to give us 35¢. Why not show us the same consideration you are giving the others? Of course, I will take 32¢—I will take anything. I am not going to get the reputation of being a profiteer. While I am here I am working for my company and my salary, and I am going to do what is consistent and right and fair. But the Aluminum Company is, we hope, the most patriotic company in the country—that is the position we aim to occupy. When we brought this matter up before, you will recognize Mr. Yeatman, Mr. Baruch wanted us to go into this nitrate business and he rather intimated that if we would there would be some consideration given to that. We have gone into it. Now that we are in it we are committed to it, you see, and our costs have gone up 3¢ a pound. It really seems to me that the minimum that you could do would be to give us the increase in the cost of manufacturing, especially as the cost of manufacturing is going up right straight along. We have 50,000 men. They get about $3.00 a day; that is $45,000,000 a year. Ten percent increase is $4,500,000. If anybody would guarantee us against a ten percent increase for three months we would snap them up. There is no doubt that wages are going up.

Mr. Brookings. They can't go very far in 90 days.

Mr. Davis. I would if it were possible, like to be able to get this settled for longer than 90 days, but I am quite content with 90 days.

Mr. Yeatman. It would stabilize it if you could make it six months.

Mr. Brookings. As far as I am concerned personally I would just as soon make it six months as 90 days. There is not likely to be any condition that would lower the price.

Mr. Davis. The job I expect to do tomorrow is to meet a man from your city—I have forgotten his name. We have ordered from him 30,000 tons of sulphuric acid. He wrote me a letter the other day that it cost him $12.30. We could not let that man lose. We have to pay him at least $10 a ton. There is $300,000. You haven't any idea how fast these amounts run up. So in looking forward to the future I think if we could only ask for the increase that has already been suggested, 3¢ a pound, we certainly are not asking very much, but we take all the risk of the future out of it.

Mr. Brookings. When will you commence to produce nitrate? Are you producing any now?

Mr. Davis. No; we are not. If we have good luck as to labor, transportation, etc., we ought to get going in October or November. We are very unfortunate that we are located there in Tennessee right between two points; that makes it pretty busy, I mean. We have a process that we interested ourselves in many years ago, five or six years ago. We have spent a lot of money, a lot of time trying to perfect it. Dr. Taussig no doubt knows about it. It is a very ingenious process and it works out fine in the laboratory. It is a question whether we can get this to working on a large scale and if we can it will give us a nice profit. This is quite a different process from any, and it is very ingenious, and I hope for our sake, as well as that of the Government, it is going to be done. It is costing us a lot of money to do it. We really did not want to do it. I think Mr. Yeatman will carry me out on that. We feel that we ought to do it, from a patriotic standpoint.

Dr. Taussig. In figuring out increases in current operating expenses you have not made any endeavor to cut it down to fractions of cents, but you say it is perfectly obvious that expenses are going up.

Mr. Davis. I would say this: That they have gone up 3¢ in twelve months. Perhaps you might assume that we will keep on at that rate.

Mr. Brookings. That is in twelve months?

Mr. Davis. Yes. Despite any difference in opinion between the Federal Trade Commission and ourselves, we are at least quite capable of following in their footsteps, and although they took this cost in a different manner altogether from what we do, yet we do arrive at substantially the same results. We took it just as they did.

Mr. Wooster. Your first contention about the price was based upon a wrong understanding. I wonder if your contention of this 3¢ is made upon the same basis.

Mr. Davis. The radical departure of what you might call your method and ours——

Mr. Brookings. Your costs as shown for 1915, 1916, 1917 show a gain of these Federal Trade Commission costs. You say you think it has been a progressive——

Mr. Davis. There is no question about the 3¢ in the last twelve months.

Mr. Brookings. Mr. Davis, suppose you let us discuss this a few minutes.

Mr. Yeatman. What do you think about the necessity of fixing a maximum price on scrap?

Mr. Davis. I don't know that that is a very essential matter. Scrap varies—you mean now if ingot made from scrap——

Mr. Yeatman. The scrap men are very anxious to have the price fixed on scrap.

Mr. Davis. I would say that—you want to allow for profit to the scrap dealers? I should like to give that a little thought. But I think 3¢ a pound——

Mr. Yeatman. Would it be an advantage to the business to fix a maximum price for scrap rather than let it go wild?

Mr. Davis. It would be an advantage to the business not to let it go wild, but what I would call going wild would be to go above the ingot price. No one can sell, melted or unmelted, at a fixed price, so that if you compel the dealers to sell at 36¢ or 38¢, I think it is rather immaterial.

Mr. Brookings. If the scrap is not disturbing the general trade under the present conditions, we would not want to bother with it, would we?

Mr. Yeatman. They seem to think it is disturbing it, and it is hard to keep it in limits. What percent of the ingot aluminum is in the form of remelted scraps?

Mr. Davis. You can answer it this way, that no aluminum disappears. It comes back one time or another.

Dr. Taussig. It comes back at a different rate like copper, doesn't it?

Mr. Davis. Speaking generally, Professor Taussig, it all depends upon the market? Just as soon as money begins to tighten up the amount of scrap that is poured upon the market is increased. For instance, after a panic like 1908, I haven't any doubt but that after six months there were five pounds of scrap sold to one pound of virgin. That is very abnormal.

Mr. Brookings. When the price is very high they gather it up and bring it in.

Mr. Davis. No; that is not the idea. When a man needs money, that is what puts scrap on the market.

Mr. Yeatman. What did you say it was now, 25 percent?

Mr. DAVIS. More than that. I would say, perhaps there is offered right along 50%.

Mr. BROOKINGS. 50% of the total ingot is made of scrap?

Mr. DAVIS. No. If we made 100 million pounds of virgin aluminum and offered it on the market in the year 1918, the scrap dealer would gather up 50 million pounds of scrap and offer it in competition with the virgin.

Mr. BROOKINGS. It is a very serious part of the whole problem. It is in the hands of a few people? The major of control of those things depends upon how scattered it is—how many people are remelting it.

Mr. DAVIS. I suppose there are ten or twelve people who engage in it in a large way, and four or five hundred perhaps who deal in it in a small way.

Mr. YEATMAN. Ten or twelve principal ones.

Mr. BROOKINGS. We won't keep you waiting but a few minutes, Mr. Davis.

(Mr. Davis leaves room and returns at 3:45 p. m.)

Mr. BROOKINGS. I will tell you exactly what we have done after going over this. Not wishing to take advantage of your more than fair position, but still wanting to justify everything that we do—justify to ourselves, as well as to you—we have made up our minds to leave the price of ingots remain as it is; to leave it optional with you to fix it for 90 days or six months, and if for 90 days we will have the Federal Trade Commission get the increased cost fixed and all the additional information we can. We figure that in advancing this 12½ percent, advancing this other stuff, that that ought to take care of a good deal of advance in labor. Labor we find after going over the figures is not such a vitally important matter. If 90 percent is covered by this advance you will get $1,000,000 or more out of this.

Mr. DAVIS. I don't understand what you mean by 90 percent of our stuff.

Mr. BROOKINGS. I thought you said 90 percent.

Mr. DAVIS. Oh, no. I don't think twenty percent.

Mr. YEATMAN. I thought you said 90 percent.

Dr. TAUSSIG. How much of your ingot production do you sell outside?

Mr. DAVIS. We sell, I should say—I am guessing—about 80 percent to outsiders and 20 percent we work up into the sheets on which this differential would apply.

Dr. TAUSSIG. I got an entirely different impression. I assumed that a much larger part of your ingot production was made over by yourselves into sheets.

Mr. DAVIS. Oh, no.

Mr. BROOKINGS. That is what we thought you said. Then it is the people who manufacture this, who buy ingots from you, who make this stuff, who would be the largest beneficiaries in the change?

Mr. DAVIS. Yes; a very large portion of aluminum after it is sold by us never goes through the sheet form. A large portion of it is used in the form of castings where these differentials don't apply at all, or in other such ways. I honestly don't think that is called a fair proposition to us, Mr. Brookings.

Dr. TAUSSIG. Let me make sure that I understand. How much of the total proportion of ingots goes into the sheets manufactured by you or anybody else?

Mr. DAVIS. What other people do we cannot say, but let me just look it up. I think I can get a pretty fair idea.

Mr. YEATMAN. There is no fixed price on castings.

Dr. TAUSSIG. The castings vary so much we could not fix any differential on castings. Am I correct in that?

Mr. YEATMAN. We don't control that.

Mr. WOOSTER. They do not cast aluminum in light shapes, do they?

Mr. YEATMAN. In most all shapes.

Mr. WOOSTER. I thought they were only cast in heavy forms.

Mr. DAVIS. Twenty percent. I did'nt think I could come so close.

Mr. BROOKINGS. Frankly, Mr. Davis, we don't understand that. We wanted to give you something to take care of some of this advance in labor since March. We won't send you out again. We have reconsidered this and we have made up our minds to advance the price of ingots a pound, so that you will get something, making it 33¢ instead of 32¢, and still leave these differentials as they are, which you apparently get very little of; and to give you in addition to that—we want to be fair. While I told them at the time we fixed the 32¢ price—it was a battle royal—Judge Lovett and some of us thought that 30¢ was an awfully big price and we stood and worked on 30¢ for a long time. I don't know but I had that too much in my mind at that time. Whether you got too much then or not, it is perfectly evident that there has been or will be certainly some advanced costs in labor. While labor is a small part of your costs, as compared with some other things we deal with—we thought in giving you the differential we were giving you nine-tenths of a cent a pound, or 1¢ a pound on your product. We want to make it good and we will fix it at 33¢, and we hope you will be perfectly satisfied.

Mr. Davis. I told you before I would be satisfied. I am quite satisfied.

Mr. Brookings. We are glad to do it, because we feel that it is right.

Mr. Davis. How long to you want to make that for, three months or six months?

Mr. Brookings. What would you like?

Mr. Davis. Will you let me take my choice after talking with my sales department? As far as I am concerned, I would rather say three months, but I would rather talk with my sales department.

Mr. Brookings. How long was this previous price fixed for?

Mr. Yeatman. Until the first of June.

Mr. Brookings. That gives you time to consider it.

Mr. Davis. Yes.

(Adjourned at 4 o'clock.)

Exhibit No. 1276

Meeting of the Price-Fixing Committee with Representatives of the Nickel Men for the Purpose of Determining What Action is to be Taken in Regard to Nickel Used by the Government

May 20, 1918—11:20 a. m.

Present: Mr. Robert S. Brookings, presiding. Commander Hancock, U. S. N.; Dr. Taussig; Mr. Yeatman; Mr. W. W. Phelps, acting secretary; Dr. Haney of the Federal Trade Commission.

Also the following representing the nickel industry: Robert L. Hoguet, E. V. Goodwin, United States Nickel Co.; W. A. Bostwick, W. B. Lawson, International Nickel Co.

Mr. Brookings. I guess all of our people are here. Gentlemen, we have asked you to meet with us because, in the first place, I think you understand that the Price Fixing Committee, which was appointed some months ago by the President, is an administrative branch of the Government for the purpose of determining prices under certain conditions. Where it is so large as to create a scarcity of that product if there is any outside, or whether we take it practically all, it is placed in the category of Government control of prices. In other words, we have been told by the President that when conditions assume that shape in any commodity, we should take up the whole question of the history of the industry, costs and prices and determine whether or not the prices that the Government and our Allies are paying, or if the public is using any portion, are fair prices. The Government feels that when the necessity of the war compels the absorbing of a very large proportion of any commodity, and therefore creates a scarcity for the industries consuming outside of war needs a small portion, that the problem of price becomes a governmental problem and this Board is expected to consult with the industries, call them in and tell them what we are thinking about, consulting and advising with them as to what is fair and right. The Government never places itself in a position—and wishes to do everything that is fair and right. Because our Government is directly or indirectly using a large proportion—80 or 90 percent—of the nickel that is sold in this country, we called you here for the purpose of discussing the wisdom or practicability of legislating as to the fixing of a price.

All morning we have kept you waiting because the history of the industry's costs at different periods of time have not been available until this morning and we had to look them over and discuss them before we saw you. We have not had time to do them justice really, but some of the Committee felt that so long as we brought you here we ought to explain to you why we brought you here, and ask you whether you have given any thought to the question of price and whether you have any figures of your own as to any additional cost of producing nickel during the past six months or a year. Of coure we know that our war needs have enormously increased the consumption of nickel. The Navy program and the Army program have repuired nickel for alloying certain steel and have doubled your production and have, of course, enormously increased your profits. We are not in an attitude of envying you your profits; we are more in the attitude of justifying them if we can. That is the way we approach these things.

We thought if you had anything to say—we are not to consider it further and we do not wish you to feel that we will bring you back again if there is nothing to bring you for—but while you are here if you have any information you can give us regarding the nature of your business and its growth, or any apology you wish to make for the large amount of money you have been making, we would be very glad to have you give it to us and we will take the matter up a little later and notify you of any conclusions that we come to if we feel that action of any kind ought to be taken. I would like to ask one question in connection with some figures that are given here, the profits that have been given. Of course, we do not discuss the profits as to individual concerns, but the International Nickel Company's figures show the profits from 1910 to 1917; in one column the new profit and in the other column it says "common dividends." Now as to whether that means common stock dividends that cover the profits, practically all the profits except 196 which is differentiated and shows a cash dividend, a stock dividend—I want to ask whether the dividend shown in 1914 and 1917, are those cash dividends or stock dividends?

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EXHIBIT NO. 1277

MEETING OF THE PRICE-FIXING COMMITTEE OF THE WAR INDUSTRIES BOARD, APR. 3 AT 10:50 A.M., IN ROOM 52, C.N.D. BUILDING

Present: Mr. Brookings, chairman; Mr. Baruch; Mr. Taussig; Dr. Garfield; Mr. Frayne; Paymaster Hancock; Colonel Young; Mr. Harris; Mr. H. P. Ingels, acting secretary; also Dr. Walker, of the Federal Trade Commission; also the following representatives of the smelting and refining industry; Mr. Daniel Guggenheim, president of American Smelting & Refining Co.; Senator Simon Guggenheim, chairman of American Smelting & Refining Co.; Mr. Edward Brush, vice president of American Smelting & Refining Co.; Mr. E. L. Newhouse, vice president of American Smelting & Refining Co.; Mr. Joseph Clendenin, vice president of American Smelting & Refining Co.; Mr. C. J. Keely, vice president, Anaconda Copper Mining Company; Mr. C. W. Nichols, president, Nichols Copper Company; Mr. J. A. Church, Jr., secretary Nichols Copper Company; Mr. F. W. Robertson, vice president, U.S. Smelting, Refining & Mining Co.

Copper—Smelting and refining.—This meeting was called at the request of the representatives of the copper smelting industry to consider certain representations which they wished to make to the committee regarding the inability of the smelters to make a fair and reasonable profit under the existing conditions, viz: Due to the large increase in operating costs they find themselves in a position where they are unable to continue operating under certain long-time contracts without losing money. After considering the information submitted by the various representatives the following conclusion was reached:

First. That it was evident that the Government in fixing prices of copper had dealt only with the producing and refining interests as a whole and not separately, and had no knowledge of the nature of the contracts existing between the producer and the smelting and refining interests and were, therefore, in no way responsible for the profitable or unprofitable nature of contracts existing between them.

Second. That growing out of the nature of these long-time contracts, a condition exists today which seems to place upon the smelting and refining interests a burden which should be relieved by a readjustment of said contracts.

Third. The Government recognizes that, in the interests of production, it should use its good offices in bringing about a conference between the producing and the smelting and refining interests, hoping that, with such information as it expects to get regarding costs of smelting and refining, to be able to submit to the said interested parties recommendations that will be fair and equitable to both. To this end a meeting will be called for a joint hearing of all producers, smelters, and refiners of copper to be held Wednesday, May 1st, at the War Industries Board room at 10:30 o'clock a.m.

Verbatim copy of the discussion is filed herewith and made a part of the minutes of this meeting.

The meeting adjourned at 1:30 p.m.

(Signed) H. P. INGELS, *Acting Secretary.*

MEETING OF THE PRICE-FIXING COMMITTEE, APRIL 3RD, 1918, 10:50 A.M.,—SUBJECT: REFINING COSTS

Present: Mr. Brookings, chairman; Dr. Taussig; Mr. Harris; Col. Young; Mr. Hancock; Mr. Frayne; Mr. Baruch; Mr. Haney; Mr. Walker; also Daniel Guggenheim, pres., Senator Simon Guggenheim, Edward Brush, vice pres.; E. L. Newhouse, vice pres.; Joseph Clendenin, vice pres., of American Smelting & Refining Co.; C. J. Kelley, vice pres., Anaconda Copper Mfg. Co.; C. W. Nichols, pres., J. A. Church, secy., Nichols Copper Co.; F. W. Robertson, vice pres., U.S. Smelting, Refining & Mining Co.

Mr. BROOKINGS. Mr. Clendenin, we were asked to meet you gentlemen.

Mr. CLENDENIN. Mr. Kelley will speak first.

Mr. KELLEY. Mr. Chairman, I have been asked by the copper refiners present, who represent, I think, practically the entire idnustry or at least represent out of the total refining capacity of 2¾ billion pounds per annum, all except possibly 100,000,000 pounds, to make a general statement in regard to the position in which we find ourselves at the present time, and then I will devote myself to a brief survey of the position in which the particular industry with which I am connected finds itself at the present time. In the first place, we wish to relieve from your minds the idea that we have come here for the purpose of profiteering. We have come here for a good purpose. It is the urgent necessity of our country and its Allies for a very large production of copper. I ask you to consider the situation in which the copper refiners are placed. We ask you to help us work out some plan, whereby relief may be obtained from a condition which manifestly cannot continue. We wish to disassociate ourselves as refiners completely from the production end of the business. Perhaps all of you are not familiar with the industry as far as copper refining is concerned. Experience has taught that refining can be more economically, more scientifically and better done, when the aggregate production of a great many mines is brought together for the purpose of handling the output. It has, therefore, become quite correct for the miner, the producer, whether or not he controls his smeltering facilities, to turn the product of a smelter, what we call blister copper, to the refiner for the last stage in the operation from whence comes the electrolytic or refined copper. The blister is not suited physically for the requirements of the Government. Now, gentlemen, with that general statement, I wish to impress upon you the fact that the copper refining is not as a rule a producing industry. In most instances the refiner is completely separated from the producer and in some instances, so far as refining is concerned, that connection does not control his refining business. The second thing, to which I wish to call your attention is the enormous demand that has been put upon the copper refiners during the last few years. The growth of the copper business, the aggregation of the amount of money it has been necessary to invest and the amount of consideration that has been put forth in the copper business is scarcely realizable by those, who have not a familiarity with the business. The refining capacity in 1914 was 1,700,000,000 pounds. In 1917 it had been increased to 2,774,000,000 pounds; actual copper refined according to the figures of the geological survey for last year was 2,352,000,000 lbs. Notwithstanding the very serious labor disturbances in the copper business last year, 1917 witnessed the greatest production of copper that has ever been made in the history of the business. Refiners have increased their capacity something like 1,000,000,000 pounds. Now, we have been obliged to keep increasing our capacity to meet the enormous increase in production. Copper produce is valueless as a commodity entering into our necessities unless it is refined. On account of the conditions, to which I called your attention in the beginning, the necessity for a very large investment and the necessity for getting large amounts of copper for treatment, it had become the course of the trade because competition in this business was very keen, to insist upon long-term contracts in order that the investment made be adequately predicative. Therefore, we are operating for the most part under contracts entered into during the pre-war period with the producers and which still have in a great many cases a very considerable term to run.

Dr. GARFIELD. About what proportions are these long-term contracts to the whole?

Mr. KELLEY. Speaking for ourselves, about 200,000,000 out of 300,000,000 lbs. are long-term contracts now.

Dr. GARFIELD. Are these formally executed contracts?

Mr. KELLEY. They are.

Mr. BROOKINGS. How do they run from now?

Mr. Kelley. Up to 10 years from now. It was usual to take not less than 5-year contracts. The enormous production came since 1909. It was during 1909 and 1915 that a great many producers came into the field and provision was made for their refining. They are straight-toll contracts. Another thing that grew up in the trade was the price per ton of copper refined. It is now $14 or $15 per ton. I think $15 is the maximum price paid now for refining.

Mr. Baruch. By, now, you mean higher over 1915?

Mr. Kelley. I mean they are now in effect and were made along in 1911, 1912, and 1913.

Mr. Baruch. Any contracts being made now?

Mr. Kelley. I know of only one made in the last six months.

Mr. Baruch. What was the price of that?

Mr. Kelley. Cost plus $5 per ton. It is our contract with the Greene-

Dr. Taussig. How is cost ascertained?

Mr. Kelley. Actual production costs. So much for a summary as to the conditions under which we are operating.

Now, gentlemen, we have been in the position of not being able to increase our price $1 to the copper producer, and the copper miner will, we think, have been affronted with the same situation that has come into our industry of an unparalleled increase in all items of cost entering into our business. The result has been that we have been placed in the position, particularly during the last six months where the actual loss per day sustained by the requirements could not be maintained.

Now, gentlemen, that is a very brief statement of the situation. As indicative of the actual situation so far as costs are concerned, I have brought over here and am willing to submit to the committee our actual operating costs covering the period of the last six months and some costs prior to that, and we are perfectly willing that you should have the most complete information regarding our costs. This is the cost of refining only.

Mr. Brookings. Do you treat smelting and refining as one or are separate contracts made?

Mr. Kelley. They are kept separate.

Mr. Brookings. Practically the same interests render both services?

Mr. Kelley. No; that is not true. Mr. Nichols is not connected with any smelterer. I was about to call your attention to the actual increase that has taken place. Starting with the price in 1913, the increase in November amounted to 140 percent; in December, 158 percent; for the year 1917 which included the entire year and we had six months favorable operation, 74 percent; in January 1918 the cost was increased 221 percent; it came down in February to 165 percent. In 1913 to 1916 the total cost was $9.26. In February 1918 it was $24.00. Of course, gentlemen, I want to be perfectly frank with you about these costs. During October, November, December, January, and February we were laboring under very difficult conditions due to shortage in production. Now, the time production got back to normal, we had a very serious time with transportation. The copper refiners have established themselves with a spirit of patriotism and coordination. Due to the necessity for copper, we did not close our plants, although they were down to 30% of our normal capacity, but we refined every pound of copper that came to the refinery as rapidly as we could. That is the situation. We come to you and very frankly ask you to help us out. We do not come urging an increased price for copper to the producer. We have in our contracts sustained clauses that would either technically or economically justify us in closing our plants. Such a thought has never for a moment been considered. If there is no relief, we will continue to produce copper in so far as our operations are concerned to the limit of our financial ability to carry the business, we will do it at a loss. We do not think it is the attitude you desire to take towards so important and necessary a business as the refining of copper under existing conditions. What is the way out? We take it that the United States Government and its Allies have through their agreement with the copper producers taken charge practically of the copper production. 75% of our production is going to the Government or its Allies direct. More than 15% of the balance is going on Government work. We estimate that more than 90% of our production is going into war work. You fix the price of copper to the producer. That does nothing for the refiner. In submitting production costs to the War Industries Board, the refining costs were taken as the cost shown by the contract, which the producer had with the refiner. Now, we are in a position of coming to you as an absolutely separate business asking that inasmuch as you are taking charge of the industry, you go a step further and assist that particular branch of the business, which it is absolutely necessary to maintain, in order to insure the production of copper. When you fixed the price of copper, you demanded an agreement that wages would not be reduced. That agreement did not bind refiners, but it has been lived up to by refiners as a part of the spirit of the entire transaction. I do not say we are entitled to any credit for that. As indicative of the condition we are confronted with and for which the Government is responsible, right in the Raritan district there is centered the largest copper refiners except the one at Baltimore. The Government has established there the embarkation port and the extension of the Gillespie plant calling for over 20,000 laborers. The increase in labor is 125.8%. Since the 1st of February we have been obliged to grant additional increases, which increased costs at our plant $165,000 a year. The Government has adopted a plan of working 8 hours with time and a half for 2 hours overtime, the same thing for Saturday afternoon and Sunday. Now, gentelmen, that is the situation. We have conferred more or less among ourselves about this matter and we come to you with this proposition which we think is fair. We don't know what our costs are going to be for any period of time. We believe that there should be added to the price paid by the producers of copper more than sufficient to pay the actual cost of refining and give us ¼¢ or $5 per ton profit. That represents a profit of less than 1% on the amount invested. The refiner has to carry the copper while it is being treated. We believe that this should be a satisfactory basis, a profit of ¼¢ a lb. would get $5.00 per ton. Surely you will see that is not unreasonable. It is not a profit in excess of what was made in normal times under normal business conditions.

Mr. Baruch. What was that?

Mr. Kelley. Between $4.00 and $6.00 per ton, depending on whether you were getting $14, $15, or $16 for refining. On the average between 1913–16 it would be between $4.00 and $6.00. There would be no difficulty, gentlemen, in providing the machinery for doing this. It would be a mere matter of detail of collecting from the purchasers an additional charge and allocating it. The money that would be collected would be, of course, the purchaser's money, and only so much of it as was absolutely necessary to reimburse us our cost and a profit of $5.00 per ton, and the balance, if any, could be contributed back to the purchasers. Now, gentlemen, we don't come here in any sense presenting a demand. We come here representing a very important business. We feel we have gone to the limit in sustaining the loss and feel we would be negligent if we did not come here and present the matter to you.

Mr. Baruch. You are familiar with the agreement the President made with the copper producers which is to run to June 1st?

Mr. Kelley. That agreement has nothing to do with this end of the business.

Mr. Baruch. Would you change the price of copper?

Mr. Kelley. Only as it is necessary to give us our cost and $5.00 profit. Your agreement is with the producers of copper. I don't think it ought to disturb at all the 23½¢ price with producers, but I think it would be all right to collect from the purchaser an amount to pay the refiner.

Mr. Baruch. The President has entered into an agreement with the producers fixing the price they are to charge the consumer. Are we to say to the consumer that between now and June 1st we shall make a rearrangement and have the consumer pay 23¾¢ or 24¢ or whatever it is?

Mr. Kelley. Your agreement is with the producers and the consumers. You can say it has come to your attention that the refining situation must be taken care of and this amount should be added on the basis of cost as established by the Federal Trade Commission. I think of the basis of current cost it add ¾¢.

Mr. Baruch. What proportion now do you speak for when you speak of separate smelting and refining plants, about a quarter or a half?

Mr. Kelley. Nothing like that. Now, Mr. Chairman, here's Nichols, 500,000,000, Raritan, 460,000,000. I think it is less than a third.

Mr. Brookings. If ¾¢ is added to one-third, it would advance the market ¼¢.

Mr. Kelley. Less than one-third would be interested or represented by those interested in refining and smelting and producing.

Mr. Brookings. I thought it was the other way about. That would increase the market ½¢. Are there any other of your people who would like to make a statement?

Mr. Frayne. Would not the same condition you complain of now exist if the price had not been fixed by the Government at all?

Mr. Kelley. No. If there had been no price fixed by the Government I have not the slightest doubt in the first pace that copper would be selling 10¢ higher than it is. I think then the producer would have been in a very much better position to have voluntarily increased the refining charge because he would have been making more money. We have taken the matter up with a number of producers, and a great many of them are complaining that the margin is not sufficient to justify them in making an additional contribution. That 23½¢ represents what is a naked price to them. The value of the indirect charge would have been greater. The difference between the actual metal recovered and the metal returned would have been greater. If it was not for the Government metal situation and the necessity, we would not have increased wages. That would have resulted in a strike and a suspension of operations, and we would be in a position to say to the producers that they would have to help us.

Mr. Frayne. Then you say that the only way the situation could be changed would be by the producers voluntarily making a contribution to the refiners.

Mr. Guggenheim. Gentlemen, I won't take up much of your time. No more than I have to. Our position is this. We are smelters and refiners. The smelting business is in a very abnormal condition at the present time. In 1916 our profits were very satisfactory. It is true we put back into the business $25,000,000 of those profits in construction. A large percentage of this will be lost when the war is over. That is as far as our judgment goes. We can produce, but the country won't need it. We also made a great deal of money in 1917, but the last half of the year was unsatisfactory. Our annual report will be fairly satisfactory. As for 1918, it is very bad. The smelting company has not during this war period increased its dividends beyond 6%, nor have we issued any stock as advances. In 1918 we anticipate a very poor year. We are losing at the refining plants several million dollars per year. If these conditions, that are being reflected during January and February are maintained for the balance of the year I doubt if we will be justified in paying 6%. We get absolutely no advantage from the mining. We are not miners of copper. We believe that out shareholders ought to be protected. Therefore we come to you for relief. We went into the agreement at the beginning. We really had no right to go into it. We had a business of 4 or 500,000,000 dollars. It is highly technical business. I will also say we are earning less money than we made before the war. That can be verified by your experts. I have worked out a proposition as to how you can take care of the business. I want to leave this letter with you. [Mr. Guggenheim read the letter and presented it.] Our position is somewhat desperate. I can only try to operate it at a profit. I would rather resign as president of the company than shut down the copper refineries. We are short in our deliveries, and it is impossible to increase deliveries at the present time. No matter how arbitrary the action is in fixing the price of copper we want to keep the refineries going.

Mr. Frayne. Are you interested in the Hayden plant?

Mr. Guggenheim. Yes; we own it.

Mr. Frayne. You know they are on the verge of striking today. The men struck on February 5 and returned to work on February 11 on the condition that the question of wages be considered. As a matter of fact the men have remained at work at my request. I sent them a telegram yesterday asking them to remain pending what would come out of this conference today. Is it true that you are paying 50 cents per day less than plants in the vicinity? How much of your loss do you charge to labor?

Mr. Guggenheim. I don't know. We are losing at the rate of $80,000 a month at the Hayden plant. It is not our policy to close down any plant under reasonable conditions.

Mr. Frayne. My information is that many of your best men have left and gone to other plants or gone out of that section entirely to places where wages are higher.

Mr. Guggenheim. The reason is not due to labor entirely. The price of copper has been fixed at 23½ cents. The copper we save from the amount that is given us would be worth 35 or 40 cents a pound. The price has been reduced to 23½ cents.

Mr. Frayne. When the price on copper was agreed to, it was agreed that wages would not be reduced and while it did not exactly apply to the smelters and refiners, it carried with it that one smelter in the same locality as another might at least pay the same rate of pay and not 50 cents less.

Mr. Baruch. Is it true that there are other smelters getting more money?

Mr. Frayne. Yes. The Ray Consolidated are paying 50 cents more.

Mr. Brookings. I do not believe any of you gentlemen will question that in dealing with the copper producers we dealt with two propositions, one, who merely produced ore and one who smelted and refined his own copper. Did you not meet together and agree as to that? We were dealing with you as a group just as much as we were dealing with the Anaconda. If you met together and agreed as a group upon this, it simplifies the problem.

Mr. GUGGENHEIM. We unfortunately occupied a very peculiar situation. We represent the American Smelting & Refining Co. They have no interest in the mining business. As individuals we have interests in the mining business. When we met with you we thought 23½ cents was a fair price for copper. These things we have pointed out are things we could not anticipate.

Mr. BROOKINGS. These two groups handle their business in a different way; one believes it better to refine and smelter their own copper while the other believes it better to form a combination of a group of mines and have their ore smeltered. We dealt with you as a group of smelterers and refiners.

Mr. GUGGENHEIM. In actuality that was true. As it worked out, we have done an injustice to the smelting and refining business. We have put them in a bad way by putting them in the group.

Mr. BROOKINGS. I merely wanted to establish the fact, that so far as the labor situation was concerned, we had a right to understand the smelterers, refiners, and producers were practically one organization.

Mr. FRAYNE. Yes; I want to make this explanation. I raise the question that the smelting and refining company paid a higher rate, namely, that existing in Salt Lake and there was such a difference in the price, that it was agreed that the rate existing in any city was the rate to apply to the men in the smelting and refining plants. Your men have been paid 50 cents a day less. There had been a strike. There will be another one tomorrow or the next day. I have assured these men that this thing could be adjusted. This is the situation. These men must receive more money. I would oppose your getting an increase on a fixed price while your men are being paid less than those men, who are doing like work in competing plants, and unless that condition changed these men are going to strike and we are not going to get the copper. I have promised to wire Mr. Myer today some information.

Mr. BROOKINGS. Mr. Fayne, please do not involve matters. These gentlemen have two problems. We made an agreement with these gentlemen. I think it is all right for you to explain the situation as regards the labor down there. I think there is just ground for complaint if any one man does not pay a fair wage. Now, gentlemen, it will hardly be necessary for me to say that what this committee wants to do is to be absolutely fair. I try to get your point of view. I have distributed a copy of your letter to every member of the committee. I have given considerable thought and study to the problem myself. I think I can say in a general way that while the Government understands and feels it can fix a price on copper as it has done on steel and other commodities I don't think it has ever taken a position of abrogating contracts. We can't accept the theory that we can step in, representing the Government and its allies and the industries purchasing copper and practically abrogate contracts made with the smelters and the ore producers. Whether we have any authority to do it is a question in my mind.

You complain that you are unfortunate for having made contracts for a long period of time. We would have to take into consideration two things. One, the fixing of the price of copper, and two, the fact that contracts made by you which you have expected to be profitable contracts have become unprofitable contracts. Have we not all been in that position in our lives? On the best judgment we have, feeling that the average over a period of time is going to be a profitable one, have we not all made contracts. As a matter of fact I made some contracts with your father 40 years ago.

Going back to remark I made a few moments ago as to what the cost of mining, smelting, and refining should be we have never undertaken to analyze. We were not interested in that. We felt we were dealing with two groups—one the high cost mines and one the cheaper mines. The latter were largely lined up with a group of smelters and refiners, largely yourselves. Dealing with you as we supposed we were, the Utah people, who can mine at a low price, are profiting at your expense by securing this very low price of refining, as compared with Anaconda, who do their own refining. Now, it seems to me in trying to be fair, or in trying to ascertain just what rights the Government has to intervene, we have many complications. As to what way we could bring relief, it does seem to me that your interest is so interdependent where they are vital to Utah, that in equity of the thing and doing business with those people over a period of time that they are the people who ought to recognize the fact that you are entitled to relief and they ought to give it to you. Between manufacturers and miners, associated as you are, it seems to me to be a fair way of adjusting that. If we deal with you as miners and smelters as we do with the Anaconda Co.—if we said to Anaconda "Well, gentlemen, we are going to pay these gentlemen ¾ cent more than we are you because while we thought we were [dealing with a group and we were not," I don't know what the relief is but we find that they have a little interfamily arrangement and it is unfortunate for a certain group of stockholders that this contract should have been made. It does seem to me if I was Anaconda I would say "All right, I suppose we will have to segregate our company so as to get this increased price too." Then if they show a loss in any way they will expect the Government to step in and recoup them. We must conserve the industries. Is it not cheaper to mine and smelt the Utah ores than it is to do the Anaconda ores?

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EXHIBIT No. 1278

EXCERPT FROM MEETING OF PRICE FIXING COMMITTEE WITH REPRESENTATIVES OF COPPER PRODUCING INDUSTRY FOR PURPOSE OF FIXING A REASONABLE PRICE ON THEIR PRODUCT. JULY 2, 1918.—2:30 P. M. ROOM 52.

Mr. BROOKINGS. We cannot get this announcement and get it out before tomorrow night's press; probably the notice would not be out before the 4th or 5th of July, so I should think on the date of publication, the date of the announcment, would probably be the fair thing. [Mr. Brookings receives a note from three of the members of the committee.]

The question as to whether it could be given out tonight, we have never given out anything to the press before the President's approval. There are reasons why we should not. The President does take an interest in these things and I feel, at least, he ought to approve it. We can discuss this with the committee afterwards. We will get it out just as soon as we can, either by a statement which simply calls attention to the fact that orders that have been placed before this announcement, and based upon the good faith of the price (we might not use that language) but to be shipped, as Mr. Yeatman says; however we never have placed any restrictions as to price-fixing and the date of shipment before on copper; we have on steel and other things.

We have made the statement that any shipments, any deliveries, made after the date at which the price was fixed, was subject to the revision of price by the Government. Just as soon as this information commenced to come in on increased cost, we did try to protect the producer in asking the Government not to place any large orders of copper with the producer, because we would be responsible for that, and having it in mind, we feel that we ought to at least spare you all that.

EXHIBIT No. 1279

NOVEMBER 11, 1918.

Mr. E. A. S. CLARKE,
Secretary American Iron & Steel Institute,
Room 1826, No. 2 Rector Street, New York City, N. Y.

DEAR MR. CLARKE: Replying to yours of November 9:

The fixing of a price on rails of course mainly involved the interests of the Railroad Administration, and, as you probably know, they have felt that as the rails they buy are, by the nature of their leases a matter of interest to each of the railroads, they could not justify themselves in paying the price which the price-fixing committee recommended. As we had never fixed the price of rails, and as the Railroad Administration was so overwhelmingly the largest interest involved, we submitted the question to the President for his determination.

While I saw the President in person regarding the matter, and have had some little correspondence with him since, he has been so occupied with weighty matters of State recently that I hated to bother him further about it for the present. However, I realize its importance to the rail manufacturers, and while I presume you are collecting for rails furnished at the prices you mention, i. e., $55 and $57 per thousand, as long as it is simply a tentative price, subject to our final ruling, you naturally feel that the matter should be settled without any unnecessary delay. I am called to St. Louis for 2 or 3 days, and on my return, the middle of next week, I will take the matter up with the President again.

Please consider this for the information of those only who are interested, as we are in no way responsible for the newspaper articles you mention, and will trust to your seeing that nothing of this kind gets into the press.

If you are likely to be in Washington any time soon, after Thursday of next week, I wish you would let me know, as I think the problem which we discussed at our meeting a few days ago has been anything but exhausted, and it seems to me that, without reducing labor, there might be some adjustments on two or three articles that would satisfy the Navy and the Railroad Administration, and yet leave the steel industry a fair profit.

You have probably noted in this morning's press that McAdoo recommends the wiping out of all excess-profit taxes on next year's business. I think we will all agree that this is wise.

With best wishes,

Sincerely yours,

AMERICAN IRON AND STEEL INSTITUTE,
COMMITTEE ON STEEL AND STEEL PRODUCTS,
New York, November 9, 1918.

HON. ROBERT S. BROOKINGS,
Chairman Price Fixing Committee,
War Industries Board, Washington, D. C.

DEAR MR. BROOKINGS: Articles appear from time to time in the newspapers in regard to the fixing of price on rails, but naturally we do not know whether they are authoritative. The price of rails ought, in justice to rail manufacturers, to be determined very shortly.

You undoubtedly know that large tonnages are being shipped on a so-called "sustaining price" of $55 and $57, but if that price is not finally approved, it will work a very great hardship.

May I ask you to give me whatever information you consistently can on this situation.

Yours very truly,

(Signed) E. A. S. CLARKE, *Secretary.*

EASC:GEM

EXHIBIT No. 1280

MEETING OF THE PRICE-FIXING COMMITTEE OF THE WAR INDUSTRIES BOARD WITH THE REPRESENTATIVES OF THE STEEL INDUSTRY FOR THE PURPOSE OF CONSIDERING THE ADVISABILITY OF DISCONTINUING THE EXISTING MAXIMUM PRICES ON STEEL, DECEMBER 11, 1918, AT 10:30 A. M., ROOM No. 52

Mr. R. S. Brookings, presiding.

Present: Mr. Norris; Mr. Colver, Lt. Col. Montgomery, Gov. Stuart, Com. Hancock, Dr. Taussig, Mr. Baruch, Mr. Frayne, Mr. Phelps, sec.; Mr. Walker, Mr. Wells, Mr. Wooster, Federal Trade Commission; Mr. Replogle, Director of steel; Mr. Grimes, Emergency Fleet Corporation; Mr. Herman, Fuel Administration; Maj. McCleary, War Department; Mr. Ingels, steel section; Mr. Coffin, Mr. Peek, Emergency Fleet Corporation; Mr. A. L. Pugh, War Trade Board; Mr. L. Williams, Pig Iron Section; Mr. M. C. Dizer, Conservation Division; Maj. Ralph V. Magoffin, Q. M. C. History Branch, War College; also the following representatives of the steel industry: Mr. A. F. Huston, Lukens Steel Co.; Mr. Jno. B. Newton, Va. I. C. & C. Co.; Mr. J. A. Binden, The Binden Iron Co.; Mr. J. A. Topping, Republic Iron & Steel Co.; Mr. E. G. Graer, Bethlehem Iron & Steel Co.; Mr. L. E. Block, Inland Steel Co.; Mr. Willis L. King, Jones & Laughlin Steel Co.; Mr. Clark, American Iron & Steel Institute; Mr. Francis Hall, Central Iron & Steel Co.; Mr. J. V. W. Reynders, Chairman, Group 3; Mr. H. G. Dalton, Pickands Mather & Co.; Mr. R. A. Rainey, Mr. Scott Stewart, W. J. Rainey, Mr. Friend, Clinton Iron & Steel Co.; Mr. J. A. O. Preus, State of Minnesota; Mr. F. A. Wildes, Supt. Minn. State Mines; Mr. E. H. Gary, Chairman of Board, U. S. Steel Corp.; Mr. James A. Farrell, pres., U. S. Steel Corp.; Mr. James A. Campbell, pres., Youngstown Sheet & Tube Co.; Mr. A. H. Woodward, Woodward Iron Co.; Mr. James Bonner, Iron & Steel Institute.

Reported by Mr. R. V. Winquist.

Mr. BROOKINGS. Gentlemen, I guess we might as well proceed with the business. This is the regular meeting of the steel industry with the price-fixing committee before the expiration of our price-fixing period and we assume that you have all read that which has been so widely circulated by the press, that the purposes for which the War Industries Board was created have been fulfilled, and Mr. Baruch, as chairman of the board in his widely published letter of resignation, explained that the functions of the Board, including the price-fixing committee, would be expected to terminate the first of January; and the President in his reply, you doubtless have noticed, has accepted his resignation and has expressed it as his opinion that we have accomplished all that was expected of us, and after throwing us a few flowers, has dismissed us as of date, January first.

Now I think that you all probably realize from that that it has been the policy, and it is the policy today, of the price-fixing committee to permit all prices to expire by limitation; practically all of our prices of any importance expire at the end of this month—the steel prices as well as a number of others. One or two small matters go over for a month or two, which however are of no importance. Now it simply leaves us nothing to do at this meeting but to express (in words that I should like to have the privilege to compile more at leisure for our records) the earnest appreciation which the price-fixing committee have of the manner in which the steel industry has met us more than half way in doing practically everything that we have asked them to do in the way of not only allocating their production but in increasing their production and investing their funds in additional capacity at a time when costs were probably double normal—(and I wouldn't care to have what I say informally here now to fully express our appreciation of that; I can do it very much better by taking a little time and formulating it for our records and we may have something which we would be glad to send you a copy of)—but I think, for our initial meeting, where the steel industry one afternoon—meeting without practically any previous warning or preparation and simply on the finest sort of impulse—agreed with us to reduce values; such values as from nine, ten, or eleven cents on plates, to three and one-quarter cents per pound, and other important values down to what we recognized was still a profitable price, but a no more profitable price than was necessary to insure the protection which we felt we had to have. From that date to this, in our various meetings, we have seen your steel costs in advance. We have had them before us all the while. We still realize that there was a liberal profit in steel which was fading away gradually, but which was needed to maintain the production which we felt we ought to have; and we recognized, especially under the proposed revenue act that only a small proportion of any such liberal profits will be retained by you. I haven't flowers enough, Judge, to throw to you people for what we feel to have been the hearty cooperation that you have given us, and I don't know of anything that I can add, except to give you the opportunity of sending some of these flowers back to us, if you choose, by expressing your views as to our relation.

Judge GARY. We have no disposition to return to this Board the beautiful bouquet of flowers that has been bestowed upon us by the chairman in his words of praise and appreciation, for we cherish their possession. We would, if capable, fully reciprocate, though we have no disposition to resort to fulsome praise. A mere statement of the facts uppermost in our thoughts concerning the Board in its treatment of us would be praise enough for anyone.

On another occasion in New York two days since, when the steel industry of this country was represented by the presence of 140 or 150 men, and we were speaking in the absence of any members of this Board, expression was given to our real thought and conclusions in regard to the War Industries Board and all its departments, as to what they are and what they have done. Those expressions were reduced to writing and sometime when we are not present, if you would be sufficiently interested to ascertain what we think of the members of this Board, you may have that privilege. I am justified in saying at this time there is no lack of appreciation on the part of the members of the American Iron and Steel Industry concerning the problems which have confronted your Board and the heavy burdens which you have been obliged to carry. You occupied a disinterested position, except as you were concerned in the welfare of the people of this country generally, including the particular interests of a large industry whose representatives were compelled to come before you for discussion and decision in regard to propositions of great moment. The chairman has referred to the decisions which were made by the Board and therefore I may advert to the fact that the agreements which culminated between the Board and the steel industry apparently resulted in large profits to some of the concerns, yet, as a matter of fact, those results were largely nominal, not only because profits were in a substantial measure turned over to the Government in excess-profit taxes, but because the steel manufacturers were compelled to increase their production in lines applicable to the military necessities of this Government and its associates in the war, at costs which were abnormal and in many cases, two or three times greater than usual prices, and a material part of these excess costs will never be restored in any way, but will be lost. We realized clearly what the principal problems presented to your Board involved. Your purpose throughout all the deliberations was to keep those things off the United States [pointing to a Liberty loan poster hanging on the wall, bearing the inscription: "Keep these off the U. S. A." and portraying a pair of German military boots, blood covered]. I think I am entitled to say that the motive which prompted the steel industry in their considerations and actions has been to do that very thing.

In order to secure the largest production of steel—to permit the operation of all the facilities of all the companies, and firms—it was necessary to arrive at a bais of prices which, as applied to many of the corporations, yielded large profits, yet at the same time did not permit an unreasonable profit to many of the high-cost mills. Therefore we need not be especially grateful because you permitted profits which seemed to be large in many instances, but rather because we know that your motives were right, that you recognized your obligation to your country, and still at the same time in the performance of your duties you were always considerate, friendly and fair, and were as liberal in your conclusions as your duty to the Government you represented permitted. We have reason to be grateful that the Board has consisted of men who had not only the dispostiion but the intelligence to rise to a plane of action where exact justice could be done to all concerned.

The labors of the general committee and subsidiary committees have been arduous. Sometimes we have been perplexed, and at other times somewhat discouraged, but I speak the sentiment of the members of our general committee when I say that in all the work of a lifetime the labor performed in connection with the consultations and discussions before this board has been the most pleasant of their entire experience. To come into contact with Government officials, dealing at arm's length, and to get through with all our work with the belief that our intercourse has been satisfactory, agreeable, and pleas ant, is a most remarkable thing. This meeting, perhaps, does not finish the making of comment in regard to the association between this Board and the members of our committee, for when the record is finally written greater credit will properly be given to the members of the Board for what they have done and in a measure that will be extended to the members of the American iron and steel industry insofar as we have been of service to the country. We are grateful that a spirit of loyalty has actuated our conduct, and we are greateful to all the members of the Board because of their assistance to us in the performance of the duty.

We came here this morning on the invitation of the Price Fixing Committee extended some weeks since, to further consider the question of fixing maximum prices to apply on and after January first, and we are prepared to discuss that question. We have recently learned that perhpas we have devoted some unnecessary work in making preparation, and yet I do not think it has been unwisely performed. If permitted, I will give you later the benefit of our considerations so that you may be able to criticise, to object to or approve of what we have done. We see, as you have seen, that the general industry of this country and I may say the welfare of this country, depends upon careful thought and wise action by such men as those who are assembled in this room; for the economic, commercial, financial, and social conditions of the future we have great responsibility. It is quite likely no single line of industry has greater responsibility than the iron and steel trade. In matters relating to the read justment reorganization, and reestablishment of economic conditions throughout this country, so as to maintain a proper position in competition with other countries for the protection of the economic interests of this country, including especially the workmen, and to prevent a demoralization or great depression and to bring about, if possible, a basis for operations which shall be constructive protective, and just, we are giving serious thought. We recognize that to get from a war basis to a peace basis, possibly within a shorr time, is difficult and involves danger unless we exercise prudence and skill, with a disposition to be homest and fair and reasonable. The sudden and extreme change from war-base prices to competitive, uncontrolled, and uninfluenced prices is not easy if we are to maintain sound and stable conditions and avoid demoralization and panic.

While I could not state in a few words the many questions which are presented to us, yet I can say we are not neglecting them, and I believe the iron and steel industry is disposed to act unselfishly and with the intention of doing the best thing in the best manner. In this spirit we have attempted by conferences amongst ourselves to determine for presentation the to Price Fixing Committee a scale of prices for the next quarter which we were willing to recommend. We have had some opposition, particularly by the high-cost producers who will be more seriously affected, but after a pretty full discussion at a late meeting in New York, participated in by a large number of people, it was finally unanimously voted to submit the whole matter, with power, to the general committee of the American Iron and Steel Institute for careful consideration and for presentation of their conclusions to this Board today.

As these questions seriously affect the entire industry of the country I think it is only fair on our part to present these matters, because I think it should be generally known that the iron and steel industry, even at considerable sacrifice, more especially by the high-cost producers, by unanimous consent is willing to assume its obligations to take a position which is calculated to aid in bringing about an orderly reduction of prices and intended to be fair and reasonable to all who are interested. If the iron and steel industry from day to day shall measure up to the ideas which have been expressed as being fair and reasonable and of preventing a disorderly readjustment or reorganization of business, it will have performed a high duty, and in the long run will have secured for itself results which will be beneficial to the iron and steel industry and to the whole business world.

Mr. Brookings. Judge, may I interrupt a moment?

The Price-Fixing Committee have discussed their position today and they feel, and I think you will say very properly, that inasmuch as they have no authority of any kind over values after January first (such authority as has been given us by the President is practically withdrawn as of that date), it would seem improper for us to exert any public influence that we had by attempting to assume authority in connection with any prices that go into effect after January first. I am sure from the exhibit that we have already had of the patriotic and broad business view of the steel industry, it is such that they will handle the reconstruction problem just as widely and sanely as they have handled the war problem; that what they can do collectively within the law, they will do. What they cannot do collectively they will have to do as individuals; but, whether acting in the one capacity or the other, our experience with the steel industry is such that we feel absolutely sure that whatever you will do will be wisely done, but that you recognize yourselves that it would be improper for us to pretend to exert an influence and to pass judgment on anything that might be submitted to us in the way of prices to take effect after the President has announced that our authority has ceased.

Judge Gary. What you have stated meets with the approval of the committee I represent. We understand now exactly the position; we have been reaching an understanding for several days because of the publications which have been made, and I assure you we are now seeking no assistance whatever from the War Industries Board. I am referring to this matter, and I am going to refer to this list briefly if you will permit me simply to show what is our disposition and what would have been our recommendation to this Board except for the changes which have been brought about.

Mr. Brookings. Can't you give us that unofficially, Judge? These are our official records, of course, and we never have undertaken to influence anything that the steel industry wishes to present, and if the Board wishes, I personally would have no objection to your making any statement you wish to make, but they simply wish to avoid it being made even nominally, to assume a responsibility which we feel out of courtesy to the President (if nothing else) that we ought not to assume.

Judge Gary. I am very willing to adopt that suggestion.

Mr. Brookings. The information, I think, whatever information you have, will be useful to our files, the Government's files, because, before the meeting adjourns, I wish to make acknowledgement of the most wonderful service the Federal Trade Commission has rendered, I am sure, in giving the industry, as well as ourselves, a very thorough and fundamental knowledge of the underlying problems upon which we have based our findings, and I shall ask Mr. Colver later to say a word to two to you because I think such information that you are giving us and lots of other information that he would be glad to have as an agency of the Government, which will continue to function and which may be very helpful to you and serve the purpose better than we can.

Judge Gary. I want to say exactly the right thing now, Mr. Chairman. The public, interested in everything which affects the industrial situation, has not been informed of our action. Individuals connected with the trade have not been informed; and perhaps some think we have been more or less negligent in not giving full information as to the percentage of reduction or the amount per ton which had been agreed upon. We hesitated to do that because we felt if this question of price fixing were to come before the price-fixing committee, they should first have the opportunity to criticize. We have no disposition, and I am not going to try to secure any expression from this Board. I might know I couldn't secure it if I desired; but I wouldn't be unreasonable enough to try to get any expression from this Board at this time which might in any way be of benefit or injury to anybody else. And in view of what has been suggested by the chairman, it is better for us to take the entire responsibility and to give the public, if it is interested, or to the members of the trade, so far as desired, the result of our conclusion.

Mr. Brookings. I think that is best, Judge.

Judge Gary. It only remains for me to say that while the iron and steel industry, or some of its representatives, have at times been somewhat dissatisfied with the agreements which the general committee has made with the price-fixing committee of the Government, yet so far as I know, there is no one connected with this business who does not believe that the members of the price-fixing committee and the War Industries Board have acted impartially, justly, and with due consideration of the rights and interests of all, and have reached decisions which have proved to have been fair. And I want to say for the Federal Trade Commission that while at times they have bothered us in our offices—I say that in no invidious sense—because we are very busy and have been more or less interrupted, yet the representatives of the Commission, though persistent, have been gentlemanly and consistent; and, on the whole, we have no reason to complain, although they have at times exposed some of the claims made by accountants which were unjustified. So far as that applies to the corporation I have the honor to represent, I wish to say that we have not criticism to make and we are grateful to the Commission. I think we have the intelligence and the disposition to recognize that the interests of the country should be first considered. The members of this Board and of the Federal Trade Commission, and I think I may say those connected with the iron and steel industry have acted on the basis of being more or less responsible for the promotion of the welfare of the country. I thank you. [Applause.]

Mr. Brookings. Mr. Colver—as that agency of the Government which is supposed to keep the Government informed as to all of those industrial or business facts that have been collected for us during the price-fixing period—I have no doubt that you will continue to function along the same lines to some extent; and I can simply repeat what I said a few moments ago that I don't see how—of course we couldn't possibly have accomplished the results that we have, had it not been for the competent and earnest way in which every department of the Federal Trade Commission has sought to secure us the difficult information which they have had to present to us, to enable us to intelligently act in these problems. Looking to your future problems, I thought you might possibly wish to say a word.

Mr. Colver. Mr. Chairman and gentlemen, first of all I want to express for the Commission and the staff of the Commission our very sincere and heartfelt appreciation of the patience with which you gentlemen have borne with us. It has seemed at times that we were ashamed to have to bother you as we did, but we were only for the service. We were only doing as we were told and we did annoy you dreadfully. But you were game and you were good and you are mighty forgiving today. We appreciate it.

It has been the thought—and I want to suggest it this morning—that a certain part, although I am not very clear and shall not make any concrete suggestions, but a certain part of the work that we have been doing might be continued if it will be useful to the industry. It would appear that for a time at least there will be inquiry from Government agencies and Government departments; it would be too bad to dissipate this fine organization that Dr. Walker, Mr. Wooster, and Mr. Wells put together, only to have to recreate it or patch it up again if we were required to do some more work.

On the other hand, speaking for myself, I never want to see a questionnaire again. I am sick and tired of them and I know these gentlemen to whom all credit must go, absolutely—the Commission and the commissioners aren't entitled to a particle of it; these men have worked days, nights, Sundays, and holidays, and nothing but the spirit of real public service could have ever inspired men to go through the hot summer nights and hot summer days as they have gone through. I think they have tried, and I think in their work is reflected a spirit of absolute fairness. I think they have felt they were serving you to their utmost and at the same time they were serving the Government. If any plans—and we don't want to do anything in the world that isn't useful, and goodness knows we are not looking for work; we have had plenty of that; we have a lot left over to do yet. But if we can be useful, we want to be; and if it is possible to continue any part of our work, such part as would be useful to you, valuable to the Government, and valuable to the public at large, that part of the work we want to carry on. If there is no such work, we want to stop. To that end, it would be, I think, useful if as a preliminary perhaps you would have some of your skilled men meet with Dr. Walker and Mr. Wooster and Mr. Wells. Perhaps we could have done a little this afternoon, if that is agreeable, and some plan could be worked out. Certainly, we can work out a plan either to do nothing or to do something. That is the question now before the commissioners. We don't want the machine to go to pieces if it can be made useful to anybody. The public has paid for it and the public is entitled to the last drop of blood in it. And once more, and last of all, I want to thank you from the bottom of my heart for being such good fellows during all of this trouble. [Applause.]

Mr. Brookings. Gentlemen, while the price-fixing committee was appointed by the President and given certain and specific authority with which to solve certain responsibilities that have been placed upon it, we have always functioned, as you know, through the War Industries Board of which we are a part. When we have made prices and referred the problem back to the commodity section or the director in charge, we have recognized that we have only solved a small portion of the problem; that in stimulating production and allocating orders there was probably the greatest service to be rendered in the industrial importance of winning the war. I think Mr. Replogle ought to say a word to us before the meeting is dissolved.

Mr. Replogle. This seems to be a convention for bouquets. We have been told so many things will win the war—you see it in every billboard. I can only repeat what I have said a number of times—I think steel has played one of the very most important parts in winning the war—the weight of metals of recent months, particularly, six months. And you gentlemen here have supplied that metal. There has not been anything left undone in my opinion that could have been done and there are very few places in the Government program where, I might way, there is practically none—where steel has delayed the war program. And the gentlemen in this room and those associated with you are entitled to all the credit that is possible for anybody to get. As director of steel supply, I want to express my appreciation for the 100% cooperation which we have gotten on all occasions. It has been perfectly wonderful and one of the delights of my life has been to work with you. And I thank you from the bottom of my heart—all of you. [Applause.]

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Exhibit No. 1281

Meeting of the Price-Fixing Committee with Representatives of the Copper Industry in Regard to the Expiration of the Price, December 20, 1918, at 10:30 a.m. in Room 52

Present: Mr. Richard S. Brookings presiding; Mr. Hugh Franye, price-fixing committee, W. I. B.; Colonel Montgomery, price-fixing committee, W. I. B.; Governor Stuart, price-fixing committee, W. I. B.; Mr. Thurston, nonferrous metals section, W. I. B.; representative of the Emergency Fleet Corporation.

Also present representing the industry: Mr. H. B. Paull, Calumet & Arizona Mining Co. and New Cornelia Copper Company; Mr. Robert Linton, N. Butte Mining Co. and Cons. Copper Mines Company; Mr. F. W. Paine, Copper Range Company; Mr. J. H. Susmann, Mr. S. S. Rosenstamm, Miami Shattuck and Tennessee Copper Companies; Mr. F. S. Gourley, Calumet & Hecla Mining Company; Mr. Samuel Herrick, Engels Copper Mining Company; Mr. Chas. A. Kettle, Consl. Arizona Smelting Co. and Ohio Copper Company of Utah.

(Reported by R. B. Winquist.)

Mr. Brookings. This is the copper industry, I believe. We have rather a small meeting this morning. Is Mr. Gratton here?

Mr. Rosenstamm. He is not here.

Mr. Brookings. I have a letter from Mr. Clendennin saying that the American Smelting and Refining Company cannot be represented. I might read this. [Mr. Brookings reads letter from Mr. Clendennin.] That opens the meeting, gentlemen, about as well as anything I can say. You all know from various publications that the War Industries Board will cease to function after January 1st. This was announced before the President left the country on his acceptance of the resignation as chairman of the board. As the Price-Fixing Committee has always functioned through the commodity section of the War Industries Board it goes without saying that the necessity for fixing future prices has ceased and that we are allowing all prices fixed heretofore to expire by limitation and as the copper prices expire by limitation at the end of this month, about the only business that justifies our holding this meeting today was the desire of meeting the copper people again and to express to them the Government's appreciation of the splendid spirit with which they have assisted us in solving next to the most important problem we have had to solve in connection with our war needs. Steel and copper of course have been fundamentally the few industries that were most directly concerned in our war needs in everything pertaining to stimulating production and in agreeing with us upon what was a fair price for the Government and our Allies and the public, we feel that while we have endeavored to agree with you upon a price, that was fair and profitable and sufficiently profitable to maintain a maximum production, it was not very profitable to some concerns and rather more than normally profitable to others; but we recognize through efforts made to stimulate production and through excess profit prices none of the industries have profited beyond what seems to be perfectly fair and reasonable. I don't know that there is anything more we can say except to feel the satisfaction of having this appear upon our records and we hope the industry has been stabilized and that by getting you together as we have and inaugurating probably a larger community of interest than the industry has ever experienced before, that we have indirectly assisted you in getting probably a broader and more comprehensive view of your own industry than you have heretofore had. We hope that that will be of value and fruitful in facing this reconstruction period which we are perfectly conscious of being something of a problem. I think that is all that the committee has to say unless some of the members of the committee wish to express themselves and if there is any one who wishes to speak for the copper industry, we would be very glad to hear any expressions.

Mr. ROSENSTAMM. It is permissible for me to ask what the Government proposes to do with the surplus of copper in the hands of the consuming interest?

Mr. BROOKINGS. We have never had anything to do with the Government's orders, the commodity sections representing contracting departments of the Government have submitted price-fixing problems to us and we fixed the prices and passed them back for administration of the Department and we have absolutely no knowledge or connection with them.

Mr. SUSMANN. The thought Mr. Rosenstamm wished to ask you was if you could enlighten us as to the copper that the Government has on hand. You did express yourself as to that last week, as to whether they were going to throw that on the market or whether it is going to further assist the trade by withholding it for a while until it is stabilized. I don't ask this as an authoritative matter but as general information.

Mr. BROOKINGS. I don't remember having expressed an opinion on that. I am perfectly willing to express a personal opinion growing out of the knowledge that we all have in the War Industries Board. The general policy of the Government seems to be that as far as it can it is going to protect the industry against competing with anything which they have on hand or accumulated in large quantities and by advice and cooperation with the industry would endeavor to prevent the sale of their stuff, demoralizing the market. That has been given out publicly and I believe had been pretty widely published as the policy of the Government.

* * * * * * *

EXHIBIT NO. 1282

MEETING OF THE WAR INDUSTRIES BOARD, HELD TUESDAY, DECEMBER 10, 1918, AT 10:30 A.M. ROOM 909, C.N.D. BUILDING

Present: Mr. Baruch, chairman; Mr. Brookings; Mr. Peck; Judge Parker; Mr. Replogle; Mr. Ingels, secretary; also Mr. Ritchie; Mr. Clark.

Contracts—Status of informal contracts.—It is the unanimous opinion of the Board that in formal contracts given either verbally or by letter should be legalized and that the payment of money for the same be legalized, and that the fact that a manufacturer accepted such orders and proceeded to produce materials without waiting for the formal contracts to be drafted and signed should certainly entitle him to enjoy the same privileges and protection as the manufacturer who may have delayed production by waiting for the formal contracts to come through. This matter was referred to Judge Parker and Mr. Ritchie for their review and recommendation.

Organization—Resignation of Mr. Baruch.—Mr. Baruch sent in his resignation as per the following letter, dated November 29th, 1918, addressed to the President. It was accepted effective January 1st, 1919, as per the following letter, dated November 30th, from the President addressed to Mr. Baruch.

Organization—Liquidation of the War Industries Board.—Mr. Peek and Judge Ritchie were requested to work out a plan for liquidating the Board and present the same at the next meeting.

Wool—Disposition of Government-owned wool.—Mr. Baruch called the Board's attention to a letter signed by General Goethals, dated December 6th, 1918, regarding the best method to be followed in disposing of the Government-owned wool. After some discussion the following letter signed by Mr. Baruch was addressed to General Goethals, outlining the Board's position in the matter.

The meeting adjourned at 12:45 p.m.

H. P. Ingels, *Secretary.*

Legislation.—Mr. Peek and Mr. Ritchie submitted draft of a bill which, after several conferences with the War Department, they had prepared to legalize war agreements and orders which had not been executed or drawn in compliance with legal requirements, and which draft they thought should be submitted to the War Department, and then to the Military Committees of the Senate and House, with the recommendation that it be substituted in place of the bill on the same subject now pending before them. The draft was approved, and the chairman was requested to send the same to the said committees, and also to the United States Chamber of Commerce, which was interested in the subject.

The meeting adjourned at 11:30 a.m.

Albert C. Ritchie, *Counsel.*

The following information regarding bonds covering Government advances to the du Pont Engineering Co. was requested of the du Pont Co. by the committee. (See text p. 3579).

E. I. du Pont de Nemours & Co., Inc.,
Wilmington, Del., April 24, 1935.

Alger Hiss, Esq.,
Special Committee Investigating the Munitions Industry,
Senate Office Building, Washington, D. C.

Dear Mr. Hiss: At the December hearings (pp. 5389–90 of the typewritten record), I introduced copies of two bonds (exhibits 1216–1217) given to the Government by Du Pont Engineering Co. as principal and E. I. du Pont de Nemours & Co. as surety, covering advances under the Old Hickory contract, for $20,000,000 and $6,318,000, respectively. At the same time I stated that I had been unable to locate our copy of the corresponding bond covering a further advance of $12,000,000, but that I was satisfied that such a bond had been issued and that I was having a search made for the copy.

This search has been continued, but we are still unable to locate the desired copy, or rather copies. However, our records plainly indicate that bonds were issued in the same form with the two already printed among your exhibits, to cover all the advances made by the Government. The final advance to which I referred roundly as $12,000,000 was, to be exact, a total of $12,636,000, which was received in three installments. The complete sequence of advance payments received and bonds executed to cover them was, according to our records, as follows:

Advances received		Bonds executed		Copies of bonds
Date	Amount	Date	Amount	
Apr. 1, 1918	$18,750,000	Mar. 29, 1918	$20,000,000	Exhibit 1216.
May 24, 1918	6,318,000	May 13, 1918	6,318,000	Exhibit 1217.
Sept. 17, 1918	6,318,000	Sept. 12, 1918	6,318,000	
Dec. 23, 1918	2,000,000	Dec. 15, 1918	6,318,000	
Dec. 26, 1918	4,318,000			

The original bonds can still no doubt be located, if desired, in the records of the Government.

Very truly yours,

W. S. Gregg, *of Counsel.*

The following information re Judge Laffey's memorandum was submitted by the du Pont Co. in response to a request by the committee. (See text, p. 3585.)

E. I. du Pont de Nemours & Co., Inc.,
Wilmington, Del., January 10, 1935.

Alger Hiss, Esq.,
Special Committee Investigating the Munitions Industry,
Senate Office Building, Washington, D. C.

Dear Mr. Hiss: In volume 24, part 1, pages 5404–5406, you made reference to a memorandum dated October 21, 1917, signed by E. A. Hamilton, captain, Ordnance Department, in which Captain Hamilton made reference to a memorandum of Judge Laffey, counsel for Du Pont Co., in which Judge Laffey stated that "the Du Pont Co. desires to assume no risk of financial loss to itself", having reference to the construction and operation of Government smokeless powder plants. I stated, on page 5406, that I would be glad to furnish to the committee a copy of Judge Laffey's memorandum.

I have caused diligent search to be made of the files of the Du Pont Co., and the only memorandum I have been able to find is an undated memorandum, apparently prepared by Judge Laffey, which has the following notation on it, as you will observe: "Copy handed Col. Hoffer in Washington 10/18/17." I think this must be the memorandum that Captain Hamilton had reference to, in view of the fact that the second and third sentences of paragraph 1 of the memorandum I enclose contain language identical with that read by you and which appears on page 5406, volume 24, part 1, of the transcript of the hearings.

You will note that in the second paragraph of the memorandum Judge Laffey points out one of the principal reasons why he does not deem it advisable for E. I. du Pont de Nemours & Co. to directly act as agent in the construction and operation of Government smokeless powder plants.

I respectfully request that the enclosed memorandum, and this letter, be included in and made a part of the record of the hearings before the committee.

Very truly yours,

W. S. Gregg, *of Counsel.*

Du Pont's Reasons for Using a Subsidiary Company to Carry Out the Agency Contract Covering Construction and Operation for the Government of Certain Smokeless Powder Plants

1. Limitation of liability as to parties other than the Government. This liability lies in the possibility of its being hereafter held that the Ordnance Department exceeded its lawful powers in making this contract, in which event the agent might be held liable on its implied warranty of authority on all contracts signed by it as agent of the Government. The du Pont Company desires to assume no risk of financial loss to itself.

2. There are many causes of action, such as torts, which can be brought against both principal and agent. If a subsidiary company is used, it would be legally installed and doing business only in the States where plants are built and all actions will be confined to these states. If the du Pont Company proper, acts as agent, these actions being transitory in their nature, can be brought in any State where the du Pont Company is installed, which is practically every State in the Union.

3. To date the du Pont Company has not engaged in the business of acting as agent. While its charter is sufficiently broad to include this power, it is more logical to create a corporation the charter of which will specifically cover authority to act as agent for the Government.

4. The agency business is foreign to the du Pont Company proper, and for accounting reasons it is desirable to have a separate company.

While a subsidiary company is not only a convenience and safeguard to the du Pont Company proper, there is no disadvantage to the Government in the use of a subsidary company to carry out this agency for the following reasons:

(a) The new company, although of limited capital, will, if desired, have the same directors and officers as the main company, the control of which, through stock ownership, would be and remain in the main company.

(b) The main company would enter into a contract with the new company wherein for an agreed consideration, the main company will agree to furnish the new company in and about the carrying out of the agency contract, the use of all its departments, thereby securing to the Government precisely the same services that it would receive if the contract were made with the main company.

(c) The main company will at the time of the signing of the contract between the Government and the new company, obligate itself to the Government to furnish to the new company the services of its various departments and facilities as set forth in paragraph (b).

The following letter is included in the record at the request of the du Pont Co. (See text p. 3590.)

E. I. du Pont de Nemours & Co., Inc.,
Wilmington, Del., April 29, 1935.

Alger Hiss, Esq.,
Special Committee Investigating the Munitions Industry,
Senate Office Building, Washington, D. C.

Dear Mr. Hiss: At the December hearings (typewritten record, pp. 5416–5417) you inquired of me whether any reply had been made to Major MacCleary's letter of October 19, 1918 (your exhibit no. 1221), criticising the prices paid for benzol and alcohol for use at Old Hickory and requesting that the company's purchasing department check with the Procurement Division of the Ordnance Department before closing further purchases on raw materials with which the division was concerned.

Prompt compliance, we find, was made with Major MacCleary's request for consultations on prices, in connection with contemplated purchases of soda aoq and caustic soda; and a review was at once undertaken of the facts attending the past purchases that had been criticised. So far as we can now discovers however, the intended final reply to Major MacCleary in that regard was not made. The intracompany correspondence in our files indicates that this subject was having active attention up to within a few days of the armistice.

The men who would have most intimate knowledge of this matter are now dead or no longer available for questioning. What apparently happened, however, was that in the general letting down that attended the ending of hostilities, and with the sudden shift of emphasis from procurement and production to demobilization and liquidation, this question of prices under past purchase contracts escaped the necessary final attention, and the letter that should have been sent to close the matter was not written.

Major MacCleary's principal criticism, it appears from the correspondence, was with respect to the prices paid for benzol. The answer in that regard will be found given rather fully in the reply I am submitting to the various charges in the "Storck report" (your exhibit no. 1190). We desire to add, however, that the figure of 18 cents quoted by Major MacCleary as the maximum which his division had paid "on any bookings for benzol which have been made since May" is entirely out of line with the actual market values generally prevailing over the period in question on the grade of benzol which our company bought for nitrating in its own plants and at Old Hickory. This we believe is beyond any question, according to sources of information which are indisputable.

Just how Major MacCleary's 18-cent figure can be reconciled with the known facts, we are at a loss to state, unless possibly it related to small distress lots of this byproduct derivative picked up under exceptional circumstances, or unless the purchases Major MacCleary had in mind were of one of the less expensive commercial grades than the chemically pure benzol which it was necessary to buy for nitrating as the first stage in the manufacture of diphenylamine for smokeless powder. We do not know for what purpose the Government purchases of benzol were made, but assume it was not for diphenylamine, since the diphenylamine unit at Old Hickory was built of sufficient size to take care of the Government's entire requirements of that material, not only at Old Hickory, but also at Nitro and elsewhere.

Very truly yours,

W. S. Gregg, *Of Counsel.*

The following statement is included in the record at the request of the du Pont Co. (See text, p. 3599.)

Cost of Construction of Old Hickory Smokeless Powder Plant Compared with Cost of Construction of Nitro Smokeless Powder Plant

OLD HICKORY—DATA AS TO COST OF OLD HICKORY PLANT TAKEN FROM RECORDS OF DU PONT ENGINEERING CO.	NITRO—DATA AS TO COST OF NITRO PLANT TAKEN FROM NITRO PLANT HISTORY PREPARED BY GOVERNMENT REPRESENTATIVE IN CHARGE OF CONSTRUCTION, AND FROM OFFICIAL RECORDS OF CONGRESSIONAL INVESTIGATION COMMITTEE—GRAHAM COMMITTEE
1. Built on site selected by du Pont Co. and classed as site no. 2 on account of its not having as great natural advantages as site no. 1, Nitro.	1. Built on site selected by du Pont Co. and classed as site no. 1 on account of its natural advantages.
2. Approximately 7 miles of double-track railroad had to be built for connection with nearest railroad.	2. Plant built almost directly on existing main-line railroad.
3. Plant designed and equipped to manufacture water-dried cannon powder, air-dried cannon powder (a larger amount of air drying capacity than Nitro), small-arms powder, and diphenylamine for both Old Hickory and Nitro plants.	3. Plant designed and equipped to manufacture water-dried cannon powder and a small amount of air-dried cannon powder. No diphenylamine plant.
4. Estimated capacity per day, 900,000 pounds.	4. Estimated capacity per day, 625,000 pounds.
5. Capacity per 24-hour day, based on actual practice, 1,000,000 pounds.	5. Capacity per 24-hour day, estimate by Government, 700,000 pounds.
6. When work was stopped following armistice, plant was approximately 92 percent completed and practically all material to complete plant was on hand, shipped, or manufactured.	6. When work was stopped following armistice, we estimate from Government records plant was approximately 75 percent completed. We cannot estimate from available records quantity of construction material on hand and manufactured for use in completion of plant.
7. Total expenditure, excluding land, \$85,267,766.35. This amount includes the cost of certain materials furnished directly by the United States Government. (The total actual expenditures made by Du Pont Engineering Co. was \$83,827,534.26, of which amount, \$101,719.21 was disallowed in final settlement with the Government.)	7. Total expenditure, excluding land, \$60,100,000.
8. Estimated cost of complete plant, \$90,000,000. Increase over \$85,267,766.35 is largely labor, as most of the material needed to complete was paid for and included in the \$85,267,766.35.	8. Estimated cost of complete plant, \$75,000,000.
9. Estimated construction cost of completed plant (*including* diphenylamine and small arms powder capacity and long railroad track to main line) per pound of powder per 24-hour day,[1] \$90.	9. Estimated construction cost of completed plant (*excluding* diphenylamine and small arms powder capacity and long railroad track to main line not buit at Nitro), per pound of powder per 24-hour day, \$107.14.

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[1] The reference in this comparative memo to "per pound of powder per 24-hour day", was explained by the du Pont Co. under date of May 1, 1935, as follows: "Under the extreme pressure prevailing throughout the war, it was the practice to operate powder plants 'around the clock', working generally 24 hours daily with three shifts of 8 hours each. In Mr. Gregg's letter, the expression 'per pound of powder per day' was expanded to read 'per pound of powder per 24-hour day', in order that there might be no misunderstanding about the exact amount of plant capacity corresponding with the cost figures given."

10. On basis of the estimated unit cost of construction per pound of powder caapcity at Nitro, the Old Hickory plant, *excluding* the diphenylamine and small arms podwer capacity and the double-track railroad to the main line, would have cost, when completed, approximately $107,142,867.14. On the same basis, *including* the diphenylamine and small arms powder capacity and the railroad track to main line, the Old Hickory plant when completed would have cost approximately $109,320,000.

11. Estimated *saving* to United States by reason of lower unit cost of construction at Old Hickory as compared with unit construction cost at Nitro approximately $19,320,000.

9a. We estimate construction cost of completed plant, if Nitro had been equipped as was Old Hickory to make its diphenylamine and the same relative quantity of small arms powder, and if the same amount of railroad track had been required as at Old Hickory, at $76,525,000.

9b. We estimate construction cost of completed plant (*including* diphenylamine and small arms powder capacity and railroad track of same length as at Old Hickory), per pound of powder per 24-hour day, $109.32.

10. On basis of the estimated unit cost of construction per pound of powder capacity at Old Hickory, the Nitro plant, *excluding* the diphenylamine and small arms powder capacity and railroad track to main line, would have cost when completed approximately $61,932,500. On the same basis, *including* the diphenylamine and small arms powder capacity and the railroad track to main line, the Nitro plant when completed would have cost approximately $63,000,000.

11. Estimated *loss* to United States by reason of higher unit cost of construction at Nitro as compared with unit construction cost at Old Hickory, approximately $13,067,500.

Comparison of construction schedule and progress of construction between Old Hickory Smokeless Powder Plant and Nitro Smokeless Powder Plant

OLD HICKORY

Powder lines or sections	Estimated dates of completion, as given in contract of Jan. 29, 1918	Estimated dates of completion, as given in contract of Mar. 23, 1918	Dates of actual completion
1	Sept. 29, 1918	Aug. 15, 1918	July 2, 1918
2	Nov. 10, 1918	Sept. 15, 1918	July 24, 1918
3	Dec. 22, 1918	Oct. 15, 1918	Aug. 20, 1918
4	Feb. 2, 1919	Nov. 15, 1918	Sept. 3, 1918
5	Mar. 16, 1919	Dec. 15, 1918	Sept. 24, 1918
6		Jan. 15, 1919	Nov. 11, 1918
7		Feb. 15, 1919	[1] Do.
8		Mar. 15, 1919	[2] Do.
9		Apr. 15, 1919	[3] Do.

[1] 98 percent complete.
[2] 60 percent complete.
[3] 65 percent complete.

Comparison of construction schedule and progress of construction between Old Hickory Smokeless Powder Plant and Nitro Smokeless Powder Plant—Continued

NITRO

Powder lines or section	Estimated dates for completion of construction, as given in contract of May 9, 1918, for operation of Nitro	Dates of actual completion
1	July 1, 1918	Sept. 1, 1918
2	Aug. 1, 1918	Oct. 5, 1918
3	Sept. 1, 1918	Nov. 9, 1918
4	Oct. 1, 1918	[3] Nov. 15, 1918
5	Nov. 1, 1918	Do.[4]

[3] 65 percent complete.
[4] 45 percent complete.

The following statement was requested of the du Pont Co. by the committee. (See text, p. 3599.)

DECEMBER 21, 1934.

CAPITAL COST PER POUND OF SMOKELESS POWDER PRODUCTION

In arriving at the capital cost per pound of smokeless powder produced at Carneys Point, it is necessary to take into consideration a proportion of the investment at the Hopewell plant for the production of nitrocotton and at Repauno for the production of diphenylamine.

To make the costs comparable with Old Hickory, it is necessary to correct the expenditures made at Carneys Point, Hopewell, and Repauno in the years preceding 1918 to correspond with the prevailing unit costs of construction at the time Old Hickory was built. The factors applied to these expenditures were obtained from the "Construction cost index" prepared by the Engineering News-Record, which is the generally accepted source of this type of information.

The total capital cost of Carneys Point on a 1918 cost basis is	$39, 618, 213
The total cost of the Hopewell guncotton plant on the same basis is $64, 543,487; of this amount, 56.35 percent was for the production of cotton consumed by the Carneys Point plant; this makes the investment at Hopewell for Carneys Point production	36, 370, 255
The total cost of the Repauno diphenylamine plant on the same basis is $1,264,815; of this amount, 49.32 percent was for the production of diphenylamine consumed by the Carneys Point plant; this makes the investment at Repauno for Carneys Point production	623, 958
The total investment at Carney's Point and the investments at Repauno and Hopewell for Carney's Point production are	76, 612, 426

There were 208,647,770 pounds of powder produced at Carneys Point during the first 10 months of the year 1918. On the basis of 27 working days per month, the daily production was, therefore, 772,769 pounds.

The capital cost per pound of powder per day is, therefore, $76,612,426÷772,769 pounds, or $99.14.

We are attaching hereto detailed figures showing the method of arriving at the cost shown above, and are also attaching photostatic copy of the "Construction cost index" from which the factors used were obtained.

W. B. BANKER,
Assistant Chief Engineer.

	Actual construction expenditures	Factor	Adjusted to 1918 average construction cost level
Hopewell (cotton):			
Dec. 31, 1913 (book value)	$699, 519. 86	1. 892	$1, 323, 491
1914	574, 036. 40	1.892/0.8856	1, 226, 371
1915	21, 631, 303. 12	1.892/0.9258	44, 205, 730
1916	6, 723, 927. 19	1.892/1.2958	9, 816, 934
1917	2, 575, 252. 48	1.892/1.8124	2, 689, 593
1918	5, 281, 368. 41	1. 000	5, 281, 368
Total	37, 485, 407. 46		64, 543, 487
Repauno (diphenylamine):			
1914	31, 268. 36	1.892/0.8856	66, 801
1915	314, 599. 19	1.892/0.9258	642, 914
1916	134, 040. 71	1.892/1.2958	195, 699
1917	47, 340. 95	1.892/1.8124	49, 442
1918	18, 078. 57	1. 000	18, 078
Total	545, 327. 78		972, 934
Add 30 percent acid, power, service lines, offices, and other general facilities			291, 881
Total			1, 264, 815
Carney's Point (powder):			
Dec. 31, 1913 (book value)	1, 548, 632. 60	1.892/1.00	2, 930, 011
1914	342, 294. 39	1.892/0.8856	731, 277
1915	10, 271, 224. 49	1.892/0.9258	21, 000, 273
1916	3, 112, 850. 59	1.892/1.2958	4, 545, 762
1917	3, 493, 573. 79	1.892/1.8124	3, 648, 688
1918	6, 762, 202. 06	1.892/1.892	6, 762, 202
Total	25, 530, 777. 92		39, 618, 213

Cotton consumption at Carney's Point during 10 months of 1918 pounds	205, 071, 736
Carney's Point produced during same period do	10, 152, 729
Hopewell cotton used at Carney's Point do	194, 919, 007
Hopewell total production over same period do	345, 734, 562
Percent of Hopewell production used at Carney's Point (194,919,007 ÷345,734,562)	56. 35
Repauno produced an average, per month, of 220,000 pounds of diphenylamine during 10 months of 1918.	
Carney's Point used during same period 1,085,326 pounds, equal to 108,532 pounds per month.	
Percent of Repauno production used in Carney's Point powder (108,532÷220,000)	49. 332
Above expenditures adjusted to 1918 cost levels:	
Hopewell (cotton) (64,543,487×56.35 percent)	$36, 370, 255
Repauno (diphenylamine) (1,264,815×49.332 percent)	623, 958
Carney's Point (powder) (39,618,213×100 percent)	39, 618, 213
Total	76, 612, 426
Powder produced at Carney's Point during 10 months (each 27 working days) of 1918 pounds	208, 647, 770
Daily production 208,647,770÷270 days do	772, 679
$76,612,426÷772,769=Construction cost per day/pounds	$99. 14

Construction costs [1]*—Index numbers of construction costs (1934 edition Engineering News-Record)*

[Engineering News-Record construction cost index: 1913=100]

	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923
January	89.22	87.12	112.66	167.75	184.51	198.05	206.55	230.87	168.72	191.70
February	89.22	87.36	116.66	167.75	184.51	201.50	225.10	230.67	168.72	197.40
March	88.97	87.66	125.16	175.66	184.51	198.05	240.85	224.27	162.04	205.25
April	87.97	90.16	129.51	183.41	186.01	191.25	265.20	213.07	164.72	213.50
May	88.62	90.16	141.06	187.61	186.01	191.25	268.90	210.82	164.62	216.70
June	87.87	88.96	128.71	199.26	186.31	191.85	273.80	209.82	166.62	220.70
July	88.12	90.51	127.96	204.01	188.65	193.65	265.65	203.82	169.70	222.10
August	90.11	91.76	128.76	198.41	193.85	196.65	252.00	193.47	173.40	221.50
September	90.36	93.01	131.76	190.31	193.85	202.85	255.20	188.27	185.00	221.50
October	88.51	96.16	135.11	167.11	193.85	202.25	255.20	182.57	188.60	220.30
November	87.26	101.06	138.16	166.51	193.55	206.85	255.32	166.32	188.60	220.90
December	86.51	107.06	149.41	167.11	194.75	206.85	251.62	167.82	192.60	217.30
Average	88.56	92.58	129.48	181.24	189.20	198.42	251.28	201.81	174.45	214.07

	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933
January	217.90	210.40	207.15	211.50	203.90	209.40	208.96	194.48	162.48	158.44
February	220.30	209.70	206.55	210.15	204.65	210.40	206.46	196.61	161.82	159.30
March	224.70	210.20	207.65	208.80	204.65	207.78	206.80	194.51	157.24	158.44
April	221.60	209.55	207.05	209.00	206.40	203.40	207.12	191.63	153.12	160.16
May	222.38	207.20	207.30	206.80	207.00	205.15	205.86	189.33	152.78	164.39
June	216.85	204.60	204.80	205.55	206.15	205.65	203.36	187.23	152.20	163.41
July	214.40	204.60	207.80	203.68	206.65	204.77	200.95	174.37	153.36	165.50
August	213.15	204.60	208.30	205.50	207.29	205.91	200.95	171.38	156.80	167.00
September	211.25	202.10	208.30	203.60	207.29	207.57	199.58	171.40	157.96	175.48
October	207.55	205.35	209.80	204.40	207.71	206.32	198.72	169.78	159.16	187.74
November	205.70	205.95	210.80	201.98	209.46	208.46	198.54	169.28	158.20	190.14
December	208.58	205.95	210.80	203.90	210.16	209.46	196.86	166.23	158.46	192.14
Average	215.36	206.68	208.03	206.24	206.78	207.02	202.85	181.35	156.97	170.18

Yearly averages prior to 1914: 1903—93.90; 1904—87.40; 1905—90.55; 1906—95.10; 1907—100.55; 1908—97.20; 1909—90.92; 1910—96.33; 1911—93.43; 1912—90.70; 1913—100.00.

[1] See p. 3927 for additional data.

Engineering News-Record's Construction Cost Index Number is a national index of general construction cost in the United States. It has 4 components, of which 3 are prices of materials and 1 is wages. The materials are structural steel at Pittsburgh, cement at Chicago, and lumber at New York. The labor element is the average wage for common in 20 cities. These four factors are weighted according to their relative importance, resulting in the following quantities: structural steel, 2,500 pounds; cement, 6 barrels; lumber, 600 feet board measure; common labor, 200 man-hours. These are repriced each month.

The relation of these four components in the 1933 average index is: Labor, 53.6 percent; structural steel, 23.8 percent; lumber, 16.5 percent; cement, 6.1 percent.

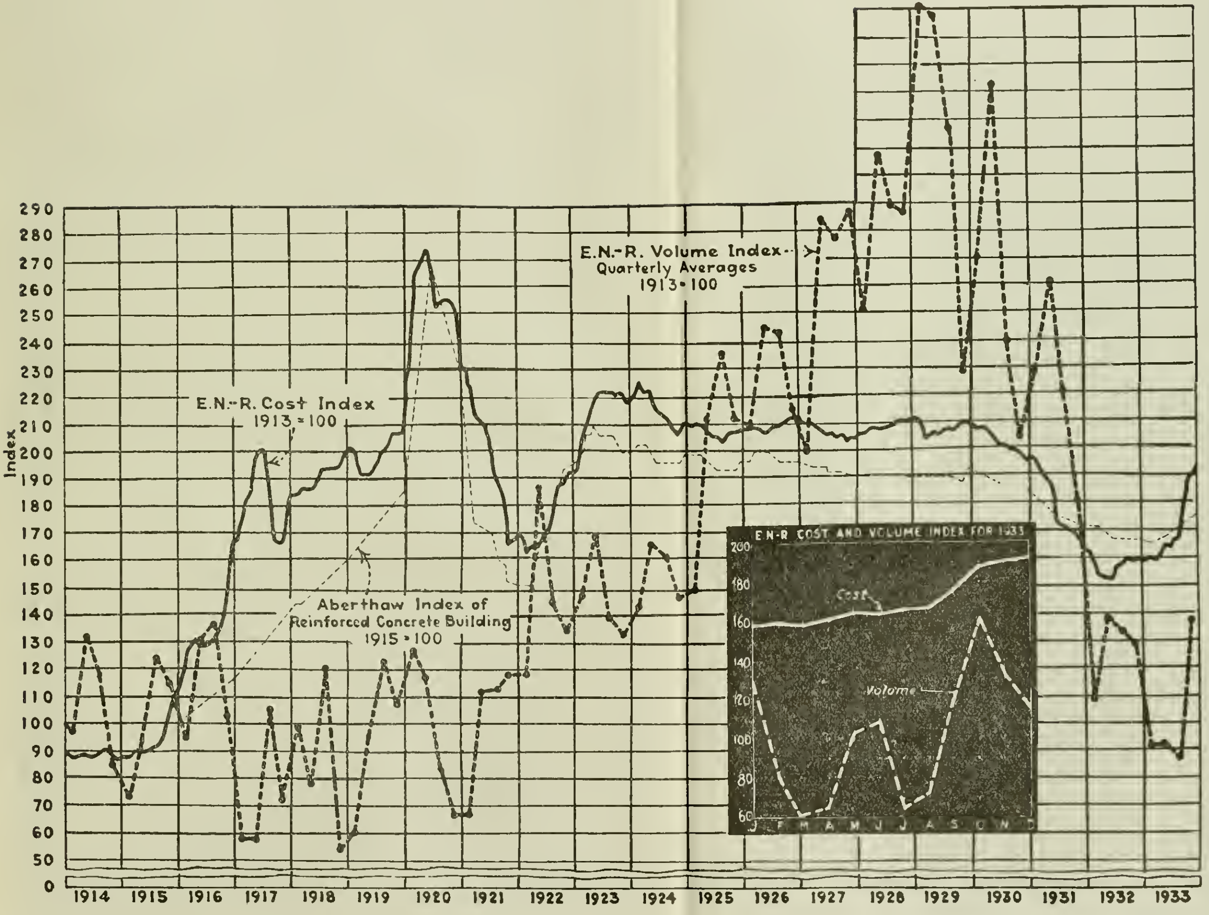
Table I gives the annual values of the News-Record Cost Index for the years 1903 to 1913. From January 1914 first-of-month values are given as well as yearly averages.

The purpose of the Cost Index, as stated in the first paragraph, is to show the movement of general construction costs. It was not intended to apply to a apecific type of structure, nor to a class of construction, nor to a particular locality. It is used in financing operations, in estimating and in valuation. Its possible application in a special problem must be determined by the individual user.

In response to the committee's inquiry as to the proportion of the total construction costs of the Old Hickory, Carney's Point, and Hopewell plants, represented by labor, steel, lumber, and cement respectively, in order to determine whether the construction index was comparable to the actual costs of constructing these plants, the du Pont Co. submitted the following two letters:

RISING materials prices—and labor rates pushed up the construction cost index to early 1931 levels during the final quarter of 1933. The volume index curve shows there is little relation between construction costs and volume. The Aberthaw index represents the cost of a typical reinforced-concrete factory building in New England.

(For Volume Index table see p. 4)



E. I. du Pont de Nemours & Co.,
May 7, 1935.

Mr. T. R. Hanley,
Legal Department:

With reference to Mr. Raushenbush's inquiry of May 3 regarding the summary of "Capital cost per pound of smokeless powder production", wish to advise in the first place that the Engineering News-Record Cost Index, which was used in preparing the summary, is the one generally used by the construction industry in the comparison of costs. It is true that the relation of the four components, i. e., labor, structural steel, lumber, and cement, may vary from time to time but it is generally considered that the resultant index fairly represents the cost of work in any given period.

Inasmuch as all three plants under consideration were built according to the same general designs—e. g., corresponding buildings on the three plants were constructed of the same material, lumber, brick, or corrugated iron, corresponding process equipment in the various buildings was identical in size and design—it can be safely assumed that there was little or no variation in the proportions of labor, lumber, steel, and cement in the construction of these plants.

E. G. Ackart, *Chief Engineer.*

E. I. du Pont de Nemours & Co., Inc.,
Wilmington, Del., May 14, 1935.

Mr. T. R. Hanley,
Legal Department:

With reference to Mr. Raushenbush's letter of May 10, it is impossible to give the cost of labor, steel, lumber, and brick as a proportion of the total cost of the various plants under consideration. No cost system that we know of would make this information available.

As we tried to point out in our letter of May 7 to you, the Engineering News-Record Index is used by the industry to make comparisons of costs. It is relative only, and from many years, experience, we have found it to be quite accurate in showing the movement of construction costs.

E. G. Ackart, *Chief Engineer.*

The following statement of charges paid by Government to E. I. du Pont de Nemours & Co. for administrative and engineering service in connection with the construction of Old Hickory, was requested of the du Pont Co. by the committee. (See text, p. 3603.)

E. I. du Pont de Nemours & Co., Inc.,
Wilmington, Del., April 18, 1935.

Alger Hiss, Esq.,
Special Committee Investigating the Munitions Industry,
Senate Office Building, Washington, D. C.

Dear Mr. Hiss: In your examination of December 17, you requested me (pp. 5450–1 of the typewritten record) to supply a statement of the amount of charges paid by the Government to E. I. du Pont de Nemours & Co. for "administrative and engineering service" in connection with the construction of the Old Hickory plant.

I am writing to supply the desired figures. Before doing so, however, I would like to clear up a natural misconception which I believe attended your question on this point, and if not, is still apt to lead to a misunderstanding of these figures if submitted without explanation.

Apparently the thought was that there was some element of profit for the du Pont Co. in these charges. On the contrary, the fact is that the charges paid by the Government represented only the amounts actually expended by the du Pont Co. for engineering work done by members of its own engineering department in connection with the construction of the Old Hickory plant. The principle followed was to keep an exact record, by individual projects, of the time expended by the company's engineers, draftsmen, etc., and to bill these charges according to the various projects which were in process, including Old Hickory.

No percentage was added to these charges for profit. However, the charges did, of course, include a proper apportionment of the necessary cost for supervision of the engineering work which was in progress. That part of the charges is shown below as "Indirect" and represents just as real and necessary a part of the actual cost to the du Pont Co. of doing this work as the salary which was paid to the draftsman at his board. The out-of-pocket cost for necessary traveling expenses in connection with the Old Hickory project was also billed to the du Pont Engineering Co. and paid by the Government.

As a further item of cost, an apportionment of the various office expenses of the parent company's engineering department (for rent, light, and similar items), amounting to about $64,000, was also billed against the du Pont Engineering Co., as we believe was entirely proper; but this part of the actual expenses was subsequently disapproved by the Government's representatives and its exclusion was agreed to by us in the interest of a final settlement. Thus, the charges actually paid by the Government were confined to reimbursement of the Du Pont Co.'s expenditures for salaries and traveling expenses. The amounts paid were as follows:

Direct	$481, 166. 59
Indirect	54, 692. 45
Total	535, 859. 04

It may be added that the "Indirect" item which is shown was about one-ninth of the total indirect expense of the engineering department of the du Pont Co. for the period in question.

Very truly yours,

W. F. GREGG, *Of Counsel.*

E. I. DU PONT DE NEMOURS & CO., INC.,
Wilmington, Del., April 22, 1935.

ALGER HISS, ESQ.,
Special Committee Investigating the Munitions Industry,
Senate Office Building, Washington, D. C.

DEAR MR. HISS: This is to supplement my letter of April 18 in answer to your question (pp. 5450–1 of the typewritten record of the December hearings) as to the amount of charges paid by the Government to E. I. du Pont de Nemours & Co. for "administrative and engineering service" in connection with the construction of the Old Hickory plant.

The $54,692.45 item of "indirect" expense reported in my letter of the 18th, as explained in the fourth paragraph of that letter, represented the costs of E. I. de Pont de Nemours & Co. for salaries and traveling expenses of members of its engineering department while engaged in supervision of the large amount of engineering work handled by that department for the du Pont Engineering Co. in the construction of the Old Hickory plant. In addition, there was a further and entirely analagous cost of $14,960.45 for salaries and traveling expenses of members of the staff of the traffic department of E. I. du Pont de Nemours & Co. while similarly engaged in supervising the large volume of traffic activities handled by the parent company in connection with the Old Hickory construction. To make my answer to your question assuredly complete, this item of administrative cost for traffic work should perhaps be included, though that was not in mind when my letter of the 19th was written.

No similar charges were collected in connection with the work of any other department of E. I. du Pont de Nemours & Co. in furtherance of the construction undertaking at Old Hickory. Also, as I pointed out in my previous letter, these charges represented bare costs, without the addition of any element of profit, and after a substantial volume of additional costs for items other than salary and traveling expenses had been challenged by the Government's auditors and its exclusion agreed to by us in the interest of a final settlement.

Very truly yours,

W. F. GREGG, *Of Counsel.*

The following information was requested of the War Department by the committee. (See text p. 3612.)

MEMBERSHIP OF THE NAVAL CONSULTING BOARD OF THE UNITED STATES

Thomas A. Edison
Dr. M. R. Hutchison
Dr. L. H. Baekeland
Dr. W. R. Whitney
Frank J. Sprague
B. G. Lamme
R. S. Woodward
Arthur G. Webster
A. M. Hunt
Alfred Craven
M. B. Sellers
Hudson Maxim
Thomas Robins
Peter Cooper Hewitt
Howard E. Coffin
Andrew L. Riker
William L. Saunders
Benjamin B. Thayer
Lawrence Addicks
Prof. Joseph W. Richards
W. L. R. Emmett
Spencer Miller
Elmer A. Sperry
Henry A. Wise Wood
D. W. Brunton

The following information regarding machine gun sales was requested of the Winchester Co. by the committee. (See text, p. 3647.)

WINCHESTER REPEATING ARMS CO.,
New Haven, Conn., January 7, 1935.

Hon. GERALD P. NYE,
Chairman Special Committee Investigating the Munitions Industry,
Senate Office Building, Washington, D. C.,

DEAR SENATOR NYE: You will remember that during my testimony before your committee I was asked to furnish a list of all sales to other than Government agencies and stocks on hand of machine guns and machine-gun parts at the Winchester Repeating Arms Co.

While the Winchester Repeating Arms Co. has had many chances to enter the machine-gun field, they have consistently turned these down with the exception of the manufacture of the Browning machine rifle, model 1918, for the United States Government during the war.

It may interest your committee to know that the late Mr. John M. Browning brought his first model machine gun to Winchester in the very early days of machine-gun development. This gun was tested here quite extensively but the management of the company decided at that time, which was about 30 years ago, that inasmuch as our reputation and success had been built almost exclusively on sporting arms we would not be interested in entering the field; consequently the opportunity to get into the machine-gun business was turned down.

Shortly after the war, I would say in 1919, General Thompson and his son Colonel Thompson brought the model and drawings of their new sumachine gun to us and asked if we would bid on the manufacture of the gun. We went over the gun carefully in our engineering department and again decided that we were not interested in entering the machine-gun field.

During the war there was a great shortage of automatic rifles for the American troops and we were asked by the Government to help supply the demand for this type of arm. In 1917 the Government furnished us drawings, specifications, and a sample of the Browning machine rifle, model 1918, and gave us orders to proceed as rapidly as possible, with the result that at the signing of the armistice we had produced 47,123 of these rifles. Immediately on the signing of the armistice we closed the plant and sold the equipment to the United States Government, who had it boxed up and moved out of our plant. Since that time we have made no machine rifles or machine guns of any kind.

The present Winchester Repeating Arms Co. took over the assets of the former company from receivership on December 22, 1931. In cleaning up one of the vaults in 1933 we ran across 26 Browning machine rifles, model 1918, which were the property of the former company and were made by them as engineering samples. As these rifles were of no interest to the present company, we sold them to R. F. Sedgley.

We have no machine guns or machine-gun parts in stock. We have in our ballistic laboratory several machine guns which are used from time to time for testing ammunition but these are not for sale and are all registered under the National Firearms Act. Due to the fact that we are not manufacturing machine guns, we have not applied for a license under this law.

In 1933, as testified, we furnished a total of 92 short barrels, presumably for submachine guns, to Griffin & Howe. Later in the same year we made another order of 106 for the Hyde Arms Co. We have made no other machine-gun parts of any kind.

Very truly yours,

WINCHESTER REPEATING ARMS CO.,
EDWIN PUGSLEY, *Vice President.*

MUNITIONS INDUSTRY

HEARINGS

BEFORE THE

SPECIAL COMMITTEE
INVESTIGATING THE MUNITIONS INDUSTRY
UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

PURSUANT TO

S. Res. 206

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS
CONCERNING THE MANUFACTURE AND SALE
OF ARMS AND OTHER WAR MUNITIONS

PART 16

DECEMBER 19, 1934

INDUSTRIAL ORGANIZATION IN WAR—Continued
(EXAMPLES IN WORLD WAR AND PLANS FOR NEXT WAR)

Printed for the use of the
Special Committee Investigating the Munitions Industry

UNITED STATES
GOVERNMENT PRINTING OFFICE
83876 WASHINGTON : 1935

MUNITIONS INDUSTRY

U.S. Congress. Senate.

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ARTHUR H. VANDENBERG, Michigan
W. WARREN BARBOUR, New Jersey

STEPHEN RAUSHENBUSH, *Secretary*
ALGER HISS, *Legal Assistant*

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[1] In cases of exhibits comprised of excerpts from the minutes of certain war-time civilian boards only such parts as were actually entered into in the hearings have been published in the appendix. At a later date the committee ordered to be printed separately as committee prints the minutes of the following agencies: War Industries Board, Price Fixing Committee of the War Industries Board, Council of National Defense, Advisory Commission of the Council of National Defense, Munitions Standards Board, General Munitions Board.

INVESTIGATION OF MUNITIONS INDUSTRY

WEDNESDAY, DECEMBER 19, 1934

United States Senate,
Special Committee to
Investigate the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m. in room 357, Senate Office Building, pursuant to the taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Vandenberg, Barbour, and Pope.

Present also: Alger Hiss, legal assistant to the committee and Robert Wholforth, assistant to the secretary.

At this point the committee concluded that part of the testimony which is incorporated in Part XV of these hearings, "Old Hickory Contract and Industrial Organization in War."

The Chairman. The committee will be in order.

FURTHER TESTIMONY OF LT. COL. C. T. HARRIS, LT. E. M. BRANNON, LAMMOT DU PONT, AND IRÉNÉE DU PONT

(The witnesses were previously duly sworn by the chairman.)

The Chairman. Senator Clark, you have a matter to be developed.

Senator Clark. Mr. Chairman, the first thing I would like to do is to read into the record an excerpt from a broker's customers' letter which was sent out a few months ago by the Jensen brokerage firm from Boston, and sent to me by the recipient of the actual letter in due course.

It says [reading]:

"WAR BABIES" AGAIN!

> There are many who believe that the shadow of war over Europe and that over the Far East are more real than theoretical, which is responsible for a renewal of interest in some of the companies that produce war material.
>
> Recent buying of du Pont, Hercules powder, some of the steel stocks, and others that have a "war" flavor, is said to have been based on the possibility of a big "war material market" developing in this country.
>
> While one may regret the social side of warfare, the business possibilities are so tremendous that they may not be overlooked. Many of the great corporations that paid dividends of astounding proportions during the decade following the World War laid their foundations on the production of war material, long before America entered the conflict.
>
> The immense industrial machine of this country, now on a peace basis, could rapidly be converted back to a war basis, with the United States as purveyor to the world in arms—a consideration that may not be dismissed from the present viewpoint of the securities of certain companies that have the means of this quick conversion.

Colonel Harris, I want to raise a point which I raised yesterday of the possibility of the establishment of the censorship of the press under the legislation which has been prepared in the War Department to be sent to Congress immediately after the declaration of war.

I desire to invite your attention to the bill contained in the Industrial Mobilization Plan, offered in evidence heretofore.[1] Beginning on page 84, headed:

> 3. A bill making available to the President the material resources of the Nation.

Underneath that it says:

> (*a*) Consideration of like legislation in the World War: No comparable enactment in the World War

which I believe is unique among the bills which are prepared and sent in to Congress.

The first paragraph of the bill reads:

> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That during the present emergency and until such time as Congress shall declare the emergency at an end, the President is hereby authorized to determine and proclaim and to exercise control over the material resources, industrial organizations, services, and all business relations over which Government control is necessary to the successful termination of such emergency.

That clearly contemplates that the President is to determine what commodities and business relations in the country it is necessary for him to exercise control over, does it not, Colonel?

Lieutenant Colonel **Harris**. Yes, sir

Senator **Clark**. Now I direct your attention to section 7 of this bill, which is as follows:

> That from time to time whenever the President shall find it essential to license the production, manufacture, sale, storage, distribution, or transportation of any product, foodstuff, material, or commodity, in order to carry into effect any of the purposes of this act, and shall publicly so announce, it shall be unlawful for any person, after a date fixed in the announcement, to engage in or carry on any such business enumerated in this section, unless he shall secure and hold a license issued pursuant to this section.

Colonel, without any suggestion that the present President of the United States, or any particular President of the United States, would desire to use that bill in time of war, it is perfectly practicable and perfectly feasible under that section for absolute control of the press of the United States to be established, is it not?

Lieutenant Colonel **Harris**. If the press is a material resource of the Nation.

Senator **Clark**. The President is to determine that, according to the first section. All that would be necessary is for the President to declare printers' ink, or white print paper, or Mergenthaler type, as essential in the publication of newspapers, an essential commodity, and, therefore, it would be unlawful to use any of them without a license, would it not?

Lieutenant Colonel **Harris**. He could deprive them of going into the newspaper.

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[1] Committee Print No. 2.

Senator CLARK. That is, any ingenious man, familiar with the newspaper business, could in 2 hours work out 40 different ways to establish a press censorship?

Lieutenant Colonel HARRIS. With the President's approval, I think he could.

Senator CLARK. I am assuming that the President approved it. I am not suggesting that any particular President would do it.

So that you might have a situation, such as I can remember when I was quite a young man, when American troops during the Spanish War were being "fed" what was called "embalmed beef" and a great national scandal arose, and the newspapers spoke in such critical terms and brought the matter so forcefully to the attention of the country that it created a great national scandal, and the situation was speedily corrected.

It would be entirely possible, under such a section as this, for the newspapers to be absolutely precluded from exposing any such situation as that, would it not?

I am not asking you to criticize your superiors, Colonel; you understand.

Mr. PIERRE DU PONT. Mr. Senator——

Senator CLARK. Yes, sir.

Mr. PIERRE DU PONT. I am not a lawyer, or trained in law in any respect, but does not the freedom of the press depend on the Constitution and not on law?

Senator CLARK. That is perfectly true. It would be a very close legal question, Mr. du Pont, in my opinion. I have just returned from trying a case on the freedom of the press. I do not know that such a section as that would conflict with the freedom of the press. It must be left for court determination, but when it is approached from the independent control of the commodities essential to the publication of a newspaper, it is quite possible that the court might hold that that was not a violation of the constitutional provision of the freedom of the press.

Mr. PIERRE DU PONT. That is possible.

Senator CLARK. We will return again to page 74 of this document, at which are set forth the purposes of the War Department in connection with this legislation.

By the way, Colonel, this legislation was prepared by the planning division of the War Department, was it, or by whom was the legislation drafted?

Lieutenant Colonel HARRIS. It has been a gradual growth over a number of years, put together and presented to the War Policies Commission and finally was assembled in the planning branch in collaboration with the Navy.

Senator CLARK. I read from page 74 of that document [reading]:

> The formulation, in time of peace, of plans for the mobilization and utilization of the industrial resources of the Nation in time of war is a duty imposed by Congress. In the performance of that duty consideration must be given to the content and scope of legislative enactments which will facilitate and make possible the working out of such plans. In consequence, drafts of bills which can be presented to Congress when war is imminent are prepared and revised from time to time. Naturally such drafts are not written in all detail, since many details can be supplied only when possible contingencies can be forecast with reasonable accuracy. It is the policy to prepare such drafts in

time of peace so that they may be ready for submission when the time comes. Their enactment at a time when war is not imminent is not desirable because such action would probably result in enactment into law of measures so detailed in their provisions and accompanied by so many restrictive clauses as to be a hindrance rather than an assistance in war. Also, it is impossible now to foresee what conditions will exist in a future war.

When this document says that enactment in time of peace or "when war is not imminent is not desirable because such action would probably result in enactment into law of measures so detailed in their provisions and accompanied by so many restrictive clauses as to be a hindrance rather than an assistance in war" is that to be taken to mean that if Congress had time to consider the matters in detail, they would not be so inclined to write a blank check to the War Department and the Navy Department, or to the President, for that matter, as they would be after war is declared, when the measures are sent up in a bunch and put through, as I said the other day, "under whip and spur", under the plan that any detailed consideration of them would be a hindrance of national defense. Is not that correct?

Lieutenant Colonel Harris. My opinion is, Mr. Senator, in time of war you should write a blank check to the President.

Senator Clark. Do you not think that, considering these matters in skeleton, it might be well for Congress to consider their outlines in time of peace so that they could have an opportunity for exercising their function under the Constitution, as a law-making body, rather than swallowing something whole after war is declared, when they are sent up by the War Department or the Navy Department?

Lieutenant Colonel Harris. It is not appropriate for me to say.

Senator Clark. I will not ask you to. I will express that as my opinion. It is my intention to introduce the bills contained in this document on the first day of the next session, so that Congress may have an opportunity to consider them: not that I intend to sponsor them or support them, but so that they can be appropriately referred to committees and be before the Congress for proper consideration in time for Congress to study them.

Lieutenant Colonel Harris. May I say one thing?

Senator Clark. Yes, you may.

Lieutenant Colonel Harris. There is no disrespect or lack of confidence in the Congress there, because Congress is the boss of this country.

Senator Clark. I understand.

The Chairman. We do not all agree to that.

Lieutenant Colonel Harris. I still think so, Mr. Senator. You asked about the consideration of the bills in time of peace, or you questioned a statement that they might call for restrictive measures. I think that the objection to Congress on censorship of the press, under this kind of legislation, is the kind of thing which would happen and slow up the legislation being passed.

Senator Clark. Exactly. That is the precise point. That is why I bring the two things up; if you brought up these matters in times of peace, when Congress had an opportunity to sit down and scrutinize them, some Senator, when reading section 7, to which I referred, in the bill to put the control of the resources of the United

States at the disposal of the President, somebody would almost certainly get up and offer an amendment to it:

> *Provided, however,* That no portion of this act shall be construed as to authorize a censorship of the press

and that amendment would probably be passed.

But, on the other hand, if you sent it up during time of war it would likely pass without anybody realizing what was in the bill.

FURTHER TESTIMONY OF K. K. V. CASEY, EDWIN PUGSLEY, C. K. DAVIS, E. C. HADLEY, J. H. CHASMAR, E. E. HANDY, AND W. U. REISINGER

(The witnesses were previously duly sworn by the Chairman.)

Mr. CASEY. Mr. Senator.

Senator CLARK. Yes, sir.

Mr. CASEY. In connection with your broker's letter, there have been in the last couple of years several on war scares, when the old question of " war babies " has come up. Usually when a broker gets out a letter advising somebody, he has something for them to buy, it indicates he has something to sell. But I was told on three different occasions, by three different brokers, that the people " in the know " were not going to buy the " war babies ", but they were going to buy wheat.

Senator CLARK. Major, I am not reading that as being binding on the du Pont Co., or any other company, but I was reading it reflecting the view of a man who should be more or less an expert in his line.

Mr. IRÉNÉE DU PONT. Mr. Senator, I would like to correct the major's statement. The proper word is not " war babies " but " war brides."

Mr. CASEY. I accept the correction.

Senator CLARK. The record may stand corrected.

Senator VANDENBERG. Have you the information on Lieutenant Chadwick?

Lieutenant Colonel HARRIS. B. F. Chadwick, first lieutenant, Engineer Corps, 410 Old Customs House, Detroit, Mich.

Senator VANDENBERG. Was he in active service at that time?

Lieutenant Colonel HARRIS. He was on active service.

The CHAIRMAN. Colonel, what would be the relationship between the Army and Navy Journal and Lieutenant Chadwick?

Lieutenant Colonel HARRIS. I cannot conceive what possible relationship there could be.

Senator VANDENBERG. Colonel, would there be anything in the regulations which would prohibit the employment of a soldier in active service on a commission basis by an outside publication, to solicit advertising?

Lieutenant Colonel HARRIS. In reply to that, I would like to read Army Regulations 600–10, dated November 15, 1930, changes no. 1, paragraph 2e, miscellaneous, (1) (a):

> Officers of the Army will not use or permit to be used their military titles in connection with commercial enterprises of any kind. Military titles are conferred upon individuals for military purposes, and their use as a commercial asset may subject both the individual officer concerned and the service itself to unfavorable criticism which, even if unmerited, is unnecessary and inadvisable. Such use of military titles is disapproved of by the War Department.

(*b*) Officers of the Army will not engage in or permit their names to be connected with any activity, participation in which is incompatible with the status of an officer of the Army.

Paragraph 5(b) of the Army Regulations 600–700, September 5, 1928, reads as follows:

Statements on the merits of services or supplies furnished to the Army will not be made for use in advertisements by commercial firms or individuals.

Senator Clark. It does not contain any provision about writing or soliciting advertising on official stationery, does it?

Lieutenant Colonel Harris. There is a law which provides or states that any magazine that has military personnel associated with the editorship, and which receives advertising, the pay of the officer becomes embarrassed. I do not know whether it is nullified or not.

Senator Clark. What I was talking about, Colonel, is this: We have had two instances here, one in the Marine Corps and one in the Army, where officers in active service were writing letters and soliciting advertisements. One of those, Lieutenant Chadwick, was soliciting advertising, and writing on the official stationery of the Department. Lieutenant Cutts was writing on the stationery of the office of the commandant, Marine Corps, in Washington, and Lieutenant Chadwick was writing on the stationery of the Chief of Engineers, and had a heading on it, "Reply to the Chief of Engineers."

Senator Barbour. Colonel, does the term "disapproved" used in the regulations which you read constitute being forbidden?

Lieutenant Colonel Harris. Yes, sir.

The Chairman. The committee will want to hear Mr. Pugsley, Mr. Hadley, and any other representatives of the Remington organization.

Lieutenant Colonel Harris. Mr. Chairman, before starting that line, could I introduce into the record some data which I spoke of the other day [1] with reference to the proportion that the cost-plus contract had to the total ordnance expenditures, with certain firms named, for which the percentage was given, the amount of cost-plus contracts, and the amount of straight contracts which they had?

The Chairman. Yes; surely.

Lieutenant Colonel Harris. The total expenditures of the Ordnance Department during the World War approximate four billions of dollars. Of this amount $1,098,635,443.24 represents the total obligations on account of cost-plus contracts.

The total of cost-plus and definite-price contracts placed with the firms listed below is indicated opposite each:

Firms	Cost plus	Straight
Bethlehem Loading Co	$25, 680, 737. 20	$184, 200. 00
Colt's Patent Fire Arms	341, 039. 67	32, 901, 841. 43
Remington Arms Co	100, 483, 747. 96	65, 727, 418. 24
Savage Arms Corporation	2, 701, 416. 84	50, 676, 993. 44
Western Cartridge Co	1, 470, 384. 06	13, 577, 147. 00
Winchester Repeating Arms	44, 604, 822. 13	41, 099, 523. 65

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[1] Hearings, Part XIII, p. 2922, Part XV, p. 3628.

EDUCATIONAL ORDERS FROM UNITED STATES GOVERNMENT FOR AMMUNITION FROM PRIVATE MANUFACTURERS

Mr. Wohlforth. Among other things, this committee is interested in the subject of educational orders for private manufacturers, the methods followed in bidding on different proposals, the methods used in negotiating the contracts for munitions of war, and also the treatment accorded the successful bidder in munitions contracts by the various agencies of Government.

Furthermore, the committee is interested especially in the attitude of private business toward the Government in supplying munitions of war.

For this morning we would like to confine our studies to just one product, that is, .30-caliber ammunition, which the committee believes will probably be purchased in large quantities in the event of an emergency. I would like to direct this examination to Mr. Hadley, of the Remington Arms, and Mr. Pugsley, of the Winchester Co.

We understand that educational orders, that is, orders designed to be given not on a straight-production basis but for the education of the various manufacturers in the " know how " of various production methods have not been permitted in any degree for a great many years.

Mr. Hadley, could you tell us about the last time that Remington received an educational order from the Government, or fulfilled any contract that might be termed one of these " educational orders "? Do you recall any of those?

Mr. Hadley. You are limiting your question to .30 Springfield?

Mr. Wohlforth. Yes, sir.

Mr. Hadley. I should say that there were two orders that we have had of that nature that I recall.

Mr. Wohlforth. I have here a letter dated July 12, 1926, which I want to offer as an exhibit. It is from Mr. Strugnell, general sales manager of Remington, to Mr. Hadley.

(The letter referred to was marked " Exhibit No. 1283 " and is included in the appendix on p. 4033.)

Mr. Wohlforth. It reads in part as follows:

> Confirming our conversation I quote from the proposal on the .30 Springfield contract as follows:
>
> (*a*) That, owing to the fact that this will be in the nature of an educational order designed to give the manufacturers experience in making the service type of ammunition, which has never yet been manufactured commercially in the United States, ammunition which fails to meet the requirements of paragraph 14 of the specifications in regard to accuracy, may be accepted if, in the opinion of the Chief of Ordnance, the accuracy is sufficiently good to make the ammunition serviceable.

I want to put that in the record to show that educational orders are sometimes given.

Do you recall whether that order was subject to competitive bidding? If you do not have any information now, perhaps you can look it up and supply it later.

Mr. Hadley. I presume that it is.

Mr. Wohlforth. That letter referred to was dated July 12, 1926.

I now offer a letter dated November 10, 1926, from Mr. C. L. Reierson, who was president of the Remington Arms at that time, addressed to Mr. J. B. Smiley, who was chairman of the executive committee of Remington Arms.

(The letter referred to was marked "Exhibit No. 1284" and is included in the appendix on p. 4033.)

Mr. Wohlforth. This letter mentions many things, but I want to call your attention, first of all, to the fifth paragraph on page 1, which reads as follows:

> He—

that is General Ruggles—

> told me that after the failure of the recent bids, none of which could be accepted because of much higher costs of cartridges, he had been compelled to instruct Frankford Arsenal to immediately begin to increase manufacturing capacity. Up to that time Frankford had been making about 70 M cartridges per day. Their intention had been to gradually increase that capacity up to a point where the annual production would be somewhere between 20 to 30 million of these cartridges. He said that was an ample volume to keep Frankford comfortably busy.

That refers to the proposal in the first letter, July 19, 1926, and evidently those bids referred to were all too high. The point I want to make here is that the bids of the commercial manufacturers were all rejected because the prices were too high. Is that your understanding?

Mr. Hadley. I understand that bids were made, that Remington Arms Co. made a bid, that it was rejected, and that the reason for this, as learned from Frankford Arsenal, was that their policy was that no ammunition should be purchased which cost more than it cost them to make it. The matter was of a good deal of interest and importance to the Ordnance Department, because the production of Frankford Arsenal was perhaps one thing in one event and in another, a different capacity. Therefore, the next step that was taken was an agreement that a study should be made of the costs. In other words, Frankford Arsenal said in effect, "We cannot accept any bids that are higher than our costs." And nobody knew what that cost was in terms that the manufacturers could understand. There were differences in the kinds of things that had to be charged at Frankford Arsenal as compared with what the private manufacturer has to put into his accounting.

Mr. Wohlforth. I think that is very clearly brought out in paragraph three on page 2 of the same letter.

> He—

that is referring to General Ruggles again—

> He stated very frankly that he appreciates the fact that private manufacturers must take into consideration the element of profit which Frankford does not have to consider but that under the law as it exists today he simply cannot pay the cartridge companies any higher price than Frankford's manufacturing costs.

Was that a policy that he could not pay any higher, or was that a law that he could not pay any higher than the arsenal's manufacturing costs? I do not think that is clear.

Mr. Hadley. That question I cannot answer.

Mr. Wohlforth. Does anybody here know about it?

Lieutenant Colonel Harris. I can. It is a law.

Mr. WOHLFORTH. The next paragraph of "Exhibit No. 1284" states: That the law is unsatisfactory to the Ordnance Department and that they are making strong efforts to have it changed. I will read that paragraph:

> He—

that is General Ruggles—

> stated that this law is unsatisfactory to the Ordnance Department and that they are making strong efforts to have it changed so that some discretion may be used and so that there may be some just and fair differential that can in an emergency be used to justify the Ordnance Department in placing orders outside even at a little higher price which will afford private manufacturers a small profit.

The Ordnance Department wanted to get that law changed. Did it enlist the help of the manufacturers in attempting to get that law changed, as far as you know?

Mr. HADLEY. I am not aware of it, sir.

Mr. WOHLFORTH. The next paragraph talks of increased production of Frankford Arsenal, and the paragraphs following state that the more the arsenal's production is increased the more their costs go down. Does that hold for the commercial manufacturers as well?

Mr. HADLEY. I should say that there is a relation there. Certainly at Frankford Arsenal, which is a specialty shop in that the major part of their manufacture, as I understand it, is .30 Springfield cartridges, if they make a material increase in the amount to be produced one would naturally expect that the cost per unit would be somewhat lower. Particularly I think it was expected that at that time it would be true because, as I recall it, Frankford Arsenal had been making an intensive effort to improve their manufacture.

Mr. WOHLFORTH. I want to know whether that holds in general for the commercial manufacturer? Does increased production give you lower costs on .30 caliber Springfield ammunition? Can you give the committee any statement on that?

Mr. REISINGER. Capacity is a great factor in the cost, it is recognized.

Mr. WOHLFORTH. Of what part of the cost is it a great factor?

Mr. REISINGER. Factory cost and also in total overhead.

Mr. WOHLFORTH. And material?

Mr. REISINGER. No; not material; in your indirect costs.

Mr. WOHLFORTH. The rest of the letter pertains to a proposed visit in connection with this study to which Mr. Hadley has just referred. One of Remington's accountants, I understand, visited Frankford Arsenal in an effort to ascertain whether the commercial manufacturers might not get their costs more in line with the arsenal costs. That point I want to develop in just a few minutes.

In the next year on September 3, 1927, Remington was successful in securing an order for 10,000,000 rounds of .30 caliber ammunition from the Government. That is correct? That is the 10,000,000 order?

Mr. HADLEY. Yes. That was a second educational order.

Mr. WOHLFORTH. That was an educational order with the new-type ammunition?

Mr. Hadley. Yes. You will recall that the ammunition differed from any that we had made theretofore, in that it had the boat-tail type of bullet, the M–1, they call it.

Mr. Wohlforth. I think the price bid by you was $30 a thousand, and you were successful in getting the 10,000,000-round order.

(The letter referred to was marked "Exhibit No. 1285" and is included in the appendix on p. 4035.)

Mr. Wohlforth. The next letter we come to is one dated September 2, 1927, from R. C. Swan, sales manager of the ammunition division, to Mr. Smiley, president of Remington.

(The letter referred to was marked "Exhibit No. 1286", and is included in the appendix on p. 4035.)

Mr. Wohlforth. This was one day before your bid was sent in. I do not want to read the letter, but in one part the letter says:

> The costs, as computed from actual data relative to burden secured in running the half-million lot earlier in the year, shows a commercial figure of $25.52 per thousand.

That figure was your factory cost, which would give you on that contract about 15 percent profit if those figures hold for that time. Is that correct?

Mr. Reisinger. I think we furnished you a cost on this, that does not correspond with your figure.

Mr. Wohlforth. I just want to know about this letter. Evidently your men were figuring on it. A day before the bid went in you thought it would be around $25, $26, or $27 a thousand. I mean, you stood to make a certain profit on that order.

Mr. Reisinger. This letter says the commercial cost is $29.67 per thousand.

Mr. Wohlforth. Yes; but read the next sentence:

> Costs computed from actual data relative to burden items secured in running the half-million lot earlier in the year shows a commercial figure of $25.52 per thousand.

That point is not important here. I just want to put the letter in the record.

We understand you get considerable help and cooperation from the War Department in the course of your execution of these orders, and that is a very fair attitude on the part of the War Department. What I want to know is if this help and cooperation from the War Department is spread evenly among the various commercial manufacturers. You receive help and cooperation, do you not, Mr. Pugsley, in the Winchester Co.?

Mr. Pugsley. We do.

Mr. Wohlforth. We next come to a letter dated April 24, 1928, from General Ruggles to Colonel Hermann, who was works manager of Remington Arms at that time.

(The letter referred to was marked "Exhibit No. 1287", and is included in the appendix on p. 4036.)

Mr. Wohlforth. This letter speaks of trouble developed over 1,000,000 rounds of ammunition of that $10,000,000 order. Because of various defects, 1,000,000 rounds were rejected.

Mr. Hadley. Excuse me. That was a 10,000,000-round order, not $10,000,000.

Mr. WOHLFORTH. At the bottom of the page, in commenting upon the rejection of these million rounds, he says:

> The Department realizes that you have limited, if any, outlet for this ammunition and it has been considering how it might help reduce the loss to your company by buying from you from time to time such amounts of this ammunition as might be used in its own tests at a price which would relieve you of some of the loss and still not increase the cost to the Department of the tests to be made.

As I understand it, the Government would take this rejected ammunition from you to prevent you from taking a loss, and use it in certain tests, gun barrels, and so forth, in its own work.

The last paragraph says:

> In closing, the Department wishes to express its extreme regret that this defect has occurred in lot 1614 and the loss that has accrued to your company, and it is desirous of reducing this loss to you as much as possible under the circumstances.
>
> Very truly yours,
>
> C. L'H. RUGGLES,
> *Brigadier General,*
> *Assistant Chief of Ordnance.*

That seems to me a very solicitous attitude on the part of the War Department, and perhaps very fair from your point of view. Is that not correct?

Mr. HADLEY. I should say that that was very fair from the point of view of both the Ordnance Department and our company. These were educational orders. The Ordnance Department was very desirous that we should be able to make this ammunition, as doubtless they desired that other companies should also benefit from it. They certainly were willing to help us in the design of the ammunition. And as Mr. Pugsley said, they doubtless helped the Winchester Co.

At that point it is appropriate to say, I think, that not only has the Ordnance Department helped us in connection with various designs and developments in which they were interested, but our company has also been of assistance to the Ordnance Department, we believe, in a great many instances. I could cite nearly a score of them at the moment wherein we have been of assistance to them. So that it is natural for us to consider that they are interested in a development such as this and are willing to consider ways and means whereby this ammunition might be used without loss to them, as in the barrel test that you cited, erosion tests, and one thing and another.

As a matter of fact, it was not necessary for such consideration to be given, because this particular lot of ammunition which was rejected at that time we were able to recondition, that is to say, we pulled down that lot of ammunition and loaded it again after putting the shell cases through appropriate operations. I think that was the first time perhaps that we had succeeded, because perhaps we had not been up against it in some way in pulling out bullets of this nature without damaging the bullets.

Mr. WOHLFORTH. The point there is that there was no loss on the part of the Ordnance Department. They wanted to save you from a loss. They did not care whether they got the final million rounds or not. They could make you deliver the other million and do it all over again. The point I want to make is that they exercised extreme care to prevent you from having any substantial loss. What I want to know is, is that the custom of the Ordnance Department?

Mr. Hadley. I should say that certainly the Ordnance Department is imbued with a common-sense view in cases of this sort. If they could be of assistance without any injury to themselves, I believe that they would be glad to do so.

Mr. Wohlforth. That is just the point I want to make. As I understand it, in looking over this case up at your plant, these cartridges, as you have said, were reworked, and I think the company stood an expense of around $2,000. That year was 1928. As I recall it, there was a considerable Government order, and your figures give a percentage of profit on total Government business of 11 percent. That will be in the figures we will submit later, that you have supplied to us.

Mr. Hadley. I do not know those figures.

Mr. Wohlforth. The point just there is that under this policy commercial manufacturers do not stand to lose heavily in their dealings with the War Department.

Mr. Hadley. Excuse me. I do not think that conclusion is justified.

Mr. Wohlforth. What was your conclusion? They take the rejected cartridges and let you work them over. You had to buy the new powder, and it cost you a little over $2,000. On the whole Government business that year you made 11 percent. I think the conclusion might be justified that in following that policy you really do not stand to lose very heavily.

Mr. Hadley. If at the same time the Ordnance Department does not stand to lose. If they stood to lose, that would be a very different proposition. If a defect came up which meant that they could not use the ammunition without serious loss to themselves, naturally they would not do it. If we could not repair it, there would be a serious loss that could not be overcome.

Mr. Wohlforth. It would be a loss to you, not the Ordnance Department, because they could make you deliver another million rounds of perfect ammunition.

Mr. Hadley. Yes, without a doubt.

Mr. Reisinger. What was delivered against the order?

Mr. Wohlforth. Ten million rounds, and 1,000,000 rounds were rejected and reworked, and then accepted by the War Department for certain tests.

Mr. Reisinger. Yes, but it was all accepted as good ammunition. It was not taken as defective ammunition.

Mr. Wohlforth. Finally, no. They permitted you to do that.

Mr. Reisinger. All right.

Mr. Wohlforth. The next letter is dated May 18, 1934, from Mr. Chasmar to Mr. Strugnell.

(The letter referred to was marked "Exhibit No. 1288", and is included in the appendix on p. 4037.)

Mr. Wohlforth. This refers to the cartridges we have just been discussing. That is part of the 10,000,000-round order made for the Government in 1928. Apparently there were about 5,000 cartridges left over, and this statement appears in the letter:

> These cartridges are left over from a run made for the United States Government in 1928, and they do not have Kleanbore primers.

I do not want to get into a technical discussion. We understand that this is a noncorrosive, nonmercuric primer. Many manufacturers have this type or a similar type. This is the sort of primer that, when used in ammunition, is not supposed to corrode the gun barrel, and apparently claims are made that the gun does not have to be cleaned when this primer is used.

Then the letter says:

> These cartridges are left over from a run made for the United States Government in 1928 and they do not have Kleanbore primers. This makes them unsalable commercially.

That is, they are unsalable commercially because they do not have your type of primer.

Are we correct in understanding that the commercial manufacturers have developed a primer that had superior advantages to the primer in use at that time by the Government?

Mr. **Hadley**. We consider that the Kleanbore type of primer has certain advantages. It is obvious that these particular cartridges could not be sold by us commercially, because of our advertising in which we say that our cartridges of that nature are made up with Kleanbore primers. So that we could not dispose of them in that way, because they were not of that sort. That is no reflection on the quality of the cartridges, however, as long as it is not tied up with that particular type of advertising and as long as you bear in mind the difference between the noncorrosive quality of Kleanbore ammunition and the lack of that particular quality in these rounds that were made in 1928.

Mr. **Wohlforth**. I do not want to leave Winchester out of this. I want it to go in the record that Winchester has also some similar type of noncorrosive primer, has it not, Mr. Pugsley?

Mr. **Pugsley**. I think it might be interesting to enlarge a little on this .30 caliber cartridge, in view of what has been said.

The primer used in Frankford Arsenal standard specifications is the Winchester patented primer. That was adopted by the United States Government when the ammunition forwarded to the other side on the first shipments went bad, and they had to get some primer to replace the Frankford Arsenal primer. This was in the beginning of our entrance into the war.

They came to Winchester Repeating Arms Co. and took our primer and adopted it as standard. We gave it to them without royalty. It was adopted as standard throughout the entire war, and is continued as the Government standard. The matter of the powder that is used in the case was developed by the du Pont Powder Co. The jacket that is used on the bullet was pioneered by the commercial companies. The Government started out using a cupronickel jacket, and the commercial companies, primarily Winchester and Western, went to the gilding metal jacket, advertised it heavily, and as a result shortly after the war the Government adopted that.

So far as I know, Winchester pioneered the metallurgy, making the shell readily usable in both machine guns and in shoulder rifles. At the beginning of the war it was not well understood how to make a cartridge that would function perfectly in a shoulder rifle and in a machine gun. Cartridges that would function in one would not function in others. We developed that.

I bring this out to emphasize what Mr. Hadley has said, that the commercial companies have had a very large hand in helping the Ordnance Department. You take the .30 caliber cartridge, the primer, the metallurgy of the case, the powder, and the bullet jacket have all been developed by the commercial manufacturers. The commercial companies have developed noncorrosive primers so that I believe practically all the companies are now equipped to furnish noncorrosive primers suitable for the .30 caliber cartridge. Winchester has submitted such samples repeatedly to Frankford Arsenal for their tests, but they have not desired to change over from our standard prewar primer.

Mr. WOHLFORTH. The point I want to make here is this: I do not think it is necessary to enter into an extended technical discussion on these primers. The point to be made here is this: That as far as the commercial value goes, the private manufacturers seem to have come upon a new primer which has certain advantages over the primer which the Government is now using. I will grant that it may have some disadvantages as well, but those are points to be settled between technicians. As I see it at this time, the commercial manufacturers had developed something that was new and had certain advantages. That is simply the point I want to make.

About 1929, we understand that Remington offered this development to Frankford Arsenal, and we understand that at this time Frankford Arsenal, the Government arsenal, rejected the offer.

The CHAIRMAN. What was the occasion for the rejection?

Mr. WOHLFORTH. I think we will come to that in just a minute, Mr. Chairman.

I want to find out why it was rejected. Here is a letter dated August 23, 1929, from Mr. A. A. Dicke, who was vice president of Remington Arms at that time, to Col. L. J. Hermann, works manager, Bridgeport, Conn.

(The letter referred to was marked "Exhibit No. 1289", and is included in the appendix on p. 4037.)

Mr. WOHLFORTH. In the second paragraph, commenting upon the rejection of the primer by Frankford Arsenal——

The CHAIRMAN. Who was Mr. Dicke?

Mr. WOHLFORTH. Mr. Dicke was the vice president of the Remington Arms Co. at that time.

The CHAIRMAN. He is writing to whom?

Mr. WOHLFORTH. Mr. Hermann, works manager at Bridgeport, Conn. Mr. Dicke was then in the New York office of Remington. He says [reading]:

> It strikes me as very presumptuous for anyone at Frankford to try to tell us anything about styphnate. They have never manufactured it as far as we know and we are manufacturing it every day and in commercial quantities. It might be pertinent, although not politic, to ask them where they have acquired this great fund of information. They have apparently swallowed the du Pont propaganda and have paid more attention to that than the long experience of R. W. S.—

that is a German firm—

> Nobels, and ourselves.

Lieutenant Colonel HARRIS. May I interpolate there, Mr. Chairman? It would seem that the Government and these concerns are not such good friends after all.

Mr. Wohlforth. I want to know if there is any reason why the du Pont interests should want to keep the Government from having this primer powder. It had advantages, and I want to find out why they——

Lieutenant Colonel Harris. I shall be glad to put at your disposal technicians from the Ordnance Department to develop the question of the excellance or disadvantage of all these primers, if you wish.

Mr. Wohlforth. Suppose we ask the du Ponts that question, if they had any reason why they should want to keep the Government from having this primer development adopted by the Government. It says here:

> They have apparently swallowed the du Pont propaganda.

I want to know if there was any du Pont propaganda against this primer development, and why.

Lieutenant Colonel Harris. I would like to say a word. It is notorious that inventors are jealous of each other, that none has confidence in anything anybody else does. They use sarcastic and exaggerated phrases, some of which you have just been reading.

Mr. Wohlforth. I wonder if the du Ponts would care to answer that question, if they indulged in any propaganda that kept the Government from accepting this primer which was already accepted and used by the commercial manufacturers, and, as has been testified had certain advantages. Could you say anything about that, Major Casey?

Mr. Casey. That sounds to me like a letter written to try to excuse the Remington Co. for failure to convince Frankford Arsenal. They wanted to blame it on somebody, so they blamed it on us.

Mr. Wohlforth. I will read another paragraph from "Exhibit No. 1289" [reading]:

> I agree with you that nothing could be gained by further correspondence at this time—

that is, correspondence with Frankford Arsenal—

> but I believe that at the first opportunity after Dr. Hutchinson's return—

Dr. Hutchinson of the Remington Arms—

> it would be a good plan to take up with Colonel Munroe—

commander of Frankford Arsenal—

> or his superiors at Washington the exact situation on styphnate in an effort to break down the effect of this propaganda.

Evidently there was some feeling that there was propaganda against this primer at that time.

Mr. Casey. Remington may have had that feeling.

Mr. Wohlforth. We will put that in the record.

Mr. Lammot du Pont. Mr. Chairman, I wanted to speak to that same point a moment.

Mr. Wohlforth. Yes.

Mr. Lammot du Pont. The gentleman who was just speaking asked the du Pont Co. a question which has not been satisfactorily answered. I would like to answer that question, but we have not before us the complete information. If the committee wishes that question answered, they should give us the full information.

The CHAIRMAN. The question seems to be, Do you have in mind, Mr. du Pont, this particular time and case, and do you have a recollection of any controversy over the matter?

Mr. LAMMOT DU PONT. I have no recollection or knowledge of it at all. That is why I make the point that we are not informed on the question. That is the reason we do not answer.

Mr. WOHLFORTH. Evidently from this letter Mr. Dicke was pretty sure the du Ponts were using propaganda in an effort to prevent the War Department from adopting this new type of primer. It certainly must have had some value if R.W.S., Nobels, and Remington had accepted it. I just wanted to make that point.

Mr. LAMMOT DU PONT. Mr. Chairman, without knowing anything of the case, I think I can say that I am perfectly sure that du Pont used no such propaganda.

Mr. HADLEY. Mr. Chairman, at this point I wonder if I may mention some of the background which is pertinent to this particular thing, and which may cover some of the question that was directed by Mr. Wohlforth toward the du Pont Co. a moment ago. The situation was briefly as follows:

Lead styphnate was covered by a patent by a German—Von Herz. The R. W. S. Co. was mentioned—he was associated with that company. This material, lead styphnate, he believed was of value in priming mixtures.

Our company experimented with it. We believed it was of value in priming mixtures. We purchased certain patent rights from Von Herz in order to make use of this material in priming mixtures.

The rights for use in detonators were something in which the du Pont Co. might have been interested. I believe Mr. Von Herz desired to interest them in that. That is quite different from the use in primers.

The next step was that we actually made primers with that material. We considered it a vary valuable ingredient in priming mixtures. We wished to advise Frankford Arsenal of the fact that we were using it, because we thought they might be interested in also using it.

The material is one which at that time in particular was dangerous to manufacture. It was then being made in Germany for use in detonators and also in primers. It was being manufactured in South Africa and it was being manufactured in England. At that time it was certainly considered quite a dangerous material to work with.

I believe that Mr. Dicke's reference to the du Pont feeling on it was that they also considered that it was dangerous to work with and, if they used it, their requirement would be much greater in pounds than our requirement for use in primers. It may be that that affected their feeling. We, however, went ahead and used it.

This letter is dated 1929. Subsequently we have had satisfactory manufacture over a period of years to date.

This material is also used by the Dominion Cartridge Co. in its primers. It is also used more extensively in England than it was. The Germans are now putting out commercial ammunition which contains this same material. So I think that may be an explanation of what may be now a different feeling from that that existed in

1929, because of continued manufacture successfully and in more places than those in which it was formerly manufactured.

I do not know what Frankford Arsenal's feeling is at the present time, but I cannot help but believe that the outlook on the situation would be affected by the fact that this continued manufacture has gone on. We offered primers to Frankford Arsenal. They were much interested in testing them. Some of these primers contained lead styphnate. They have made tests since that time, I believe. What their conclusion is at the present time, I do not know.

Mr. Wohlforth. Here is another letter that will perhaps throw a little light on the feeling of the du Pont people. It is dated May 20, 1931. I offer it for appropriate marking as an exhibit.

(The letter referred to was marked "Exhibit No. 1290" and is included in the appendix on p. 4038.)

Mr. Wohlforth. This letter is from Mr. Monaghan to Mr. Strugnell, 2 years after this first letter was written, and I turn to page 2, the paragraph next to the bottom, where in discussing this primer development, Mr. Monaghan says [reading]:

> It would not be surprising to have confirmed the impression that du Pont does not like to see our nonmercuric primer developments as it means the loss of business to them on mercury fulminate. If the United States Government were to take up a nonmercuric primer, du Pont's loss in this respect would be increased, which may account for Mr. Henning's talk against our nonmercuric primer in .50 caliber.

Mr. Hadley. I believe, Mr. Wohlforth, that letter does not give the facts. If I understand it correctly, the Frankford Arsenal is not using a mercuric primer.

Mr. Wohlforth. Mr. Henning talked against it—Mr. Henning of the du Pont Co. apparently talked against it—according to Mr. Monaghan's letter.

Mr. Hadley. I should say Mr. Monaghan was picturing to himself the reason why Mr. Henning should talk that way, but I think the basis of it is erroneous. The primer that is being used by the Frankford Arsenal is a nonmercuric primer. Mr. Pugsley can perhaps answer that.

Mr. Pugsley. That is correct.

Mr. Wohlforth. Were they using it in 1931?

Mr. Pugsley. They were. Aren't you confused between the .50 caliber and the .30 caliber primer?

Mr. Wohlforth. The point I want to make is that in the Remington Co. they though propaganda was being put out to prevent the Government from taking this development, and I want to find out whether it was or was not, as far as this .30 caliber ammunition is concerned. Of course, he mentions .50 caliber here.

Mr. Pugsley. .50 caliber is a different subject than the .30 caliber. The .30 caliber is a nonfulminate mixture. It has been since 1917.

Mr. Wohlforth. I want to go over to the last paragraph of this letter on page 3, where Mr. Monaghan delivers himself as follows:

> All in all we have never found any cooperation from du Pont unless it meant at least 90 percent of the advantage to them.

I will put that in the record.

The next letter——

The Chairman. I wish you would identify Mr. Monaghan.

Mr. Handy. He is not here.

The CHAIRMAN. No; but identify him as to what his capacity was when that letter was written.

Mr. HADLEY. He was in charge of export sales at that time and is not a technical person, which I believe is the reason why this discrepancy has crept in.

The CHAIRMAN. What is his position now?

Mr. HADLEY. The same. I should also like to read into the record, if I may, the fact that Mr. Monaghan's expression of opinion in respect of the du Pont Co. was not that of the Remington Co.

Mr. LAMMOT DU PONT. Mr. Chairman, I would like to object to the testimony of Mr. Monaghan as to the policy of the du Pont Co. at that time. He knew nothing about it.

Mr. WOHLFORTH. That is granted. I just wanted to put into the record the impression he had as to the 90–10 relationship of cooperation between du Pont and the other people.

Mr. LAMMOT DU PONT. He had no knowledge of the du Pont Co.'s policy in such matters.

Mr. WOHLFORTH. I appreciate that.

Mr. DAVIS. Mr. Chairman, that letter, of course, was written prior to the acquisition of Remington by du Pont.

The CHAIRMAN. Yes; that is understood.

COMPARATIVE COSTS IN MANUFACTURE OF CARTRIDGES BETWEEN GOVERNMENT AND PRIVATE PLANTS

Mr. WOHLFORTH. I now want to change for just a moment to another subject which follows along in this general discussion.

Several exhibits back we mentioned the fact that Remington in 1926 was attempting to have a study at Frankford Arsenal made, upon Frankford Arsenal's invitation, in an attempt to determine some basis of cost, so that the commercial manufacturers of cartridges might get their costs more in line. We are not concerned with this 1926 study by the Remington accountant, other than to know that his work was not complete and that only partial figures were secured.

We now go ahead 2 years to 1928, and we understand at that time there was a meeting of a special committee of the Sporting Arms and Ammunition Manufacturers Institute in New York, and all of you gentlemen, I understand, are members of that institute.

At that meeting in 1928 Mr. Hadley was appointed chairman of a special committee of the institute. The function of this committee was to attempt to work up arsenal cost figures that might be comparable with those of commercial manufacturers.

As we understand it—and this is subject to correction—the Chief of Ordnance of the War Department about this time informed the commercial manufacturers that their prices were too high and that no more bids would be accepted on the present price schedule. In fact, as I understand it, the Chief of Ordnance, or his assistants, informed the commercial manufacturers that unless the cost of private manufacture could be reduced, Frankford Arsenal would install sufficient automatic ammunition-making machinery and not give private manufacturers any more orders, and I understand to some extent, or to a large extent, that has been done.

Is that correct, Colonel Harris?

The CHAIRMAN. Colonel Harris, will you answer that, please?

Lieutenant Colonel HARRIS. At the present time Frankford is making the entire small arms .30 caliber ammunition for this country.

Mr. WOHLFORTH. The point I want to make is that they went into that because the commercial manufacturers did not bring their prices down.

We now go ahead from this point and we want to show that in this 1928 examination every effort was made by the private manufacturers, that is, a technical committee under Mr. Hadley, to secure comparable cost data as between the four largest ammunition manufacturers and the Government plant at Frankford. These four largest manufacturers are the Peters Cartridge Co., which is now owned by Remington; the Winchester Co., now owned by Western; Remington; and Western.

We understand, Mr. Hadley, that you cooperated with the commanding officer of the Arms Arsenal at Frankford, Pa., in working up certain schedules to apply various costs and overhead charges; these were to apply as equitably as possible to the Government arsenal and to the commercial manufacturers. The committee understands that you received every cooperation from the Government arsenal. They turned over their books to you. They spent much time conferring with you and permitted the accountants selected by you, as chairman of the technical committee, to have access to all of the data.

For instance, here is a letter dated June 30, 1928, from Mr. Hadley to Colonel Wall, commanding officer of the arsenal. I will enter that for appropriate number, but I do not desire to read it at this time.

(The letter referred to was marked "Exhibit No. 1291," and is included in the appendix on p. 4039.)

Mr. WOHLFORTH. This letter mentions a schedule of depreciation agreed on between yourself and Frankford Arsenal, which was to be sent to all commercial manufacturers, so that a uniform system of these costs will have been followed by all concerned.

Next is a letter dated July 2, 1928, signed by Mr. Hadley, and addressed to Peters, Remington, Western, and Winchester. The subject matter of this letter has to do with an 8-page schedule showing the various operations, so that each company and Frankford Arsenal might work up costs which you say could be averaged or compared with those of other companies.

I will enter that for appropriate number.

(The letter referred to was marked "Exhibit No. 1292" and is included in the appendix on p. 4040.)

Mr. WOHLFORTH. The committee understands that a great deal of correspondence by Mr. Hadley with Frankford Arsenal in working up these figures was had, and all we wish to show here is that a serious effort was made to obtain the comparable figures.

We understand a method was devised for determining the interest on fixed investment and the interest on working capital, as well as a schedule of depreciation and other items entering into administrative expense, and also schedules for other cost factors.

A great deal of correspondence was had between you and the Government Arsenal, and I don't think it is necessary to put it in the record. All we want to show is that a sincere effort was made to secure comparable costs. In fact, you went so far as to write your district sales manager at Philadelphia on July 5, 1928, in order to get the tax rate in the locality where Frankford Arsenal operated.

I will enter that for appropriate number.

(The letter referred to was marked "Exhibit No. 1293" and is included in the appendix on p. 4041.)

Mr. WOHLFORTH. The idea is that you made every effort, played your own game, and made your own rules, and tried to get costs which might be considered comparable.

The CHAIRMAN. Mr. Hadley, I wish you would state for the information of the committee just what the general purpose of this effort was.

Mr. HADLEY. Yes, sir.

In the first place, I would like to say that this special committee, which is spoken of, was not a committee of the institute. It had no relation to the institute, but for the purpose of discussing the subject of .30 Springfield the time and place where the institute was meeting was a convenient one for ordnance officers to talk with the ammunition manufacturers.

The CHAIRMAN. What ammunition manufacturers were interested in this?

Mr. HADLEY. All of those who were manufacturing .30 Springfield type of ammunition were interested. Therefore, this committee was not a committee of the institute.

It should further be stated that the reason why I was appointed was probably that I happened to be the chairman of the technical committee of the institute, which was, if you choose to define it that way, a fact-finding committee, and the purpose of this cost business was to find what the facts were.

My qualifications were neither those of one who was to be concerned in any way with any bids that were to be made at a later time on the one hand, nor on the other hand was I qualified as a cost accountant, so that my activity was that of coordination and calling upon others who were better qualified, in order to try to arrive at what the facts were in connection with the cost of this ammunition.

Now, Mr. Wohlforth gave some indication that the purpose was to make the Frankford figures more closely related to those of the manufacturers. It was natural that the manufacturers should have to think in terms of the different elements of cost which they have to deal with, and that Frankford Arsenal's method of accounting is quite different, for certain obvious reasons.

There are certain items of expense that they do not have, in the way of taxes, and so forth and so forth, and there are some items of expense that they do have that the manufacturers do not have, such as leave time, which is not customary among the manufacturers. So there were quite a number of things which it was the purpose of this committee to bring to a common ground, so we could talk the same language, so we could see with the same eyes, as it were.

The first thing that was done, since both the ordnance officers and the manufacturers were aware of a cost study that was made in 1926, was to familiarize myself with those figures and to get in touch with our cost accountant who had worked those figures up and to enlist his services in connection with the new study.

The next point I would like to make is as to the basic primary reason for having this study. The matter was of a great deal of interest to the manufacturers, in that there might be an important volume of business for them. It was of great interest to the Ordnance Department, because they had certain requirements for ammunition. I do not know the opinions of individual ordnance officers, but I have no doubt that there were many who said, " For industrial preparedness it would be better for us to make a certain quantity at Frankford Arsenal and for us to procure from the manufacturers the remainder of our supply, if that is possible."

I have no doubt there are many who believed that that would be an industrial preparedness program which would be valuable.

I have no doubt, on the other hand, there are others who felt differently, and who said to themselves, " Frankford Arsenal should be built up to whatever capacity we require. In that event there will be nothing for the manufacturers to make."

There is a possible point there which would be of interest; and that is, if Frankford Arsenal, as a contracting plant for the purchase of such ammunition, cannot pay more than their own costs, there was the possibility, of course, that it would be impossible for them to obtain anything from private manufacturers if private manufacturers' costs were higher than those of Frankford Arsenal.

So that was the basis of the study. In the first place, it should be remarked when it comes to the place of trying to get these costs on a comparable basis that the process of manufacture differs in different places, either due to the technical personnel in one place believing that their certain method is better than that of the other places, or due to differences in equipment.

For instance, in our case we have no such equipment as Frankford Arsenal has for making the boat-tail bullet, which is characteristic of this new design and was produced on these educational orders I have spoken of. We have to take several machines of a smaller type in order to produce the boat-tail bullet satisfactorily.

That is just an instance of where there is a difference in process, a difference in machinery, because of different equipment that we have. Doubtless the same differences existed elsewhere.

So what we were trying to do then was to establish a common method, and these eight sheets that have been referred to by Mr. Wohlforth were intended to show the detail of each operation of each of the components that goes into the making of a .30 Springfield cartridge.

So we worked out that method of showing all of the details, and I would like to come later to the reason why we wished to show so much detail.

We worked out that method and asked Frankford Arsenal and each of the manufacturers to adhere as closely as possible to that formula, in order to arrive at a common ground, so that manufacturers would understand each of the others.

The CHAIRMAN. The Government is anxious to patronize private industry, if it can.

Mr. HADLEY. I had no doubt certain individual officers felt that way, and I have no doubt that some others felt otherwise.

The CHAIRMAN. And as between you as private manufacturers and the Government operating at Frankford, there arose a desire to see if there could not be an arrival at a basis of cost finding that would give the private industry full advantage—not unfair advantage but full advantage—of costs. In other words, if the private industry could show that the cost basis being used at Frankford was not inclusive of all actual costs, you were anxious that those additional costs should be written in, so that there would not be as large a margin between your costs and the costs that were being shown by the Government. Is not that the fact?

Mr. HADLEY. I should say that it was for the purpose of bringing out what the facts are.

The CHAIRMAN. That is right.

Mr. HADLEY. Rather than that.

The CHAIRMAN. And you won the cooperation of the Government in ascertaining those facts, did you not?

Mr. HADLEY. I should not say we had won it. I should say it was freely offered.

The CHAIRMAN. It was freely offered?

Mr. HADLEY. It was an important problem and a mutual one.

The CHAIRMAN. That is right.

Mr. HADLEY. And we tried to meet on common ground.

The CHAIRMAN. That is right. I am quite ready to concede that was the case. Now, you ascribed as costs at Frankford costs that do not actually exist, namely, taxes, did you not?

Mr. HADLEY. I should say the taxes is a legitimate element of cost. It is true that Frankford does not actually pay those taxes, but it is a legitimate element of cost.

The CHAIRMAN. And I am ready to agree with you on that.

Mr. HADLEY. Yes.

The CHAIRMAN. That ought to be included.

Mr. HADLEY. Yes.

The CHAIRMAN. For the purpose of ascertaining a fair basis of cost in comparison with the costs of private industry.

Mr. HADLEY. Yes.

The CHAIRMAN. Your industry made a sweeping study and brought into Frankford costs everything that might be considered a cost, did you not?

Mr. HADLEY. That certainly should have been done, because we were trying to find what the costs were and to compare them on a comparable basis.

Mr. WOHLFORTH. You did bring in everything that might be considered a cost, as far as you were able, in order to get the figures on a comparable basis. That is the only point we want to make.

Mr. HADLEY. Well, yes.

Mr. WOHLFORTH. As far as you were able.

Mr. HADLEY. Yes.

Mr. WOHLFORTH. You cannot do the impossible.

Mr. HADLEY. Of course.

Mr. WOHLFORTH. You made every effort and made your own rules——

Mr. Hadley. To make the costs comparable. I do not think it adequately expresses the thing to say we brought in as much as we were able. What we were trying to do was to find facts.

Mr. Wohlforth. I see. I want to make the point here that these costs were worked up on 11 sheets, that is, the costs at Frankford, the costs of Peters, the costs of Remington, the costs of Western Cartridge, and the costs of Winchester, and you assembled them in this form here on sheets numbered 1 to 7, 7–A, 8, 8–A, and 8–B, and I will submit that for appropriate number.

(The cost formula referred to was marked "Exhibit No. 1294", and is included in the appendix on p. 4041.)[1]

Mr. Wohlforth. Now, if we turn to sheet 8, for instance, or 8–A, it seems fairly clear that the——

Senator Barbour. May I interrupt just a moment there, Mr. Wohlforth?

Mr. Wohlforth. Certainly.

Senator Barbour. Colonel Harris, do you happen to recall whether there was any deficiency appropriation asked for or received by the Ordnance Department for Frankford Arsenal at this time?[2]

Lieutenant Colonel Harris. I do not know, Senator.

Senator Barbour. Will you look that up?

Lieutenant Colonel Harris. I will.

Senator Barbour. Of course, if you have recourse to a deficiency appropriation, that should be taken into consideration in the way of costs.

Lieutenant Colonel Harris. I am very sure there was no deficiency appropriation asked for ammunition. There might have been for equipment.

Senator Barbour. Will you look into that and see what did happen?

Lieutenant Colonel Harris. Yes; I will.

The Chairman. Mr. Hadley, is it fair now, with that sheet 8–A before you, to assume that the cost prices that are found there as relate to Frankford, Remington, Western, and Winchester, were the result of as thorough a study as you knew how to make at that time?

Mr. Hadley. All I can say is that we worked out these sheets showing different operations with a view to putting the costs on a comparable basis, and that this is a tabulation of the results obtained.

The Chairman. Do you know the costs that might be added as affects production at Frankford at this time which you were not aware of then?

Mr. Reisinger. Mr. Chairman, in examining these costs—

Mr. Wohlforth. Just a minute. We have not begun to examine them yet. We want to get this point cleared up first.

Mr. Reisinger. It seems to me the chairman is examining the costs.

The Chairman. Let us lay the foundation for it first. Then you can bring out the points you want to bring out after the foundation is laid.

Mr. Wohlforth. Excuse me, Mr. Reisinger.

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[1] For additional data on "Exhibit No. 1294", see appendix, p. 4152.

[2] Colonel Harris later informed the committee that there is no record of a deficiency appropriation for Frankford Arsenal during the years 1927, 1928, and 1929. See Hearings, Part XVII, p. 4269.

Mr. REISINGER. I will wait.

Mr. WOHLFORTH. In submitting these we look at sheet 8–A and we find Frankford Arsenal, Peters, Remington, Western and Winchester, in vertical columns, and on the left we find the various costs:

Materials furnished by manufacturer, materials furnished by Government, labor, factory overhead, general and administrative expense, interest on plant investment and working capital.

And so on down the line, and at the bottom the figures are all totaled as between Frankford Arsenal and the four commercial manufacturers.

Now, Mr. Reisinger.

Mr. REISINGER. Although an attempt was made to get comparable costs, the only way we could get comparable costs was by a questionnaire, and if you know how easy it is to get accounts incorrectly applied so that all cost systems are on the same basis, you would understand how difficult such a problem is.

Now you come down to the costs and you examine the factory overhead and shrinkage. The Government has $4.39, whereas the other manufacturers all run above $9. It is quite evident that these figures are not comparable. It is inconceivable that the Government can operate any cheaper on an overhead if every item of cost were comparable than a private manufacturer.

Senator CLARK. It is perfectly true that in a Government activity they would not set up depreciation and other items that a prudent business man does in operating a business.

Mr. REISINGER. That is true.

Senator CLARK. That applies not only to manufacturers of munitions but a great many other Government activities.

Mr. REISINGER. That is true.

Mr. WOHLFORTH. Mr. Reisinger, you had nothing to do with working up these figures at this time; you were not with Remington at that time, were you?

Mr. REISINGER. That is true.

Mr. WOHLFORTH. Suppose Mr. Hadley answers the next question. Here we have a Frankford Arsenal being able to manufacture a thousand rounds of .30 caliber ammunition for $22 and so many cents, Peters, $31, Remington $28 and so many cents, Western $35 and Winchester $34 per thousand. Do I understand that you deny these figures are not comparable? You do not want to accept them as comparable, is that the idea?

Mr. REISINGER. I do not.

The CHAIRMAN. Mr. Wohlforth, where in the exhibit which has just been offered is the item of taxes taken into consideration?

Mr. WOHLFORTH. Can you tell us that, Mr. Hadley? Was that put in general and administrative expense? You wrote and got the tax rate, and I imagine it was included in the item of general and administrative expense. You wanted that figure and I assume you used it.

Mr. HADLEY. I should say that it appears somewhere.

Mr. WOHLFORTH. Do you want the letter?

Mr. HADLEY. No; I recall the letter. I was just wondering where it may have been put in.

Mr. Wohlforth. Do you remember that you did put it in or that you did not put it in?

Mr. Hadley. I should say that we had put it in.

Mr. Wohlforth. That is the point I want to make. You got the tax rate; you got these schedules of depreciation and everything else and made the best effort to have these figures as comparable as possible, and the results clearly indicate, as on sheet 8-A, that the Government on this basis can manufacture much more cheaply than the commercial manufacturers. Is that a correct assumption from these figures? Mr. Reisinger denies that. I am interested in it.

Mr. Hadley. I think his denial is correct, in that there are certain elements which do not appear here and which cannot probably be included. It would probably be impossible to do so.

The Chairman. What such items might there be?

Mr. Hadley. What I have reference to is this, specifically: That Frankford is in effect a specialty plant. They were making at that time perhaps 60 million a year of one item, whereas the commercial manufacturers on center fire ammunition, none of them makes any quantity that is comparable to that, of any single cartridge, very far from it. So I should say that one important element in that difference in cost is the fact that there is a specialty shop there, whereas the ammunition manufacturers, as set up for commercial business, which is of course what we are doing, are making many different items, many different kinds. That would be one important reason why the figures are not comparable.

It was clearly pointed out at that time and realized by everyone that if Frankford Arsenal at that time decided to increase their capacity to 100 million a year instead of 60 million, their costs would go down still lower and that the manufacturers might be able to produce something that would be acceptable at that time, that probably thereafter it would be impossible on such a basis.

Mr. Wohlforth. You say Frankford is a specialty shop, but in making up these costs and in getting up these schedules, you allocated costs only of the .30 caliber products, didn't you, in order to get this so-called " comparable " basis?

Mr. Hadley. That was our attempt, sir.

Mr. Wohlforth. And these are the results. I simply want to offer these figures for what they are worth. Mr. Reisinger does not believe in them and I don't think there ought to be any argument, perhaps, on that point, unless you care to discuss it further.

The Chairman. Let us establish here who is responsible for those items of cost.

Mr. Wohlforth. Mr. Hadley.

The Chairman. Mr. Hadley and his colleagues?

Mr. Wohlforth. Yes.

Senator Clark. I would like to know where the tax item is.

Mr. Hadley. I will look further for it.

Senator Vandenberg. You put in uniform selling expense, so there can be no discrepancy at that point whatever.

Senator Pope. Under the item of depreciation, Mr. Hadley, will you also call our attention to that? Was depreciation considered as far as private manufacture is concerned, and Government, or just how did you consider depreciation?

Mr. HADLEY. We made an attempt to do that by taking the different elements, that is, buildings depreciated at such a rate, expressed at such a rate, and we tried in this formula, in one of the particular formulae, to set down what was perhaps a reasonable method for the commercial manufacturer to use. Probably it was—although I cannot say so definitely—probably it was that used by Remington, and we asked others to cast their figures into that form in order to try to include such an item.

Senator POPE. Did you consider depreciation on the part of Government buildings and plants?

Mr. HADLEY. Yes, sir; our attempt was to put that on a comparable basis.

Mr. WOHLFORTH. May I say, Mr. Senator, that they had 8 mimeographed sheets, I think it was, which scheduled depreciation for everything, and there was another schedule of about 32 mimeographed sheets, which took in all the various operations, so that they tried to make them comparable all the way through.

Senator VANDENBERG. That can be identified later. Let us not interrupt the proceedings.

The CHAIRMAN: Mr. Hadley, do you have any reference to the consideration which was given to the tax item? Is it probably covered in the administrative expense?

Mr. HADLEY. I believe so, but I am still looking for that particular item in those original sheets.

Mr. REISINGER. I think that is incorrect. The item of taxes should appear in factory overhead and shrinkage, and I cannot help reiterating what I said before:

The fact that the Frankford Arsenal overhead and shrinkage is lower than the other companies, there must be some items not included, to put them on a strictly comparable basis, and it is on that fact——

The CHAIRMAN. What do the two stars after the $4.39 charged to Frankford Arsenal for factory overhead and shrinkage mean?

Mr. REISINGER. It refers to a note on the preceding page, page 8, being reference to the scrap allowance, which reads:

> Tool and machine expense on shell and bullet have been transferred to administrative expense on sheet no. 8–a.

Mr. WOHLFORTH. They have charged in that account what the private industry charged to other accounts.

Mr. REISINGER. I do not think it is fair to assume that. I take the opposite view, that they have not charged them in on account of the variance in the figures.

The CHAIRMAN. Mr. Hadley, these figures constitute the result of the best efforts which you were able to put forth at that time to accomplish comparable costs? Is that not the case?

Mr. HADLEY. That was our attempt. We did what we could.

The CHAIRMAN. It was the best effort of the private manufacturers to arrive at a comparable basis of cost, taking into consideration everything that presented itself at that time?

Mr. HADLEY. That was the purpose. I should say it was the best effort, let us say, of the committee.

The Chairman. They include labor, overhead, profit, administrative expense, materials, insurance, taxes, workmen's compensation, all such items, did they not?

Mr. Hadley. I cannot speak from memory on that. I would have to go through the records in order to see.

The Chairman. Now, were you not struck by the discrepancy there in that item of factory overhead and shrinkage which is charged up to Frankford Arsenal?

Mr. Hadley. Yes, there is a big difference there.

The Chairman. What is the difference?

Mr. Hadley. I cannot say what it is. The only thing that I can think of—of course, there are various elements—is that it might be that in the overhead are higher salaries paid in private manufacture than in the Government. And that is one item which would go into overhead. The fact that it was specially shopped so that they could produce 1,000 cartridges with less overhead than one which is producing a multiplicity of different kinds of cartridges, involving changes of set-up continuously, changes of tools and so forth and so forth.

The Chairman. That discrepancy there does not strike me as being out of order especially, because the difference in factory overhead and shrinkage, as between the Frankford Arsenal and Peters, was about $5, whereas the difference between Peters and Winchester is about $5, too.

Mr. Hadley. I am not sufficiently familiar with accounting to be able to look at those figures and say that they are reasonable or unreasonable in their difference.

The Chairman. Tell me this: Why should not the committee accept this demonstration as being an exhibit to the point that the Government can manufacture more cheaply its .30-caliber ammunition than private industry can, much more cheaply?

Mr. Lammot du Pont. Mr. Chairman——

The Chairman. Let Mr. Hadley answer that question. Why should not the committee be free to draw that conclusion, in the light of your own study?

Mr. Hadley. As I say, I cannot speak as to the accounting. What I was doing was assembling all the figures given. Certainly, on the face of them, it looks as if Frankford could manufacture more cheaply.

Mr. Lammot du Pont. Mr. Chairman, I do not want to contradict Mr. Hadley's testimony, but I have glanced at this sheet, and it is apparent to me there is one discrepancy which I do not see how he could pass over. It is stated in the footnote that the factory shrinkage at Frankford Arsenal was taken at zero. I do not know anything about cartridge manufacture, but it seems to me on the face of it that must be incorrect. You cannot run a plant without any overhead or factory shrinkage.

The Chairman. Is this on 8–a, Mr. du Pont?

Mr. Irénée du Pont. The star on page 8.

The Chairman. Remington is at only 1 percent.

Mr. Lammot du Pont. That is quite a lot different from zero, Mr. Chairman. You have asked a theoretical question of Mr. Hadley, as to whether that is the best that could be done.

I do not see how he can state it is the best, when it cannot be so.

The CHAIRMAN. What investment is involved at Frankford Arsenal?[1] Do you know, Colonel?

Lieuenant Colonel HARRIS. I would have to verify the figures. I imagine the investment at Frankford Arsenal is around $20,000,000, but that is subject to correction.

Mr. CASEY. Mr. Senator, I think if you really want to get a true comparison of manufacturing costs against private manufacture, give each one of the loading companies the same quantity of munitions in .30/06 they produce at Frankford Arsenal and then see the picture change.

Mr. PUGSLEY. Speaking individually or for my company, we could not accept those figures as being representative. I think I was on the committee which prepared these sheets so far as our company was concerned, and, as a result of this, we were so discouraged in our inability to get our costs and the Government costs on a comparable basis that we decided to forget the whole business.

We had an educational order about that time, for which we had bought a special press to do the operations which Mr. Hadley referred to in connection with this boat-tail bullet, which cost us in the neighborhood of $11,000, and sold that press to the Government, thereby practically putting ourselves out of the business, because we were so discouraged with the possibility of getting on a comparable basis. It just seemed impossible.

The CHAIRMAN. Now, if you people have as much trouble determining in peace time, when there is no emergency pressing, if you have as much difficulty determining what costs are, where in the world are we going to get in the event of an emergency, when, under existing plans, we undertake to determine what costs are?

Mr. PUGSLEY. I do not know, sir.

The CHAIRMAN. No.

Mr. PUGSLEY. I do not think that the point has been stressed sufficiently on the special-purpose shop that Frankford Arsenal has now developed. Frankford Arsenal has done an excellent job mechanically and has equipped all the machines with automatic feeds on carriers between machines and the product from one machine is carried automatically to the next machine and there is a continual flow. No commercial manufacturer can afford to set up machinery on the hope of a sporadic order from the Government to such an extent.

Our cartridge factory is responsible for in the neighborhood of 750 variations of metallic cartridges, under three brands, so that our runs are necessarily short, and we are a job shop.

Frankford Arsenal, I think, makes something like three calibers. They are not even making the .30 Krag cartridge, because they are tooled up specifically for the .30/06 Government cartridge, and it is not readily possible to change their machinery to take care of the small difference between the Krag cartridge .30 caliber and the Government .30/06. They have in the past put those out for bid.

I do not think Frankford Arsenal made any of those for a number of years, because they were a special shop. Major Casey is absolutely right. If you will give the commercial manufacturer the same things and allow them to make the same investment in automatic machinery and automatic conveyors between machines, that we can then get our direct costs somewhere near Frankford's.

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[1] Colonel Harris later submitted figures on the plant investment at Frankford Arsenal. Hearings, Part XVII, p. 4269.

Senator VANDENBERG. Major Casey, I am reading from a letter from C. I. B. Henning, of November 17, 1925, on conferences in Washington, report no. 88–H in 1925, from the second paragraph [reading]:

> The discussion of the preceding led to a general discussion of the relations of the du Pont Co. with the Ordnance Department. Little that was new developed, as a result of this. General Ruggles emphasized the desire of the Ordnance Department to assist the du Pont Co. in maintaining their ability to manufacture military propellants, and showed a very broad, liberal attitude in meeting the details of our incidental problems. * * * An order for 200,000 pounds 75 mm FNH will be open to bids in a very short time. The specifications are intended to insure procurement from the du Pont Co. I mentioned the possibility of the naval powder factory as a competitor, possibly repeating our experiences relative to bids for 14″ powder, 2 years ago. General Ruggles does not anticipate a recurrence of that situation.

What is indicated by the writing of the specifications to insure procurement from the du Ponts, and the inference, as I read it, that if there were specific competition with the naval powder factory, the naval powder factory might be the lower bidder? Is that what it means?

Mr. CASEY. No, sir.

Senator VANDENBERG. What does it mean?

Mr. CASEY. It means the 75-millimeter powder referred to was a post-war development of du Pont. That was based on the agreement we made with General Williams in 1919. That powder was being made both by du Pont and Picatinny Arsenal. Picatinny Arsenal knew what it cost. So did du Pont. It was made under du Pont patents, under which Picatinny Arsenal or Indian Head would have to pay no royalty. They were free to manufacture it.

Therefore the specifications did not refer to FNH powder, but it referred to the fact that FNH powder was designed to have flashlessness and nonhygroscopic properties. Those were recommendations of the Westervelt board.

The incident referred to as a Navy bid was not a bid at all. We were requested to put in a bid. The Government was going to furnish nitrocellulose and those ingredients which they had in hand. We put in a bid which was, I think, one-fourth of a cent over cost, actual cost, simply to keep our plant going, when we had no business whatsoever.

We were informed by Major Burns that our bid was rejected because it was too high in comparison with the Government estimate.

A few years before we had made a direct comparison with Admiral Earl of du Pont costs against Navy costs, and our costs were low. I simply asked General Williams, "If the Navy puts in a bid and you award them this business on the basis of that estimate, what do you eventually pay them?"

He said, "We pay them what the powder costs."

I advised them that I felt du Pont knew costs as well as the Navy. We did not believe that the Navy could make the powder for the estimate, which indicated it was probably 25 percent less than ours, although we were absolutely unable to find out what that estimate was. It was a blind bid, where the contractor had to pay whatever the cost was, no matter what it might be.

That was drawn to the attention of the Navy and they were advised: If this is a firm bid and the Navy will absorb any additional cost, that is all right. But the Army only have a certain sum of money, and the Navy would not accept it on that basis. They put in an estimate which they were not willing to back up.

Senator VANDENBERG. And that estimate was 25 percent under yours?

Mr. CASEY. I assumed that it was that much lower at that time. It gave them the option of placing business outside, providing it did not exceed that of the Government estimate by more than 25 percent, so that I assume that our bid must have been at least 25 percent higher than the Navy's estimate, but that was not a bid, and the Ordnance Department of the Army would have had to have paid for that powder whatever the Navy said it cost them.

Senator VANDENBERG. How were the specifications changed to eliminate the Navy as a competitor?

Mr. CASEY. They were not changed.

Senator VANDENBERG. The letter says the specifications are intended to insure procurement from the du Pont Co.

Mr. CASEY. You want to realize, Senator, that the specifications which they had at the time were the specifications that they used during the war, the new specifications to meet the requirements that the Army demanded having not yet been prepared. They did not want to put out a bid and get powder of the same type they got during the war. Therefore, the specifications were really performance specifications.

Senator VANDENBERG. Were they specifications that the naval powder factory could not meet?

Mr. CASEY. They could have met them if they had come up and asked us, "How do you make this powder?" and we would have given it to them, but they could not have bid on the work.

Senator VANDENBERG. Because their estimates were unreliable?

Mr. CASEY. That is the idea exactly, as any estimate is. It is the best you know at the time. It would be fine if we could put in a flat estimate and then say, "However, if we find the costs are more, you will pay us that much more."

I would like to have a contract of that type.

Senator VANDENBERG. That is the situation which General Ruggles did not anticipate?

Mr. CASEY. I imagine so.

Lieutenant Colonel HARRIS. Mr. Chairman, may I make a statement?

The CHAIRMAN. Yes, Colonel.

Lieutenant Colonel HARRIS. There is one thing which these hearings have certainly brought out, and that is the inappropriateness of representatives of corporations going back to the company and saying that a Government official stated that and a Government official stated this, and that being accepted as being true. I do not know whether General Ruggles said that or intimated it, and there has been no proof that he did.

Senator VANDENBERG. I am inclined to agree with you respecting the process. Nevertheless, here we are.

The CHAIRMAN. Proceed, Mr. Wohlforth.

Mr. WOHLFORTH. I think the chairman has brought out that the interest of the committee in these figures is just this:

That in the next war we are going to have some sort of cost-plus contract, or some basis of determining upon where cost is an important factor. And the situation, to me, seems to be this:

Here we have in peace times, without the hurrying and chaotic conditions which war brings, an effort by a technical, qualified committee to determine the cost of one single munition of war. Now, if we cannot agree on that, on determining the cost of .30-caliber ammunition, how are we going to determine the true cost of any munition of war?

I will leave that open.

It would seem, from the previous exhibits, that you can pretty well determine your own costs, so as to know what to add to give you a profit on a Government contract. That is fairly clear.

Mr. HADLEY. Mr. Wohlforth, I would like to say, in reply to this particular report, so far as I am aware, there was no attempt made to agree or to iron out these differences or even the discussion of them, so far as I am aware. The purpose was to send out this formula to get the reports which are tabulated here, and they were sent out as they stand.

Mr. Pugsley points out that they did not feel that they were to be relied upon in certain particulars. I have not been aware of that, because, after I made out that report, I do not know that anything happened to it.

The CHAIRMAN. Is not this the case, Mr. Hadley?

You were also nonplussed by what you found?

Mr. HADLEY. I beg your pardon.

The CHAIRMAN. You were also nonplussed by what you found, so that you did not want to carry it on any further?

Mr. HADLEY. I cannot answer on that.

Senator VANDENBERG. Mr. Hadley, this committee would hate very much to be misled by those figures, if they are misleading figures, because the clear conclusion from those figures gives the Government operation a very substantial cost advantage. If that is not true, I would like to know why it is not true.

As the compilers of the figures, I should like to ask you at your convenience to scrutinize them again and see whether on not there is anything erroneous in them.[1] I would like to know the answer.

Mr. CASEY. Mr. Senator, Mr. Wohlforth early in the proceeding this morning asked the question whether the volume of production does not have a direct influence on cost. It was admitted.

Senator VANDENBERG. That is obvious.

Mr. CASEY. I come back to my proposition:

Give the private loading company the same volume of business, each one of them, that you give Frankford Arsenal, and they will sell, including a profit, to Frankford Arsenal at less than Frankford Arsenal can.

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[1] The Remington Co. later submitted additional figures to the committee in connection with "Exhibit No. 1294." See appendix, p. 4152.

The CHAIRMAN. What guaranty is there to that?

Mr. CASEY. Give them the proof of it.

The CHAIRMAN. What proof is there that that would be true?

Mr. CASEY. Place the orders with them.

Mr. WOHLFORTH. General Ruggles gave the manufacturers their chance in 1926.

As Mr. Pugsley brought out, as I understand it, there was this meeting in New York, and he told the commercial manufacturers, "Either you get your costs down or I am going to put automatic machinery in Frankford Arsenal." He put in the automatic machinery, to the credit of General Ruggles and the Ordnance Department.

Obviously, the conclusion is drawn that commercial manufacturers could not get their costs down.

Mr. CASEY. That is a misstatement.

Mr. WOHLFORTH. I would be glad to have it corrected.

Mr. CASEY. The Ordnance Department wanted to keep the American loading companies familiar with improvements and developments in the .30/06 cartridges. They only had a certain volume of business which they could allocate, if they wanted to, to the different companies. That would have been the idea. All they could have given them, at most, was an average of somewhere between 5 and 10 million rounds a year.

Every company was trying to put in a price which would enable the Government to allocate to them. That was based on a peace-time production with their existing equipment, with such additions as they would need for the special bullets. That is not a fair comparison, and not a strict statement of facts. Absolutely a misstatement.

Senator VANDENBERG. Major Casey, you understand these figures were not prepared by the committee but by the industry.

Mr. CASEY. They were prepared by the companies considering their equipment, having in mind a small ammunition production.

Senator VANDENBERG. And they were prepared and left to speak for themselves without any challenge at the time. The exhibit is complete.

There was no challenge to the poll and no challenge to the comparison, and it is an exhibit from the industries themselves.

Mr. CASEY. Senator, does it not show this low volume of business which the loading companies could expect? That is, does it not show that that was the set-up which they would expect on that stuff?

Senator VANDENBERG. I do not know what it shows.

Mr. CASEY. That is what it shows.

Senator VANDENBERG. It seems to me that the committee, having made such a very careful analysis—it was a very complete analysis—it should either support the conclusion that they left standing in 1928, or show why it is necessary for them to change their conclusion.

Mr. REISINGER. Senator Vandenberg, there is not any reason to show why the figures were not comparable. In fact, it was not a very careful analysis. I described that the figures were accumulated by means of questionnaires. If you were familiar with accounting, you would understand how it was not possible to get comparable figures on such a basis.

Senator VANDENBERG. I am familiar with accounting, and I am familiar with general Government costs, and I have always generally understood that the Government could not operate as cheaply as private industry does, so I find myself challenged by this exhibit, and I want to know if there is anything wrong with it.

Senator BARBOUR. To put it differently, do you believe that the various private corporations could furnish different cost figures, if the figures were based on a comparable quantity to the Frankford figures?

Mr. HADLEY. I think that is a matter for our accounting division to answer, rather than me.

Mr. REISINGER. There is no question about that. I understand that at Frankford .30/06 ammunition is about 90 percent of their capacity. Give us 90 percent of our capacity on .30/06 ammunition and we will show you a cost also.

Senator BARBOUR. For instance, if your company, in setting this up, based it on 5 million rounds a year, and then compared that with costs set up by Frankford Arsenal based on 60 million rounds a year, there would be this difference of cost to which Senator Vandenberg referred?

Mr. REISINGER. Very likely so.

Senator BARBOUR. There is no doubt about that?

Mr. REISINGER. There is no doubt about that.

Senator VANDENBERG. There is nothing in the exhibit which indicates that the costs are not now on a comparable basis.

The CHAIRMAN. That is very evidently what the industry was striving to accomplish.

Senator VANDENBERG. It seems so to me.

Lieutenant Colonel HARRIS. I would like to raise a thought there, Senator Vandenberg. These figures are very flattering to Government operation, but it so happens that .30 caliber production is the one ordnance production since the war which is going along on a uniform, moderate scale, and this moderate and uniform production has resulted in reduced costs.

The CHAIRMAN. For the interest of clarifying the record at this point, I think we ought to review these figures which show the costs paid at Frankford Arsenal at 23.18, Peters at 29.21, Remington at 28.88, Western at 33.87, and Winchester at 31.67.

Senator Pope has computed the average cost shown for the four private industrials concerned here, that average cost being $30.90, as compared with $23.18 for the Government arsenal at Frankford, making a difference of $7.72, which figures almost exactly 33⅓ percent less cost for the Government than for private industry.

Senator VANDENBERG. And all these figures, presumably, include 10-percent profit and presumably include a tax item in the public operation to offset the tax item in the private operation.

The CHAIRMAN. Precisely.

Senator VANDENBERG. I would like to know the answer.

Mr. WOHLFORTH. Mr. Hadley, I just want to bring up one other point. We understand that you received these arsenal figures from the Government officials and held them in confidence, and you received the figures from the commercial manufacturers and held them in confidence also.

And we further have the information that it was the undersanding of the officials at the arsenal that the commercial manufacturers' would be exchanged for those figures.

In other words, they would cooperate with you to the fullest extent, if you would cooperate with them.

Now, just to refresh your memory of that, I will read from a letter dated June 29, 1928, from yourself to Mr. Norvell, who was then the president of Remington Arms.

(The letter referred to was marked "Exhibit No. 1295" and is included in the appendix on p. 4047.)

Mr. WOHLFORTH (reading):

> Subject: .30 Springfield M1.
>
> Acknowledgement only of communications: Your letter of June 27 on the above subject has been received, together with copy of letter to you dated June 21 by Mr. J. M. Olin, copy of letter to you dated June 21 by Mr. F. W. Olin, copy of your letter to Mr. F. W. Olin dated June 27, and copy of your letter of June 27 to Messrs Olin, King, and Tobler.
>
> *Progress report only.*—Mr. Bowers, Mr. Craig, and the writer visited Frankford Arsenal on June 28, inasmuch as Frankford Arsenal accountants had then completed their figures worked up on the inventory of June 15. These figures were discussed. Comparison was also made of the kind of items which we are obliged to consider in our overhead and those which they consider. We left with them the 8-page cost formula which we forwarded to the different manufacturers on June 25. They are going to adjust their operation-cost figures to conform to this formula. They sent us on June 20 information which they had available on the capital value of their buildings, land, etc. These figures were discussed at some length. We agreed to send to them a formula showing the method used by us in dealing with these items. They agreed to recast their figures on the basis of our formula so that a direct comparison would be possible. We said that we would also send that same formula to the other manufacturers, supplementing our letter of June 25, which we discussed with them. Our hope is that we will be satisfied with figures which Frankford also can approve so that when these figures go to General Ruggles, they will represent agreement in principle between us and Frankford and form the basis for a real comparison. We found that Frankford readily admitted the item of interest on working capital. They were unwilling to consider any profit on material supplied by the Government, but they were willing to have included necessary handling charges.
>
> *Change in policy proposed.*—Decision desired: Captain Chavin expressed himself as being opposed to a comparison of Frankford Arsenal figures with an average of the costs of other manufacturers. He felt that the averaging of these costs would obscure some of the very items upon which it was desired to fix attention. Two alternatives were suggested: One was the general exchange of complete figures, competitiors' tabulations being designated not by name but by symbol as A.B.C.D. The other one was that the detailed figures should be submitted to Frankford Arsenal and/or Washington in confidence, in the event that certain manufacturers did not wish to disclose their own cost figures to other manufacturers but were willing to do so to the Government.

On page 2 of that letter it says:

> Captain Chavin seemed very decided in his expression of opinion that Frankford's figures should not be given to the other manufacturers unless they, in turn, gave their figures to Frankford.

As I understand it, that was the agreement of fair trade either way. You do not have any doubt in your mind that Frankford expected to get these figures, do you?

Mr. HADLEY. I have.

Mr. WOHLFORTH. With that understanding you wrote General Ruggles, Assistant Chief of Ordnance, with that in view, and he gave you permission to give the figures of the arsenal to the commercial manufacturers.

Mr. HADLEY. Excuse me. I do not know whether you understood my reply clearly. When this was started there was no undertaking on the part of the manufacturers that they would pass their costs over to Frankford Arsenal. Frankford Arsenal was willing to have theirs stated, but they were not willing to have them passed out to the others, anyone other than the chairman of the committee, unless that permission was actually obtained for that.

Mr. WOHLFORTH. I appreciate that. but I want to make the point that Frankford Arsenal fully expected to get these figures in return, is not that correct?

Mr. HADLEY. I do not believe there is any evidence of that.

Mr. WOHLFORTH. Let us look at that exhibit again. [Reading:]

> Captain Chavin seemed very decided in his expression of opinion that Frankford's figures should not be given to the other manufacturers, unless they, in turn, gave their figures to Frankford.
>
> Since it is very distinctly understood that we will not make any move which would be offensive to the Ordnance Department, and because, on the other hand, our desire is to work with them in very friendly fashion, we believe that before showing Frankford's figures to the different manufacturers, we should have corresponding figures from them and authority from them to transmit these figures to Frankford Arsenal and to the Ordnance Department.

On July 30, Maj. W. L. Clay, of the Ordnance Department of the Army, visited you at Remington Arms Co. in Bridgeport, and you informed him that there was some reluctance from certain quarters to exchange all the figures on commercial manufacturers with Frankford Arsenal.

In order that there will be no question about that point, we will offer here for the record for appropriate number a memorandum signed by you, dated July 30, 1928.

(The memorandum referred to was marked "Exhibit No. 1297", and is included in the appendix on p. 4048.)[1]

Mr. WOHLFORTH. This reads in part as follows——

Senator VANDENBERG. Is the questionnaire available from which this information was assembled?

Mr. WOHLFORTH. Yes; it is available, the mimeographed schedule of depreciation, costs, various operations, and so on. We have that as a committee record.

Senator VANDENBERG. I would like to see the questionnaire at your convenience.

Mr. WOHLFORTH. This seems to me to show that there was no doubt in the minds of the people at Frankford Arsenal that they would receive the commercial figures.

On August 14, 1928, you were writing again to the Peters Cartridge Co., to your own company, Western Cartridge Co., and the Winchester Repeating Arms Co., saying that these figures had been received and were already tabulated.

That is offered for appropriate number.

(The letter referred to was marked "Exhibit No. 1298", and is included in the appendix on p. 4049.)

Mr. HADLEY. Mr. Wohlforth, I would like to say that I do not agree with your statement that the Frankford Arsenal or the Ordnance Department expected to get the figures of others, because there were various discussions as to what might be an appropriate thing, whether the committee should average the figures of different manufacturers and submit those to Frankford Arsenal, or whether some other method should be pursued. In other words, there was not any definite plan when the investigation started as to just what use would be made of the figures. The Frankford figures were only given out after specific permission was obtained, and as pointed out in the correspondence, there was some reluctance in some quarters on the part of the manufacturers in giving their figures. The net results, as far as I am personally aware, was that the detailed figures were not given to Frankford. If they were given to them, that must have been done by some of the other people concerned.

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[1] There was no exhibit marked "No. 1296."

The CHAIRMAN. Frankford was cooperating with you fully in assembling these facts and these details. Had not they indicated that they would appreciate having access to them?

Mr. HADLEY. Yes.

The CHAIRMAN. And having knowledge of the result of the study?

Mr. HADLEY. They expressed a desire to have the figures.

Mr. WOHLFORTH. That was the understanding. It says here:

> Major Clay of Frankford Arsenal seemed disappointed at not obtaining those figures from the different manufacturers.

Mr. HADLEY. Yes. He hoped to get them.

Mr. WOHLFORTH. My understanding is that you got the figures because they understood that you were giving them your figures in return. They were not simply going to open all their accounts and data and let you put men in there without getting something in return. Colonel Wall, Major Clay, and Captain Chavin, as these exhibits seem to show, all had the understanding that they would get something in return for that cooperation.

Mr. HADLEY. If you will change the word "expect" to "hope" I will agree with you.

Mr. WOHLFORTH. Why should not they have an expectation?

Mr. HADLEY. Because Frankford Arsenal is a quasi-public institution, paid for by taxpayers, I should say.

Mr. WOHLFORTH. But that does not give anybody authority to go in there and get all the figures.

Mr. HADLEY. Not unless they are willing that should be done.

Mr. WOHLFORTH. Exactly; and because they expected to get something in return.

Mr. HADLEY. I think their attitude is a somewhat different one from the private manufacturers on that score.

Mr. WOHLFORTH. I have offered a letter of August 14th, 1928, entered as "Exhibit No. 1298", from you to the four manufacturers. In part it reads:

> Tabulation of these figures together with those of the other manufacturers, has now been completed as planned, except that General Ruggles' authority for sending our Frankford figures has enabled us to add theirs to the tabulation.

At the bottom of the page it says:

> Messrs, King and Tobler have since written expressing their unwillingness that any of their figures should be shown to Frankfort Arsenal. Mr. Norvell has written saying that, if possible, he thinks the ammunition manufacturers should act as a unit in regard to this.

Just 10 days later, on August 24, 1928, you wrote to Major Clay, and I will offer that for appropriate number.

(The letter referred to was marked "Exhibit No. 1299", and is included in the appendix on p. 4049.)

Mr. WOHLFORTH (reading):

> Maj. W. L. Clay, Office of the Chief of Ordnance, War Department, Washington, D. C.

In part it says:

> I had hoped to have these figures for you, but so far I have not been able to accomplish this.

The CHAIRMAN. Those were the figures that had already been supplied to the four private industrials?

Mr. HADLEY. Yes, sir.

Mr. WOHLFORTH. You had the figures at that time, did you not?

Mr. HADLEY. I had them.

Mr. WOHLFORTH. You yielded to the private manufacturers in not giving those figures to the officers at the Government arsenal, is that correct?

Mr. HADLEY. I should not say that I yielded to them. I was acting under their instructions.

The CHAIRMAN. It strikes me that this is another evidence of some of that 90–10 percent cooperation that we heard something about this morning. I would like to get that a little clearer.

You had the full cooperation of Frankford Arsenal?

Mr. HADLEY. Yes, sir.

The CHAIRMAN. In compiling this study?

Mr. HADLEY. Yes, sir; I believe so.

The CHAIRMAN. Yet you withheld from them your findings as a result of that study, and they never have had access to them, have they?

Mr. HADLEY. I am not aware that they have.

Mr. WOHLFORTH. You know very well that they have not had these figures. You did not give them to them, did you?

Mr. HADLEY. I did not myself. The entire thing passed out of my hands. I was a tool for gathering and compiling the figures. It passed out of my hands with that last letter, I should say.

Mr. WOHLFORTH. When we began here this morning we found the Government giving Remington every cooperation. Mr. Pugsley said that he gets a lot of cooperation from the Government for Winchester also. We brought out the point that the 10-million-round order included a million rounds of ammunition that were rejected. The War Department cooperated with you and allowed you to rework the ammunition, and finally bought it for certain tests, so that you would not lose a lot of money. That was the attitude of the officials of the Ordnance Department, and it seemed a very fair attitude.

Here we find you writing an officer refusing these figures, and giving no cooperation at all. As you have testified, you never did give these figures of the private manufacturers to the Government. You kept them in the dark. There is no question on that point.

Mr. HADLEY. Mr. Wohlforth, at that point I would like to make one comment in respect to giving these figures. It is true these figures were not given to Frankford Arsenal, but I would like to call attention to the fact that in 1926 when the first study was made of Frankford Arsenal's figures by the Remington accountant, the comparison which was made at that time was completed and the figures of Remington were given to Frankford Arsenal or to the Ordnance Office, I do not know which.

Mr. Wohlforth. I am talking about the 1928 figures that we have been discussing now, and I simply want to make the point that you got their figures and you did not give them yours; and there was, shall we say, some " hope " in the minds of the Government officials that they might get them, but evidently that hope was not realized.

Mr. Hadley. Certainly some of the individuals at Frankford Arsenal who were close to their costs of manufacture, such as Captain Chavin, mentioned—certainly he hoped that he would have the other figures for comparison.

Senator Vandenberg. Mr. Hadley, if the figures had shown a different conclusion, there would have been no disinclination to let Frankford have them, would there?

Mr. Hadley. I cannot say as to that, sir.

Mr. Wohlforth. I would like to ask Colonel Harris a question.

Colonel Harris, you were in the Ordnance Department. As far as you know, you never received these figures from this technical committee, did you?

Lieutenant Colonel Harris. I do not know that they were received.

Mr. Wohlforth. Mr. Hadley, you got these figures together—I want to get this clear—as a member of the committee of the Sporting Arms and Ammunition Manufacturers Institute. Is that correct?

Mr. Hadley. No, sir.

Mr. Wohlforth. You did not do that? You just acted independently, under the auspices of the Institute?

Mr. Hadley. Not under the auspices of the Institute. The ammunition manufacturers asked me simply as an individual to carry out the work of coordinating a formula from cost accountants who were qualified, and compile the results obtained from the different companies.

Mr. Wohlforth. In doing this, did you follow out the purposes and general idea for which the Sporting Arms and Ammunition Manufacturers Institute was created?

Mr. Hadley. I should say it had no relation to that.

Mr. Wohlforth. It had no relation to that at all?

Mr. Hadley. It was simply a convenient place for the Ordnance officers to meet the ammunition manufacturers, because they happened to be gathered together.

Mr. Wohlforth. Before we leave this matter of the Institute and these figures which were prepared in 1928, I want to ask Mr. Pugsley a few questions.

We will go forward 4 years, to 1932. At that time, Mr. Pugsley had prepared with the secretary of the Sporting Arms and Ammunition Manufacturers Institute a certain brief. That brief was prepared for submission to the Shannon committee of the House of Representatives, which was a special committee of the House to investigate Government competition with private business.

We understand, Mr. Pugsley, that you were appointed to cooperate with an official of the Remington Arms Co. in the preparation of this brief, based upon data that would be supplied to you. Is that correct?

Mr. PUGSLEY. That is correct.

Mr. WOHLFORTH. This committee further understands that the data produced by the official of Remington Arms with whom you cooperated was all dated not in 1928 but in 1926. Is that correct?

Mr. PUGSLEY. I think that is true.

Mr. WOHLFORTH. In other words, you were not given the benefit of these figures devised by Mr. Hadley and his committee, but you were given an incomplete set of figures which were the result of a preliminary survey of Frankford Arsenal in 1926. They gave you the 1926 data and did not give you the 1928 data which we have been discussing.

Mr. PUGSLEY. That is correct.

Mr. WOHLFORTH. All right.

Mr. PUGSLEY. You will remember that when you were in New Haven you asked me that same question.

Mr. WOHLFORTH. I did. I wanted to be clear on it.

Mr. PUGSLEY. You asked me whether I had the 1926 or 1928 figures. I told you I did not remember. I had forgotten at the time that we had these 1928 figures. I looked up the file in the Shannon committee, and I did not find these figures available. I think possibly we had a copy of them, but I do not remember.

Mr. WOHLFORTH. On the basis of these 1926 figures that were supplied to you, which were admittedly incomplete, you drew up your conclusions. I would like to put them in the record. I will submit them in the form of a letter dated August 17, 1932, from Mr. Comeaux, the secretary of the Sporting Arms and Ammunition Manufacturers Institute, to the National Association of Manufacturers.

(The letter referred to was marked "Exhibit No. 1300", and is included in the appendix on p. 4050.)

Mr. WOHLFORTH. We want to submit that report for this reason, that the results you drew out based on the incomplete 1926 data are open to question. I will give you one instance by reading from page 3 of this letter, the third paragraph from the top.

It reads as follows:

> There is, of course, no provision in Government costs for interest on investment, or profit, both of which are essential in the case of commercial manufacturers.

If you refer to the 1928 figures, you will see that provision was made for both of those factors.

It is of interest to us to see what happened as a result of the study made by Mr. Pugsley in connection with an associate from Remington.

I have here a pamphlet entitled, "Statement Filed with the National Association of Manufacturers' Committee on Government Competition with Private Industry, by the Sporting Arms and Ammunition Manufacturers' Institute, in Behalf of Its Members Making Arms and Ammunition.

(The pamphlet referred to was marked "Exhibit No. 1301", and is included in the appendix on p. 4053.)

Mr. WOHLFORTH. This pamphlet recommends among other things that the Government should be prohibited by law from entering into competition with commercial manufacturers. Another recommendation was that—

> It is the feeling of the ammunition industry that mass production at Frankford Arsenal should not continue.

The CHAIRMAN. Mr. du Pont, you have raised the point concerning the percentage of shrinkage shown.

The final sheet in the exhibit which was prepared in 1928 shows a compilation giving a figure that compares them all on shrinkage. There is this note at the foot of that page:

> The differences in percentage allowed for shrinkage were so great that it has seemed possibly worthwhile to make another sheet no. 8–B, made up with a uniform shrinkage of 1 percent for each manufacturer. This sheet differs from 8–A only in this particular.

Their totals are, for Frankford Arsenal 23.18; for Peters, 29.21; for Remington, 28.88; for Western, 33.87; and for Winchester, 31.67. They get a difference of 21 cents in the total cost as shown by the Frankford Arsenal.

Mr. LAMMOT DU PONT. Mr. Chairman, I did not intend to convey the impression that I thought that zero percent shrinkage was the explanation of the apparent difference. I simply pointed out that a novice at this game could point out an error in 30 seconds. I think an expert could find some other error.

Senator VANDENBERG. In other words, the thing you have now read, then, indicates that they did scrutinize this exhibit for the purpose of neutralizing any discrepancies they could locate.

The CHAIRMAN. That is right, and the only one they could find was the one concerning shrinkage; and they drew up another sheet charging a shrinkage of 1 percent in each case.

Mr. LAMMOT DU PONT. They left the error in sheet A, however.

Senator VANDENBERG. I think this is a very fundamental thing, gentlemen, and it rather violates a good many of my predilections. If there is any further explanation of it, I would certainly like to have it, when you can get at it.

Mr. PIERRE DU PONT. Might I say a word on this, Senator?

Senator VANDENBERG. Yes.

TESTIMONY OF PIERRE S. DU PONT—Recalled

Mr. PIERRE DU PONT. It is an interesting question. I know nothing of this ammunition question. I do not propose to take it up. But can you name me a single industry in which the Government is interested, the power plants, the improvement of the Mississippi River, the Post Office, or anything else, in which there is an intelligent accounting of any period of years in order to determine whether a profit is made or a loss is made?

There are absolutely, as far as I know, no figures whatsoever in the shape of a balance sheet concerning a Government activity, in which there is any certainty of reliability. If the Government makes a mistake, the taxpayer pays for it. If the Government buys ammunition and there is a mistake made, the ammunition company pays for it.

As a citizen, I have much more faith in the ammunition company's figures and their accuracy over a period of years, or any other industry, than I have in the Government's figures, for I know no Government figures on which I could rely at all, in the form of a balance sheet or a statement of profit and loss. The Post Office is the oldest industry in the United States, and I see it frequently agitated in the papers and by the political parties as to whether the predecessors made the profits they claimed or not.

Senator VANDENBERG. I agree; and we had an example of Mr. Farley's arithmetic a few months ago.

I have heretofore agreed with the general statement that you now make. That is why I am so challenged by the presentation of a formal survey by the best minds in a given industry, which leads to a directly contrary conclusion.

Mr. PIERRE DU PONT. Has Frankford Arsenal a series of balance sheets and cost sheets over a period of years that will support these figures, or was that the spasm of a moment, which may not be produced again in 10 years? If they can do it this year and are going to operate at a loss for the next 10 years, it does not profit much the taxpayers of this country.

The CHAIRMAN. The committee assumes that the figures relating to the Frankford Arsenal were not very loosely accepted by the representatives of private industry; they had pretty much of a choice themselves of determining what Frankford Arsenal costs were.

Mr. PIERRE DU PONT. I would like to challenge their figures as well as those of Frankford Arsenal.

The CHAIRMAN. But it occurs to me that there is one advantage to which no reference at all has been made this morning, in addition to the saving of money. The Frankford Arsenal does not sell its powder to those countries that might some time decide to use what we sell to them against us.

Mr. PIERRE DU PONT. Is it to the advantage of the ammunition companies, if it were not considered to the advantage of the Nation?

Mr. IRÉNÉE DU PONT. Can we get at the question of a balance sheet in the case of Frankford Arsenal in this way? You appropriate so much money every year for the operation of Frankford Arsenal. I got the impression that something like 90 percent of its output is .30 caliber ammunition. Is that your figure?

Lieutenant Colonel HARRIS. Ninety percent in small-arms ammunition output. They have other manufactures also, but the small-arms ammunition.

Mr. IRÉNÉE DU PONT. Then it might not work. I was going to say, divide the output into the total appropriation, and you might get some approximation of what the real cost has been over a series of years.

Senator VANDENBERG. If this exhibit had been prepared by our committee or our investigators, I would take it rather lightly in the face of my predilections, but it comes to us as the conclusion of the industry itself, which is what amazes me.

Mr. IRÉNÉE DU PONT. They did not scrutinize or audit the Frankford Arsenal's cost sheets.

Senator VANDENBERG. Nor did they challenge them.

Mr. Irénée du Pont. That does not make any difference, whether they challenged or not. It seems to me we are trying to get facts, not whether they did the right thing to develop a fact.

Mr. Casey. Senator Vandenberg, I can readily see what is going through your mind. I believe you would like to get comparable figures.

Senator Vandenberg. I certainly would.

Mr. Casey. Why does not this committee put this proposition up to the commercial companies: Say, "We will give you 60,000,000 rounds of ammunition for each company per year. We want you to set up the necessary equipment on a comparable basis with Frankford Arsenal, which you will have to amortize, with the assurance that you will then keep those facilities going indefinitely, 60,000,000 rounds a year, year after year."

Put that proposition to them and ask them to submit to this committee their figures.

Mr. Reisinger. Mr. Chairman, you read into the record, I think, costs from 8–A. If you will refer to that sheet, you will see the "total cost exclusive of profit." The net cost is $31.69 for Frankford, $39.24 for Peters, $36.86 for Remington, $42.40 for Western, and $41.97 for Winchester.

Senator Vandenberg. Still Frankford is lower.

Mr. Reisinger. Absolutely.

Mr. Hadley. Mr. Chairman, you were discussing a moment ago the question of giving this information to the Frankford Arsenal. I have been going over some of the papers that I have. If I may, I would like to read a letter that was addressed to me on August 6 by Mr. Norvell, who was then president of our company. In response to my letter of the 31st in which I said to each of the manufacturers, "May we give these figures as far as your company is concerned to Frankford Arsenal?" Mr. Norvell said, "Yours of the 31st I have read with interest, and will say that as far as the Remington Arms Co. is concerned you are authorized to exchange with the Government any information that they give us. But I think in this matter, if possible, the ammunition manufacturers should act as a unit."

Mr. Wohlforth. It is already in the record.

Senator Clark. They always have acted more or less as a unit on these matters, have they not?

Mr. Hadley. I cannot say as to that, sir.

Mr. Pugsley. Mr. Chairman, I would like to call your attention to this point:

You made a statement a minute ago that there was no danger of Frankford Arsenal ammunition being sold to a Government to be used against us. I would like to call your attention to a telegram, a copy of which your committee has, signed by Secretary of War Good, dated March 15, 1929, as a result of the sale of Government ammunition to Mexico.

The Chairman. The Government did sell ammunition to Mexico?

Mr. Pugsley. Yes, sir. The Government did sell ammunition and guns to Mexico.

The Chairman. We would like to know that.

Mr. Pugsley. Your investigator has a copy of that correspondence.

Mr. Wohlforth. We are coming to that point at another time, Mr. Chairman.

Senator CLARK. It is a rather interesting point. I would like to go into that in detail.

Mr. WOHLFORTH. The point I would like to make is this, that the Government did not get the figures, first, and second, that when Mr. Pugsley prepared his brief for submission to the Shannon Committee of the House, he did not have the benefit of these figures, either.

That is all.

Senator POPE. I feel that Mr. Hadley, however, acted reasonably and right in his action, acting under the instructions of his superior.

The CHAIRMAN. Oh, yes.

Mr. CASEY. Just one point before recess:

Mr. Wohlforth read a letter from Mr. Henning, and also a paragraph from a letter of Monaghan in which he stated that they were opposing the du Ponts because it might affect the sale of fulminate of mercury if the Government would adopt the noncorrosive primer.

I would like to remind Mr. Wohlforth that the Government primer contained no fulminate of mercury. The noncorrosive primer referred to contained fulminate of mercury. So therefore instead of our losing a sale of fulminate of mercury, we would have gained a sale. So that shows how accurate Mr. Monaghan is in his statement.

Senator CLARK. If Mr. Monaghan were here, Mr. Chairman, he would probably say that this is a sales letter.

The CHAIRMAN. Mr. Hiss, you have a letter you wish to introduce before we recess?

REQUEST OF HOWARD E. COFFIN TO PIERRE DU PONT TO APPEAR BEFORE THE KERNAN BOARD

Mr. HISS. Lieutenant Brannon, are you familiar with the creation of the board known as the "Kernan Board", in 1916?

Lieutenant BRANNON. I am familiar with the record of it as contained in the report of the Board.

Mr. HISS. It was formed pursuant to section 121 of the National Defense Act, was it not?

Lieutenant BRANNON. I believe that is the correct section.

Mr. HISS. That directed the Secretary of War to appoint a board of five citizens, "two of whom shall be civilians and three of whom shall be officers of the Army, to investigate and report to him the feasibility, desirability, and practicability of the Government manufacturing arms, munitions, and equipment."

Is that your recollection?

Lieutenant BRANNON. That is right.

Mr. HISS. Do you know whether at that time there was any intention back of the legislation for the committee to consider the exclusive manufacture of arms, ammunition, and equipment by the Government?

Lieutenant BRANNON. I think that question is taken up by the Board in their report, the question of how far they should go in considering exclusive manufacture.

Mr. HISS. The first point of their conclusion was,

> It is not desirable that the Government manufacture its arms, munitions, and equipment exclusively.

My question is—perhaps you can find it in the report—do you know whether there was an idea in anyone's mind at the time that the committee should consider whether or not the Government should manufacture arms, ammunition, and equipment exclusively?

Lieutenant BRANNON. I think so, because the table which I will show here—the Kernan Board submitted figures on three different bases. One was exclusive Government manufacture in peace time. One was exclusive Government manufacture in war based on an army of 2,000,000 men in the first year, supplying 2,000,000 men thereafter, and a third on an army of 4,000,000 men in the first year. As I understand it, as I read these figures, they were exclusive Government manufacturers of arms, ammunition, and individual equipment for soldiers, infantry, and Cavalry equipment.

Mr. HISS. Their recommendation was opposed to exclusive Government manufacture in time of peace, as well as in time of war; is that correct?

Lieutenant BRANNON. That is the way I read the record.

Mr. HISS. I would like to offer for the record a letter written December 4, 1916, to Mr. Pierre du Pont, from Mr. Howard E. Coffin, on the stationery of the Naval Consulting Board.

(The letter referred to was marked "Exhibit No. 1302", and is included in the appendix on p. 4056.)

Senator CLARK. Who was Mr. Coffin prior to becoming a member of this board? What was his line of business?

Mr. PIERRE DU PONT. I am afraid I cannot answer that question, sir.

Mr. CASEY. He was connected with automobiles, I believe.

Senator CLARK. He was connected with the gyroscope business in connection with airplane manufacture, was he not?

Mr. PIERRE DU PONT. Not that I know of.

Mr. HISS. Mr. du Pont, in the second sentence of the third paragraph of this letter, the statement is made:

> The foreign war has shown us the utter futility of dependence upon Government-owned plants alone for fitting this Nation to defend itself in the event of future aggression.

Did you understand that to mean the utter futility of dependence upon Government-owned plants in time of peace, or only in time of war, Mr. du Pont?

Mr. PIERRE DU PONT. At all times, I should say; at all times.

Mr. HISS. In time of peace as well as in time of war; is that correct, sir?

Mr. PIERRE DU PONT. Yes. The reason for that is that if they were all Government-owned plants in time of peace, there could be nothing but Government-owned plants in time of war. There would be nobody fitted to do the business.

Mr. HISS. What was your then opinion on the subject before the Kernan Board, namely, that part of the subject that Lieutenant Brannon has referred to, whether or not in time of peace the Government should manufacture arms exclusively?

Mr. PIERRE DU PONT. Arms or powder?

Mr. HISS. Arms, ammunition, and equipment.

Mr. Pierre du Pont. I could only answer as to the question of powder, because that is the subject I knew and had experience in. I cannot answer for the rest of it. I doubt if I had any opinion excepting general principles, and that was in favor of the private manufacture of everything.

Mr. Hiss. This letter was a personal invitation from Mr. Coffin to you to attend the hearings of the Kernan Board, was it not? Look at page 2.

Mr. Pierre du Pont. Just a moment. Have we passed over that first question? The answer is in the next sentence:

> Private industry in all the varied lines of governmental supply must be encouraged and not discouraged.

That is my opinion.

Mr. Hiss. That was also Mr. Coffin's opinion, apparently.

Mr. Pierre du Pont. Yes.

Mr. Hiss. On page 2, second paragraph:

> May we ask your active aid, in accordance with the more formal request over the signature of Col. Francis J. Kernan, president of the board? The report of this body, if based upon facts and statements of business attitude such as you can supply, should go far toward settling, once for all, the question of Governmental munition manufacture.
>
> It is the desire to record in the report of this board a concise and convincing statement of the attitude of the average patriotic American manufacturer toward Government business. Constructive criticism and suggestion as to present Governmental methods of business dealing will be strictly in order. I have myself, during the past week, spent a day before this board, and desire to strongly second its request for your assistance.

So far as you know, were the then advisers of the Government in the field of industrial mobilization all of Mr. Coffin's opinion?

Mr. Pierre du Pont. I am not advised as to that. As far as I know, this letter did not receive my attention. I have no recollection of meeting Mr. Coffin or being at a conference.

If you have something to refresh my memory, I might tell you about it, but I have no recollection of the affair at all.

Mr. Hiss. Lieutenant Brannon, can you supply the committee with a list of the witnesses who appeared before the Kernan Board?[1]

Lieutenant Brannon. Let me see if there is a list in the report of the board. I am not sure.

Mr. Pierre du Pont. I should like to identify the officer of our company who attended to this matter.[2] I think that I did not.

The Chairman. You say you would like to identify the officer?

Mr. Pierre du Pont. If it is of importance. I think I did not attend to it. I have no recollection of it.

The Chairman. The committee will be in recess until 2 o'clock.

(Thereupon, at 12:35 p. m. a recess was taken until 2 p. m. of the same day.)

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[1] Under date of April 4, 1935, the War Department advised the committee as follows: "With respect to list of witnesses before the Kernan Board, you are advised that a thorough search of the records of the War Department has been made but the minutes of the hearings by the Kernan Board cannot be located. The only list of witnesses available is that included in the Board's official report, a copy of which is in the possession of the committee."

[2] Under date of April 19, 1935, the du Pont Company informed the committee that "Mr. H. M. Barksdale, vice president (now deceased), was appointed to carry out this important mission."

AFTERNOON SESSION

The committee resumed pursuant to the recess, at 2 p.m., Hon. Gerald P. Nye (chairman) presiding.

TESTIMONY OF EDWIN PUGSLEY, EGBERT C. HADLEY, E. E. HANDY, W. U. REISINGER, C. K. DAVIS, IRENEE DU PONT, LAMMOT DU PONT, PIERRE DU PONT, AND K. K. V. CASEY—Resumed

DATA CONCERNING WINCHESTER, REMINGTON, AND WESTERN CARTRIDGE COS.

The CHAIRMAN. The committee will be in order.

Mr. Wohlforth, you have a number of exhibits which will be included in the record by the committee, which it is perhaps as well to offer at this time. Are they the records of the Winchester Co.?

Mr. WOHLFORTH. Yes. First of all, I will put in the Winchester Co. records.

The CHAIRMAN. All right.

Mr. WOHLFORTH. You were requested, Mr. Pugsley, to give us a list of your campaign contributions.[1] Do you recall that request?

Mr. PUGSLEY. Yes.

Mr. WOHLFORTH. That was to be here by December 21. We can depend upon you to supply all that material?

Then we have the military sales and cost to the United States, 1931–33, total sales and total export sales, for the same period of time, four copies, costs and sales, export military sales to foreign governments; sales by countries; dollar volume, and so forth.

I just desire at this time to submit them for the record.

The CHAIRMAN. Can these records in any wise be disputed by the industry, or are they records which they themselves have furnished?

Mr. WOHLFORTH. They are the records that you furnished, Mr. Pugsley.

The CHAIRMAN. Mr. Pugsley, will you identify them at this time before they are offered?

Mr. PUGSLEY. Yes, sir.

Mr. WOHLFORTH. The first is Government sales—dollars, no cents—pistol and revolver cartridges, and so forth, four copies, which were received from the Winchester Co.

I will offer that as an exhibit for appropriate marking.

The CHAIRMAN. It may be received.

(The tabulation referred to was marked "Exhibit No. 1303" and is included in the appendix on p. 4057.)

Mr. WOHLFORTH. Next is Winchester Repeating Arms Co., net sales, export, percentage of export to total, and export net sales.

That will be offered as the next exhibit.

(The tabulation referred to was marked "Exhibit No. 1304" and is included in the appendix on p. 4058.)

Mr. WOHLFORTH. Next is Winchester Repeating Arms Co., sales by country, in volume, including net received by Winchester Repeating Arms Co., factory cost[1] and gross profit on military sales to foreign countries.

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[1] At date of publication of this Part of the hearings the complete list of campaign contributions of officers and directors of the Winchester Co. had not been submitted to the committee. Those which were submitted appear in the appendix on p. 4157.

Mr. Pugsley. Wherever available.

Mr. Wohlforth. Wherever available.

Mr. Pugsley. Yes.

Mr. Wohlforth. We understand they are not available prior to the formation of the present company in 1931.

Mr. Pugsley. Yes.

Mr. Wohlforth. But since that time these figures have been supplied.

Mr. Pugsley. Yes; in some cases they go back wherever we have the records.

Mr. Wohlforth. We understand and appreciate that.

That will be offered for appropriate marking as an exhibit.

(The statement referred to was marked "Exhibit No. 1305" and is included in the appendix on p. 4059.)

Mr. Wohlforth. Also for the Winchester Co. a list of agents all over the world and the commission arrangements of these agents, and the same for the Western Cartridge Co. That completes the request in that paragraph of the letter. These are the agents and commission rates on Western brand arms and ammunition.

The Chairman. Mr. Wohlforth, I suggest you have Mr. Pugsley identify them in each instance.

Mr. Wohlforth. Will you identify this, Mr. Pugsley?

Mr. Pugsley. It is all right.

Mr. Wohlforth. And will you identify these agent and commission arrangements that apply to Western brand ammunition only, as supplied by your company?

Mr. Pugsley. Yes.

Mr. Wohlforth. Those are offered for appropriate marking.

(The documents referred to were marked "Exhibits Nos. 1306 and 1307", respectively, and are included in the appendix on pp. 4069 and 4070.)

Mr. Wohlforth. We made a request for the stockholders of the Winchester Co. We understand Winchester is owned outright by the Western Cartridge Co. Is that correct?

Mr. Pugsley. That is correct.

The Chairman. Do we have any statement showing the stock ownership in the Western Cartridge Co.?[2]

Mr. Wohlforth. No; we haven't that at this time. That will be submitted later.

The Chairman. All right.

Mr. Wohlforth. We also understand the Winchester has no foreign agreements nor makes any payments under foreign agreements; is that correct?

Mr. Pugsley. That is correct.

Mr. Wohlforth. I have here a statement of salaries paid to officers and bonuses given to officers and the expenses of officers from 1932 to 1934. Will you identify that?

Mr. Pugsley. That is all right.

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[1] Explanation concerning cost figures in this statement was submitted to the committee under date of Dec. 21, 1934, and is included in the appendix on p. 4158.

[2] Under date of May 25, 1935, the Western Cartridge Co. submitted a statement showing its stock ownership, which is included in the appendix on p. 4158.

The CHAIRMAN. That is offered as an exhibit?

Mr. WOHLFORTH. That is offered as an exhibit; yes.

(The statement referred to was marked "Exhibit No. 1308" and is included in the appendix on p. 4073.)

Mr. WOHLFORTH. And we have here the traveling expense, which we understand is the only expense of the officers of the company for 1931 to date, inclusive.

Mr. PUGSLEY. Yes, sir.

Mr. WOHLFORTH. As taken from your books.

Mr. PUGSLEY. Yes, sir.

Mr. WOHLFORTH. I also offer that as an exhibit.

(The statement referred to was marked "Exhibit No. 1309" and is included in the appendix on p. 4074.)

Mr. WOHLFORTH. I also offer to be identified an exhibit of list of stocks held by the Winchester Repeating Arms Co. as of November 23, 1934.

Will you identify that, Mr. Pugsley?

Mr. PUGSLEY. Yes, sir.

Mr. WOHLFORTH. I offer that for appropriate marking as an exhibit.

(The statement referred to was marked "Exhibit No. 1310" and is included in the appendix on p. 4074.)

Mr. WOHLFORTH. I have additional data here which perhaps might be filed as a committee exhibit, Mr. Chairman, containing the dues in trade and other organizations, the officers and directors from 1930 to 1931, balance sheet 1931, consolidated balance sheet 1932 and 1933, bill of sale of the court when the Winchester Co. went into receivership, and also the final report of the receiver. These last two documents are already public documents of the court.

The CHAIRMAN. You are offering them as a committee exhibit?

Mr. WOHLFORTH. I am offering them as a committee exhibit.

The CHAIRMAN. They may be received.

Senator POPE. Not to be printed?

The CHAIRMAN. Not to be printed in the record.

Mr. WOHLFORTH. No; only for the use of the committee.

The CHAIRMAN. That is right. It may be given an exhibit number, however, for identification purposes.

(The statement referred to was marked for identification as "Exhibit No. 1311", and is on file with the committee.)

Mr. WOHLFORTH. From the Remington Arms Co. we requested campaign contributions and stockholdings in the amount of $10,000 and over, of officers and directors, and that is still to be supplied, as we understand it.[1] That will come as soon as it is prepared, will it, Mr. Davis?

Mr. DAVIS. Yes; you asked for that.

Mr. WOHLFORTH. We already have the plant contributions—that is, contributions made by the plant to various organizations, and so forth. That will be offered in just a minute.[2]

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[1] List of stockholdings and campaign contributions of Remington officers and directors appears in the appendix on p. 4159.

[2] Introduced in the appendix on p. 3982.

We have here the export sales by volume, by country, from 1925 to date, exclusive of government. Will you identify that, Mr. Reisinger?

Mr. Reisinger. Yes.

Mr. Wohlforth. And the four copies made from that?

Mr. Reisinger. Yes.

Mr. Wohlforth. I offer that for appropriate exhibit marking.

(The statement referred to was marked "Exhibit No. 1312" and is included in the appendix on p. 4075.)

Mr. Wohlforth. We have here the export sales of the Remington Arms Co. by order, by customer, quantity and description, the amount of invoice and the commission paid to all foreign countries from 1925 to May 31, 1934, which I wish to offer as an exhibit. Do you identify that, Mr. Reisinger? Those are the copies you supplied us at the plant.

Mr. Reisinger. They look like the copies we supplied.

Mr. Wohlforth. That is offered for appropriate exhibit marking.

(The statement referred to was marked "Exhibit No. 1313", and is included in the appendix on p. 4077.)

Mr. Wohlforth. I next offer a document entitled, "U. S. Government—Sales and Net Profit" of the Remington Arms Co., from 1922 to 1933, showing factory cost, total cost, and net profit and loss. Will you identify that, Mr. Reisinger?

Mr. Reisinger. Yes.

Mr. Wohlforth. I offer that as an exhibit for appropriate marking.

(The statement referred to was marked "Exhibit No. 1314" and is included in the appendix on p. 4094.)

Mr. Wohlforth. I next offer a list of agents of the Remington Co. throughout the world as an exhibit to be printed. We understand that your foreign department will supply us as soon as possible with the commission arrangements of these agents.[1]

Mr. Davis. Yes.

Mr. Wohlforth. I will offer the list of agents at this time, without the commission arrangements, as an exhibit, for appropriate number.

(The list referred to was marked "Exhibit No. 1315", and is included in the appendix on p. 4095.)

Mr. Wohlforth. The next exhibit is a list of stockholders holding 1 percent or more of Remington stock, with roughly 3,000 shares or over. This was taken from the stock record of the Remington transfer agents, and also a questionnaire was put out, so that we could find the actual owners holding 3,000 shares or more of the Remington Arms Co. stock.

Will you identify that, and I will submit it as an exhibit. That was my compilation.

Mr. Reisinger. That is your compilation?

Mr. Wohlforth. That is my compilation; yes.

Mr. Reisinger. Taken from the transfer agents?

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[1] Commission arrangements of Remington agents appear in the appendix on p. 4161.

Mr. Wohlforth. Taken from the transfer agents. That is "Exhibit No. 1316", which will be printed in the record.

(The list referred to was marked "Exhibit No. 1316" and is included in the appendix on p. 4096.)

Mr. Wohlforth. I also have here, supplied by the Remington Arms Co., the corporate structure of the Remington Arms Co., which I wish to offer as an exhibit. Will you identify that, please?

Mr. Reisinger. Yes.

Mr. Wohlforth. That is offered for the record, for appropriate exhibit number.

(The statement referred to was marked "Exhibit No. 1317" and is included in the appendix on p. 4097.)

Mr. Wohlforth. I also offer a statement, headed, "Investment securities held other than those of subsidiary companies", of the Remington Arms Co. as of this date, supplied to us by the Remington Arms Co.

Mr. Davis. Yes.

Mr. Wohlforth. That will be offered as "Exhibit No. 1318."

(The statement referred to was marked "Exhibit No. 1318", and is included in the appendix on p. 4097.)

Mr. Wohlforth. I wish to offer as exhibits the foreign agreements of the Remington Arms Co., the I.C.I. agreement, the D.A.G. agreement, a list of Remington foreign commitments, R.W.S., Canadian Industries, D.A.G. and I.C.I.

Mr. Davis. Mr. Wohlforth, you realize there is no I.C.I. agreement as yet. It is simply a proposed agreement.

Mr. Wohlforth. Yes; simply a proposal.

Mr. Davis. It has not been consummated.

Mr. Wohlforth. I will submit first of all this D.A.G. agreement, if you will identify it.

Mr. A. J. Greene. I can identify that.

Mr. Wohlforth. I will take that back. That is already in the record, Mr. Davis, with the du Pont Co. It has already been submitted to the other side.[1]

Mr. Davis. I see.

Mr. Wohlforth. Could I have that back then?

Mr. Davis. Surely.

Mr. Wohlforth. This is the proposed agreement between Imperial Chemical Industries, Ltd., and the Remington Arms Co. Will you identify that? As we understand it, that has actually not been signed, but you operate under it as though it was already in effect.

Mr. Davis. I should like to ask Dr. Sparre about this. Dr. Sparre negotiated this.

Mr. Wohlforth. All right.

Mr. Davis. Is Dr. Sparre in the room?

Mr. Wohlforth. Yes; I believe he is back there.

Mr. Davis. Now, what was your question, Mr. Wohlforth?

Mr. Wohlforth. As I understand it, the actual agreement has not been signed, but you are operating under the terms as set forth in this agreement.

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[1] Entered as "Exhibit No. 1229", Hearings, Part XV, p. 3635.

Mr. Davis. I do not think any licenses have been passed yet. Have they?

Mr. Greene. There has been no action taken in accordance with that agreement, that proposed agreement.

Mr. Wohlforth. Perhaps we better not put it in then but keep it as a committee exhibit.

The Chairman. The Chair would suggest that you hold that as a committee exhibit.

Mr. Wohlforth. This proposed agreement between Imperial Chemical Industries and Remington will be held as a committee exhibit.

The Chairman. Let it be identified as a committee exhibit.

Mr. Wohlforth. And given an appropriate number?

The Chairman. Yes.

(The articles of agreement referred to were marked for identification as " Exhibit No. 1319 ", and are on file with the committee.)

Mr. Wohlforth. I next offer a letter dated June 29, 1934, from Mr. A. J. Greene, patent attorney, to Mr. C. K. Davis, president. " Subject: Remington patent and information exchange commitments." This covers all of the agreements now in force, and I would like to enter that as a committee exhibit, if you will identify it, please.

Mr. Davis. Mr. Greene.

Mr. Greene. This appears to be a copy of a letter which I wrote to the president.

(The letter referred to was marked " Exhibit No. 1320 " and is included in the appendix on p. 4098.)

Mr. Wohlforth. I would also like to submit for the record a statement of cash payments made to R.W.S., D.A.G., and I.C.I. for the years 1929 to 1934, 1931, 1932, 1933, and the first 6 months of 1934, if you will identify that, please. It was prepared for us.

Mr. Davis. Where did this come from, Mr. Wohlforth?

Mr. Wohlforth. That was prepared in your organization upon our request, Mr. Davis.

Mr. Davis. I have never seen it before but it appears to be approximately correct, the amount.

Mr. Wohlforth. I submit that for appropriate number to be printed.

(The statement referred to was marked " Exhibit No. 1321 " and is included in the appendix on p. 4098.)

Mr. Wohlforth. I would also like to submit a statement showing compensation of the executive officers and directors of Remington Arms Union Metallic Cartridge Co. from 1917 to 1920, inclusive, and also the compensation of executive officers and directors of the Remington Arms Co. from 1920 to 1933.

Will you identify those, please? They were supplied by your organization.

Mr. Reisinger. This appears to be copied from the information we gave you.

Mr. Wohlforth. I offer these as an exhibit for appropriate number.

(The statements of compensation referred to were marked " Exhibit No. 1322 ", and are included in the appendix on p. 4100.)

Mr. Wohlforth. I would like to offer next a statement headed, "Remington Arms Co., Inc., and Domestic Subsidiaries, Consolidated Statement of Profit and Loss, from January 1, 1934, to June 30, 1934." That I ask to be appropriately marked.

(The statement referred to was marked "Exhibit No. 1323" and is included in the appendix on p. 4105.)

Mr. Wohlforth. I have here next balance sheets of the Remington Arms Co. for 1920 to 1922, which I will offer for appropriate marking.

(The statements referred to were marked "Exhibit No. 1324" and is included in the appendix on p. 4107.)

Mr. Wohlforth. I have here next a sheet showing the stock set-up of the Remington Arms Co., sales, and so forth, from 1920 to 1933.

I will offer that for appropriate exhibit marking at this time.

(The statement referred to was marked "Exhibit No. 1325" and is included in the appendix on p. 4111.)

Mr. Wohlforth. I next offer a sheet showing the stock set-up, sales, and so forth of the Remington Arms Union Metallic Cartridge Co. from 1914 to 1920.

That will be offered for appropriate marking as the next exhibit.

(The statement referred to was marked "Exhibit No. 1326" and is included in the appendix on p. 4113.)

Mr. Wohlforth. I next offer a statement of the contributions made by the Remington Arms Co. from 1920 to 1934, this having been prepared by them, for appropriate numbering as an exhibit.

(The statement referred to was marked "Exhibit No. 1327" and is included in the appendix on p. 4113.)

Mr. Wohlforth. Next I have a statement of the Remington Arms Co., Inc., showing subscription to Sporting Arms and Ammunition Manufacturing Institute from 1928 to 1934.

That is also offered as an exhibit for appropriate marking.

(The statement referred to was marked "Exhibit No. 1328" and is included in the appendix on p. 4117.)

Mr. Wohlforth. I have next consolidated balance sheets of the Remington Arms Co. from 1930 to 1934, which I will offer as an exhibit for appropriate marking.

(The balance sheets referred to were marked "Exhibit No. 1329" and are included in the appendix on p. 4118.)

Mr. Wohlforth. Next is a comparative statement of consolidated income account, Remington Arms Co., Inc., and Domestic Subsidiaries, for the years 1930, 1931, 1932, 1933 to June 30, 1934, which is offered as an exhibit for appropriate marking.

(The statement referred to was marked "Exhibit No. 1330" and is included in the appendix on p. 4119.)

Mr. Wohlforth. I have asked that these documents be properly noted and submitted as exhibits, Mr. Chairman.

The Chairman. The reporter will make note of that.

The Chair is offering for the record, to be given proper number as an exhibit, a memorandum on foreign companies with which the du Pont Co. has or has had relationships of various kinds. This memorandum was prepared by the du Pont Co. That is offered for the record.

(The memorandum referred to was marked for identification as "Exhibit No. 1331" and is on file with the committee.[1])

The CHAIRMAN. Offered as a committee exhibit to the point that the parties be identified as such for the committee's information alone are statements prepared by the du Pont Co. concerning its advertising expenditures, which I ask may be marked as a committee exhibit.

(The statement referred to was marked for identification as "Exhibit No. 1332" and is on file with the committee.)

The CHAIRMAN. I hand to the reporter another exhibit, for committee purposes alone, showing the du Pont radio advertising for 1932.

(The statement referred to was marked for identification as "Exhibit No. 1333" and is on file with the committee.)

The CHAIRMAN. And another committee exhibit showing the du Pont publication advertising for 1932.

(The statement referred to was marked for identification as "Exhibit No. 1334" and is on file with the committee.)

The CHAIRMAN. Mr. du Pont, I had shown you these advertising exhibits. Will you identify them at this stage?

Mr. LAMMOT DU PONT. I will, but I had not seen one of them before.

The CHAIRMAN. Will you identify that first?

Mr. LAMMOT DU PONT. Yes; they are all right, Mr. Chairman, but I have not looked at this one at all.

The CHAIRMAN. That is the memorandum concerning the foreign connections?

Mr. LAMMOT DU PONT. Yes.

The CHAIRMAN. If, Mr. du Pont——

Mr. LAMMOT DU PONT. This is something else besides a list, Mr. Chairman. There is a lot of comment at the bottom here that I am not familiar with.

The CHAIRMAN. After you have had a chance to review it you may, if you wish, comment upon it.[1]

Mr. Pugsley, you wished to say something here?

Mr. PUGSLEY. When we closed this morning Mr. Wohlforth had introduced a memorandum which I was instrumental in helping to prepare in connection with the Government competition. That memorandum went to the National Association of Manufacturers along with many others, and as a result the National Association of Manufacturers made a report to the Shannon Committee with certain recommendations, and I would like permission to read into the record five short recommendations that were made.

> 1. The Government ought not to engage either directly or through subsidies in the manufacture, production, or purchase of commodities or service for sale or resale in competition with private enterprise.
>
> 2. It ought to procure commodities and services for all of its uses from the commercial and industrial world.
>
> 3. The navy yards are established to maintain the armed fleets of the United States and are justified only while fulfilling that function.
>
> The Federal arsenals are equipped to produce war materials not generally produced commercially. They should not be employed to produce commercial

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[1] "Exhibit No. 1331" was replaced later by "Exhibit No. 1342", Hearings, Part XVII, p. 4166.

or military articles manufactured by or obtainable in quantity from private industry.

4. Government departments, while continuing to engage in any act of production or service, should be required to establish and maintain a standard system of accounting containing these elements ordinarily recognized in all similar conditions of private operation.

5. Other things equal, the Government should give preference in purchasing of commodities and services to domestic producers.

Mr. Hiss. Colonel Harris, just to clear up two or three things in the record——

Mr. Lammot du Pont. Mr. Chairman, before you start on something else, may I comment on this document?

The Chairman. Yes, sir.

Mr. Lammot du Pont. This seems to be entirely a statement and bears no signature to indicate who prepared it, and it is a very long statement, with comments on each company mentioned. I could not be sure that each one of those comments are correct.

The Chairman. The committee's investigator has advised the committee that the memorandum of which you speak was provided by the du Pont Co. You are not prepared to say it was?

Mr. Lammot du Pont. I do not know it was. I never saw it before, to the best of my knowledge and belief. But if you could say who did prepare it——

The Chairman. The committee is not prepared to say today who did it. Its investigator is not present.

Mr. Lammot du Pont. What do you wish me to say about it?

The Chairman. Might Mr. Hanley be in position to say about it?

Mr. Lammot du Pont. I do not know. Mr. Hanley is ill and is not here this afternoon.

The Chairman. Why not let the exhibit be received, and if there should be development that it was not prepared by the du Pont Co., or is not a truthful memorandum, of course, you are at liberty to make such corrections as you might wish.

Mr. Lammot du Pont. With that privilege, I will accept it.

Mr. Hiss. Colonel Harris, there were, I believe, one or two matters of information which have been requested from you before, that have not yet been received. One was the position of Mr. Dorr, who was referred to in an exhibit heretofore introduced.[1]

Lieutenant Colonel Harris. Mr. Dorr was assistant director of munitions. His full name is Goldthwaite H. Dorr.

Mr. Hiss. Colonel Harris, you remember the office order No. 1, dated in May 1918 relating to the audit of the accounting work being done at Old Hickory, referred to at some length the other day?[2] You raised the question, or you pointed out that the 10-percent item referred to 10 percent of those vouchers which were not accompanied with original documents rather than 10 percent of all the vouchers. I ask you from the standpoint of War Department auditing and accounting, if the documents which require the most auditing are not those vouchers which are not accompanied by original documents.

Lieutenant Colonel Harris. With the permission of the committee, at a latter date, when I have an opportunity to study this matter a little bit, I was going to ask to submit a statement on the auditing phase of this investigation, and with your permission I would like to postpone it until that time.[1]

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[1] Hearings, Part XIV, p. 3238.

[2] Entered as "Exhibit No. 1186", Hearings, Part XIV, p. 3246.

Mr. Hiss. Very good, sir.

RECENT PROFITS OF DU PONT, WINCHESTER, AND REMINGTON COS. ON SALES OF POWDER TO UNITED STATES GOVERNMENT

The Chairman. That is satisfactory.

Mr. Hiss. Mr. Bradway, have you a copy of a statement furnished to the committee showing income from sales of powder sold to the United States Government from the years 1924 to 1933, inclusive?

Mr. Bradway. Yes, sir; I have.

Mr. Hiss. What types of powder are included in this document, which I offer as an exhibit?

Mr. Bradway. Both cannon and rifle powder, and, in the case of cannon powder, the old type of pyro powder and the newer type of FNH.

Mr. Hiss. In the years 1932 and 1933, as listed on this exhibit, Mr. Bradway, the prices are shown per pound for 1932 as .6760, that is, 67 cents per pound. Is that correct, Mr. Bradway?

Mr. Bradway. That is correct.

Mr. Hiss. And in 1933 as .6557. Do you know what the present 1934 costs are per unit?

Mr. Bradway. No; not offhand.

(The document previously referred to was marked "Exhibit No. 1335" and is included in the appendix on p. 4120.)

Mr. Hiss. Sales prices, I mean. This is the sale price and not the cost price.

Mr. Bradway. No; I do not have that offhand.

Mr. Hiss. Those two figures, 67 cents and 65 cents, represent the average cost of both rifle and cannon powder? Is that correct?

Mr. Bradway. The average price.

Mr. Hiss. I mean "price." I beg your pardon.

Mr. Bradway. That is right.

Mr. Hiss. Of both cannon and rifle powder?

Mr. Bradway. Yes.

Mr. Hiss. Which was the larger item, cannon powder or rifle powder, in dollars?

Mr. Bradway. I think cannon powder in dollars.

Mr. Hiss. Which has been sold in the past few years at the higher price, cannon powder or rifle powder?

Mr. Bradway. Rifle powder.

Mr. Hiss. If you will look at the column marked "Selling expense" would you please explain why it is necessary or how it is shown on your books?

Mr. Bradway. Just a moment, Mr. Hiss. You asked me for the names of these powders, and they do not appear on this sheet, and I think they should be put on this sheet when it is introduced; in other words, list them, pyro cannon powder, FNH cannon powder, and military rifle powder.

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[1] Under date of Apr. 4, 1935, Colonel Harris advised the committee as follows: "With respect to my request to submit additional data respecting the audit of the Old Hickory contract the records of the War Department indicate that an audit was made but do not disclose the result of that audit. I have nothing further to offer on this subject."

Mr. HISS. I will write them in or I can return it to you to have that added on it.

Will you look, Mr. Bradway, at the column marked "Selling expense." Do you see that item?

Mr. BRADWAY. Yes, sir.

Mr. HISS. Is it customary for you to set up on your books in showing the cost of sales to the Government an item of selling expense?

Mr. BRADWAY. Yes.

Mr. HISS. What selling expense does the company bear in selling to the United States Government? Can you answer that, Major Casey?

Mr. CASEY. My own services and my office.

Mr. HISS. Colonel Harris, have you any information as to the expenditure of certain funds allotted from P.W.A. allotments for powder?

Lieutenant Colonel HARRIS. The records of the Ordnance Office indicate that out of N.I.R.A. funds an amount of $286,923 has been applied to the procurement of powder from the du Pont Co., of which $108,000 was for caliber .30 powder at prices of .715 and .7175 and .72 per pound, depending on point of delivery, and the remainder of the $286,923 was for cannon powder at a price of .6025 per pound.

Mr. HISS. Colonel Harris, at what time were these purchases made? [1]

Lieutenant Colonel HARRIS. I have not that information. It must have been in the last few months.

Mr. HISS. Mr. Bradway or Major Casey, are you familiar with the purchases referred to by Colonel Harris?

Mr. CASEY. I am not specifically familiar with the fact that the Army purchased out of P.W.A. funds. I think I made the statement the other day that we do know it is true in the case of the Navy.

Mr. HISS. Was any difference made in your price to the Army on any lot of powder because it was being purchased with P.W.A. funds?

Mr. CASEY. Not at all.

Mr. HISS. Your prices have been uniform?

Mr. CASEY. Yes, sir; I just stated, Mr. Hiss, that we did not know in the case of the Army that there was any procurement out of P.W.A. funds.

Mr HISS. So that of the amount Colonel Harris has referred to, an amount equal to your normal profit on Government business has, so far as you know, been paid to the du Pont Co?

Mr CASEY. I do not know.

Mr. HISS. Mr. Bradway, I think I asked you this question before, but I would like to bring it out to make it a little clearer: The profit per pound shown for 1932 on this exhibit is roughly 23½ cents, is it not?

Mr. BRADWAY. That is correct.

Mr. HISS. And in 1933 it is 22.98 cents, approximately 23 cents, a pound? Is that correct, Mr Bradway?

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[1] For additional information regarding P. W. A. purchases of powder, see Hearings, Part XVII, p. 4270.

Mr. BRADWAY. Correct.

Mr. HISS. The selling-price average in 1932, which has already been referred to, was 67.60 cents and in 1933, 65.57 cents. The net profit, after taking out administrative expenses and selling expenses—as to which Major Casey has already testified—the selling expenses in 1932 were 3.36 cents a pound and in 1934, 4.97 cents a pound. After taking out all expenses, the net profit, already referred to, was more than 30 percent of the gross sales price. Is that correct, Mr. Bradway?

Mr. BRADWAY. That is approximately correct.

Mr. HISS. Do you know whether the profit on sales in 1934 has been any less than that amount?

Mr. BRADWAY. It is less, but I do not know what the figure is at the moment. We do not make a recapitulation until the end of the year.

Mr. HISS. Colonel Harris, will you attempt to ascertain for the committee exactly when the P.W.A. purchases were made, whether in 1933 or 1934? [1]

Lieutenant Colonel HARRIS. Yes, sir.

Mr. HISS. Mr. Pugsley, I show you a statement furnished by the Winchester Repeating Arms Co., which is not offered as an exhibit but which will be used for the purposes of examination, showing the costs of Winchester sales to the United States Government in 1932 and 1933. Does this statement represent all the sales of Winchester to the United States Government during this period, Mr. Pugsley?

Mr. PUGSLEY. Yes, sir.

Mr. HISS. The gross value in 1932 was $211,823.89. Is that correct?

Mr. PUGSLEY. That is correct.

Mr. HISS. And in 1933, $14,628?

Mr. PUGSLEY. I think that is correct.

Mr. HISS. The gross profit for the 2 years combined is shown as $65,590?

Mr. PUGSLEY. Yes, sir.

Mr. HISS. The total net sales during that period were $387,191?

Mr. PUGSLEY. Yes, sir.

Mr. HISS. In the break-down of the overhead you show, in the second column the heading, "Admn. dpr." What does the abbreviation "dpr." stand for, Mr. Pugsley?

Mr. PUGSLEY. I do not see that. Where is it?

Mr. HISS. Down at the bottom of the page. You see the column break-down there of certain overhead expenses?

Mr. PUGSLEY. Administration and depreciation.

Mr. HISS. Administration and depreciation?

Mr. PUGSLEY. Yes.

Mr. HISS. I note that the selling and advertising average from 1932 through the first 9 months of 1934 is approximately 15 percent. Is that correct, Mr. Pugsley?

Mr. PUGSLEY. I believe it is, from these figures; yes, sir.

Mr. HISS. In computing your profit on Government sales, do you make any charge, as the du Pont Co. does, for selling expenses?

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[1] See footnote, p. 3986.

Mr. PUGSLEY. I am not sure of that. I cannot tell you.

Mr. HISS. Do you include advertising expenses?

Mr. PUGSLEY. I think not, but there again I cannot be sure.

Mr. HISS. If those 2 expenses were taken out or were eliminated, but warehousing, freight, administrative, and depreciation charges were computed or included in the estimate of cost, those three items, freight, warehousing, administration and depreciation, regarding the last 2 as a single item—really 4 items—those 4 items come to approximately 5 percent over the average, a little over 5 percent, do they not, for the period?

Mr. PUGSLEY. I have not averaged them.

Mr. HISS. For the period 1932 to 1934.

Mr. PUGSLEY. I have not averaged them.

Mr. HISS. I did not want to read out each one specifically, if you can make a rough estimate.

Mr. PUGSLEY. Somewhere in that neighborhood.

Mr. HISS. The figures which I read before of the gross profit against the net sales would not include the overhead items which we have just been discussing; is that correct?

Mr. PUGSLEY. That is correct.

Mr. HISS. So that in computing the percentage that $65,000 is of $387,000, a further average of about 5 percent for administrative, depreciation, freight, and warehousing charges should be deducted to show net profit, assuming that selling and advertising expenses are not charged; is that correct?

Mr. PUGSLEY. It would be a little more than 5 percent, I think, from those figures here.

Mr. HISS. A little more than 5 percent?

Mr. PUGSLEY. From those figures.

Mr. HISS. Would 6 percent cover it, so far as you can estimate it at the present time, Mr. Pugsley?

Mr. PUGSLEY. It looks to me as if it would be nearer 8, from an examination of the figures.

Mr. HISS. Do you have the average computed? I did not want to put the specific figures in because they might disclose cost material to your competitors, but if we can have that computed, we might insert it at an appropriate place in the record.

Colonel Harris, in the proposed cost contract, that is, the adjusted compensation contract, no provision is made, as I understand it, for selling or advertising expenses.

Lieutenant Colonel HARRIS. I will ask Lieutenant Brannon to answer that.

Mr. HISS. Lieutenant Brannon?

Lieutenant BRANNON. I am quite sure that is correct, but I would like to look it up, Mr. Hiss.

Mr. HISS. Mr. Bradway, have you "Exhibit No. 1335" before you, while Lieutenant Brannon is looking that up?

Mr. BRADWAY. Yes, sir.

Mr. HISS. I want to correlate the net profit of 1924 to 1933, namely, $2,698,000, with the gross sales value of $11,000,000. That represents somewhat in excess of 20 percent, the profit represents somewhat in excess of 20 percent of the gross sales value over the period, does it not?

Mr. Bradway. Yes; but, of course, that does not represent return on investment. When you speak of percentage of profits, you must consider your turn-over. Our turn-over on smokeless powder is very low. In other words, we have a dollar invested in our military business for every six-tenths of a dollar of sales.

Mr. Hiss. You have not included in this statement one item of cost?

Mr. Bradway. The return on investment. We figure, going over our total business over a period of years, and what we are interested in is return on investment. You may have what is apparently a rather large figure of profit per pound, and yet your return on investment would be rather low.

Mr. Hiss. Have you a depreciation charge in these costs?

Mr. Bradway. Yes, sir; there is depreciation.

Mr. Hiss. Would not that take care of original investment?

Mr. Bradway. No, indeed; not at all. Our total return on investment, on our total smokeless-powder business, during that entire period, was 10.67.

Mr. Hiss. On your investment?

Mr. Bradway. On our investment.

Mr. Hiss. That is investment computed at the original cash outlay?

Mr. Bradway. The current investment. We have replacement items.

Mr. Hiss. You mean a valuation placed by you on your investment, valuation of existing plants?

Mr. Bradway. Yes, sir.

Mr. Hiss. Is that based upon replacement cost, market value, or what?

Mr. Bradway. Practically replacement cost.

Mr. Hiss. Mr. Reisinger, this is the only copy of this that the committee has, being a statement of the Remington Arms Co. net receipts of domestic ammunition for the 8 months ended August 31, 1934. Would you step up here so that both of us could look at it at the same time?

The gross sales to the United States Government during this period, that is, the 8 months ending August 31, 1934, appear to be $25,403. Is that correct?

Mr. Reisinger. That is correct.

Mr. Hiss. You have included freight and delivery, selling and administrative costs, in computing your net receipts on the Government business. Is that correct?

Mr. Reisinger. That is correct. They should be included.

Mr. Hiss. What selling costs do you have in selling to the United States Government?

Mr. Reisinger. We possibly have more selling costs in selling to the United States Government than we have in selling our commercial sales. The only selling expense that you do not have is our actual field man soliciting orders, but your office work is much greater in connection with Government business than it is with commercial business.

Mr. Hiss. Where is your ordinary advertising carried in this particular statement? Under the column to which we referred?

Mr. Reisinger. Under selling expense.

Mr. Hiss. Do you have any advertising cost on Government business?

Mr. Reisinger. I should say from what is applicable to Government business; yes, sir.

Mr. Hiss. I call your attention to the manner in which you have stated here your costs, your total sales of domestic ammunition, Government and otherwise. You have stated your factory profit at 29 percent of the gross sales value.

You could also state that at somewhat more than 50 percent of the mill cost, could you not?

Mr. Reisinger. Yes; but why compare it with mill cost?

Mr. Hiss. During the war, when the cost-plus contracts were in effect, the inducement offered was exactly that, a percentage of cost.

Mr. Reisinger. Yes.

Mr. Hiss. And 10 percent return on work was considered an average amount in some of the contracts, was it not, Lieutenant Brannon?

Lieutenant Brannon. Some were 10 percent and some 15 percent, Mr. Hiss, and some, I believe, as low as 5.

Mr. Hiss. Mr. Bradway——

Mr. Reisinger. Wait a moment. It was not directly on mill cost. There are a lot of things in administrative expense under Government contracts which would go back into the cost.

Lieutenant Brannon. Ordinarily the cost on the cost-plus contract in manufacturing contracts included an allowance on administrative overhead.

Mr. Reisinger. You add all clerical expense and financial expense in there.

Mr. Hiss. Mr. Bradway, the percentage statement on profits of the du Pont Co. powder sales to the Government, to which we referred, is on a basis of gross sales?

Mr. Bradway. Gross sales. The percentage figure is on percentage of gross sales; yes, sir.

Mr. Hiss. Mr. Irénée du Pont, with respect to the charts introduced yesterday by you on cost of powder I believe the question was asked as to whether—that was sale prices and not cost—by the du Pont Co.—I believe the question was asked as to whether that included the sale price of powders produced at Old Hickory. Is that correct?

Mr. Irénée du Pont. That was taken from a Government publication. I imagine it did include that.

Senator Clark. Mr. Hiss, I asked the question.

Mr. Irénée du Pont. Pardon me, Senator. That would only come in in the last 3 or 4 months of 1918.

Senator Clark. I asked whether that included the cost of production of powder, and the sources from which the Government supplied the money. I did not mention Old Hickory particularly. I included all sources from which the Government supplied the money.

Mr. Hiss. For the operation.

Senator Clark. For the manufacture of powder.

Mr. Hiss. I wanted also to find out whether it included any estimate of cost of construction of Old Hickory, which, of course, was a large item.

Mr. Irénée du Pont. That did not. It was stated there, according to Government accounting, anything you put into capital, you do not have in your cost.

Mr. Hiss. If the du Pont Co. had built Old Hickory instead of the Government building it, that is, if you had built it, what would be the situation?

Mr. Irénée du Pont. We would have had to amortize anything we built, just like we did for the Allies.

Mr. Hiss. If the Government had not built Old Hickory, the prices shown on the chart during the later period would have been higher?

Mr. Irénée du Pont. If we had had to amortize the plant they would have been higher, the same as the foreign orders in the years 1917 and 1916 were higher.

INDUSTRIAL CONNECTIONS OF CERTAIN WAR DEPARTMENT AND OTHER OFFICIALS INVOLVED IN PROCUREMENT AND RELATED ACTIVITIES DURING WORLD WAR [1]

Mr. Hiss. Colonel Harris, in the discussion which we have so far had on the question of the adjusted compensation contract, there has been some reference to the personnel involved during the world war with the making of contracts, and there has been some discussion, further, on personel in connection with the price-control features of the mobilization plan, and the price-control features of the War Industries Board's duties during the World War. I ask you, in relation to that evidence, this question:

Is it not important to have a large amount of flexibility in wartime contracts to take care of changed conditions and other exigencies of war time?

Lieutenant Colonel Harris. It is important for the Government particularly to have flexibility in contracts to meet changing conditions; yes, sir.

Mr. Hiss. I meant the Government.

Lieutenant Colonel Harris Yes, sir.

Mr. Hiss. That puts an increased responsibility upon the personnel involved in supervising the contractual relations; does it not?

Lieutenant Colonel Harris. It adds to the heavy responsibility they are already carrying; yes, sir.

Mr. Hiss. I would like to offer for the record a summary of the personnel during the last war, of certain of the Army procurement officials.

This shows the name, the governmental position, the industrial connections, and certain sources of income of those particular officials.

(The document referred to was marked "Exhibit No. 1336" and is included in the appendix on p. 4121.)

Mr. Hiss. Colonel Harris, would you identify certain men named on this list?

Col. Charles N. Black, who is listed in the procurement division of the Ordnance Department, assistant to chief ordnance officer,

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[1] This subject continued, see Hearings, Part XV, p. 3655.

November to December 1918. Can you identify him as described on the exhibit?

Lieutenant Colonel HARRIS. As to these dates, I am not familiar, but I can identify him as being an officer on duty in the Ordnance Department in relation to procurement.

Mr. HISS (reading):

> Maj. Charles F. Cook.

Lieutenant Colonel HARRIS. The same.

Mr. HISS (reading):

> Benedict Crowell, Assistant Secretary of War.

Lieutenant Colonel HARRIS. That is correct; yes, sir.

Mr. HISS (reading):

> General William Crozier, Chief of Ordnance.

Lieutenant Colonel HARRIS. Correct.

Mr. HISS (reading):

> Colonel Deeds, Signal Corps, United States Army and supply section, Division of Military Aeronautics, August 27, 1917, to June 20, 1919?

Lieutenant Colonel HARRIS. Yes, sir; I can identify Colonel Deeds.

Mr. HISS (reading):

> Lt. Col. Edward A. Hamilton, chief of legal section?

Senator CLARK. Do you identify Colonel Deeds?

Lieutenant Colonel HARRIS. I do not know him personally, but I identify the record that he was on this procurement work, from my memory of the war.

Senator CLARK. Can you identify what he was before he got on that procurement work?

Lieutenant Colonel HARRIS. The record shows it, I think.

Mr. HISS. It is mentioned here that prior to 1917 he was an executive of the National Cash Register Co., Delco Co., Domestic Engineering Co., and Dayton Research Laboratories Co.

Lieutenant Colonel HARRIS. I am unable to corroborate that.

Mr. HISS. The compilation is based upon information supplied the committee by the War Department, from its official records. I would like to offer these supporting documents as exhibits, 1337–A, B, C, D, E, to Q, inclusive.

(The documents referred to were marked, respectively, "Exhibits Nos. 1337–A to 1337–Q", inclusive, and are included in the appendix on pp. 4126 to 4141.)

Mr. HISS. Can you identify Daniel C. Jackling as director of explosives?

Lieutenant Colonel HARRIS. Mr. Jackling was appointed by the Secretary of War to have entire charge of the erection of powder plants, in December of 1917.

Mr. HISS. Col. Robert P. Lamont.

Lieutenant Colonel HARRIS. He was an assistant to General McRoberts in the Procurement Division of the Ordnance Office.

Mr. HISS. Col. Samuel McRoberts.

Lieutenant Colonel HARRIS. He was chief of the Procurement Division of the Ordnance Office.

Mr. Hiss. Eugene Meyer was not in the Ordnance Department?

Lieutenant Colonel Harris. He was not in the Ordnance Department.

Mr. Hiss. According to this list he was director, National War Savings Committee, and chief, nonferrous metals section, War Industries Board.

Senator Clark. Colonel, are there any of these gentlemen as to whose industrial or business connections you could testify prior to their experience on this board?

Lieutenant Colonel Harris. Not at first-hand knowledge, Senator.

Mr. Hiss. On the second page, Col. William C. Spruance, Jr., in the Ordnance Department, Explosives and Loading Division, December 6, 1917, to December 1, 1918.

Lieutenant Colonel Harris. I know Colonel Spruance; I was associated with him and know he came from the du Pont Co.

Mr. Hiss. Mr. Stettinius has already been identified.

Can you identify Brigadier General Tripp?

Lieutenant Colonel Harris. He was chief of the Production Division of the Ordnance Department. I know him.

Mr. Hiss. General Williams?

Lieutenant Colonel Harris. I can identify him. He was my chief.

Mr. Hiss. Lieutenant Colonel Williams?

Lieutenant Colonel Harris. I do not know who he was.

Mr. Hiss. I call your attention to certain items in the extreme right-hand column, "Sources of income during war years." The first one listed is Mr. Benedict Crowell; the committee has been informed that the income-tax returns of Mr. Crowell for 1917, 1918, and 1919 have been destroyed.

The Chairman. Destroyed by whom?

Mr. Hiss. By the Internal Revenue Bureau.

The Chairman. There is no explanation given as to the reason for the destruction of the records?

Senator Clark. Mr. Chairman, I am under the impression that there is a provision of law that after a certain number of years the—I have forgotten what the number is—the income-tax returns are destroyed simply to prevent an accumulation of records, after the statute of limitations has run.

Mr. Hiss. As to some of the income-tax returns that were sought in making up this chart, it was impossible to get them; as to some others, they were still in existence. Apparently no uniform procedure has been followed in that.

The Chairman. That is, some of the income-tax returns for that period are available and some are not?

Mr. Hiss. That is correct.

I offer also as the next exhibit a list of the personnel of the wartime agencies.

(The list referred to was marked "Exhibit No. 1338", and is included in the appendix on p. 4142.)

Mr. Hiss. Mr. Eugene Meyer, who was in the first list, should by rights appear on the second.

Mr. Baruch was chairman of the board, as has already been testified.

The CHAIRMAN. The Chair notes that the returns for Mr. Baruch for that period have been destroyed. Those for 1917 are in existence. Those for 1918 and 1919 have been destroyed.

Mr. HISS. That is correct.

Those listed on this chart, for the purposes of the record, are Mr. Baruch; Mr. Harry Payne Bingham, secretary of the War Industries Board; Mr. G. M. Brill, head of the requirements section, United States Shipping Board; Mr. Robert S. Brookings; Mr. March F. Chase; Mr. Clarence Dillon; Mr. Joseph F. Guffey; Mr. H. P. Ingels, who served as secretary; Mr. Alexander Legge; Mr. Robert S. Lovett; Mr. C. H. MacDowell; Mr. Eugene Meyer; Mr. Robert H. Montgomery, who served on the board of appraisers of the War Department and as a member of the price-fixing committee; Mr. Charles A. Otis; Mr. George N. Peek; Mr. J. L. Replogle; Mr. Albert C. Ritchie, who was general counsel of the War Industries Board; Mr. Frank A. Scott; Mr. L. L. Summers; Mr. Samuel Vauclain, who was chairman of the special advisory committee on plants and munitions; Mr. Daniel Willard; and Mr. Pope Yeatman.

PERSONNEL UNDER INDUSTRIAL MOBILIZATION PLAN

Mr. HISS. Colonel Harris, as part of the Army's procurement plan, has considerable attention been paid to the problem of personnel?

Lieutenant Colonel HARRIS. Considerable attention has been paid to that problem.

Mr. HISS. Will you explain for the record, Colonel Harris, the duties of the Army Industrial College?

Lieutenant Colonel HARRIS. The army is divided into two groups by its organization: One, the military group, which is operated under the control and supervision of the general staff; and one, the industrial group, operated under the supervision of the Assistant Secretary of War.

As an agency of the Assistant Secretary of War in this work there is a planning branch, and in the supply branches officers are assigned to industrial planning.

As a source of trained officers for the military group the Army War College is in existence, and as a source for trained officers for the industrial group the Army Industrial College is in existence.

Senator CLARK. What is the Army Industrial College, Colonel? Just explain if you will the tour of duty and the general nature of the duty.

Lieutenant Colonel HARRIS. The course of instruction is of one year's duration. It is under the director who is an experienced officer from the supply branches. There are officers from the Navy and the Army; a few officers from the line of the Army, but the preponderant number from the supply branches.

Senator CLARK. And they are on constant duty for years?

Lieutenant Colonel HARRIS. They are on one year's course of instruction, with no other duties. There are at present 55 students, as I recall, of whom 14 are from the Navy and the Marine Corps.

Senator CLARK. Colonel, could you give us an idea as to the relative rank of the officers attending this college? I do not want the specification, but in a general way.

Lieutenant Colonel HARRIS. The senior officer at the present time as a student is a lieutenant colonel. The junior officer as a student is a first lieutenant.

Senator CLARK. What is the proportion of the student body in ranks; can you give an offhand opinion on it?

Lieutenant Colonel HARRIS. There are a few of the younger officers, and more of the older officers. I should say the rank of major predominates in the student body.

Senator CLARK. That is what I was trying to find out.

Mr. HISS. Is it customary to have civilian lecturers at the Army Industrial College?

Lieutenant Colonel HARRIS. It is.

Mr. HISS. How frequently do they deliver lectures?

Lieutenant Colonel HARRIS. I should say during the course of 1 year's course there are probably 20 lectures from civilian speakers.

Mr. HISS. They cover a wide range of fields, do they?

Lieutenant Colonel HARRIS. They cover the range of economics and other industrial activities.

Mr. HISS. I offer for the record a list of civilian lecturers at the Army Industrial College, furnished by the War Department.

(The list referred to was marked "Exhibit No. 1339", and is included in the appendix on p. 4146.)

Mr. HISS. I assume that most of the men who have had experience with war-time control have been asked to lecture at the Army Industrial College, Colonel Harris?

Lieutenant Colonel HARRIS. That is true. I think every lecturer at the Army Industrial College is a man of standing in his particular line.

Mr. HISS. Mr. Baruch has lectured and is listed as an honorary adviser, A.I.C. What is that, Colonel Harris?

Lieutenant Colonel HARRIS. Army Industrial College.

Mr. HISS. You have a list of honorary advisers. Are they all noted on there?

Lieutenant BRANNON. I think so, only we did not specially ask for a separate list.

Mr. HISS. Approximately how many honorary advisers are there, Colonel Harris?

Lieutenant Colonel HARRIS. I find five.

Mr. HISS. Are there more than that, so far as you know?

Lieutenant Colonel HARRIS. I do not know.

Mr. HISS. Do you know, Lieutenant Brannon?

Lieutenant BRANNON. I really do not know, Mr. Hiss.

Mr. HISS. Those five are Mr. Baruch, Mr. Howard E. Coffin, Dr. F. H. Martin, who is listed as honorary adviser, with the "A.I.C." initials——

Lieutenant Colonel HARRIS. I have an idea since hearing these names that that was a tribute to the Council of National Defense. Mr. Brookings was on there, and he is now dead.

Mr. HISS. Mr. Brookings is also listed.

Lieutenant Colonel HARRIS. They were all on the advisory committee of the Council of National Defense. At this time, to my knowledge, there is no active advisory council for that college.

Mr. HISS. Will you explain, Colonel Harris, what the ordnance district advisory boards are?

Lieutenant Colonel HARRIS. The ordnance district chiefs are civilians of outstanding reputation. They have assigned to them for permanent duty an officer of the Ordnance Department who acts as executive officer. He is the only man except a stenographer on full-time duty. As an aide to the district chief, there is a district advisory council of industrialists in his district, to advise with the district chief on industrial matters.

Mr. HISS. Are some of them members of the Ordnance Reserve Corps?

Lieutenant Colonel HARRIS. Some are and some are not.

Mr. HISS. Have you a copy with you of the list which you furnished the committee.[1]

Lieutenant Colonel HARRIS. I think so.

Mr. HISS. In the Hartford district I notice the following men on the Ordnance District Advisory Board:

Mr. G. A. Bausman, vice president, treasurer, and general manager of the National Equipment Co., Springfield, Mass.

Mr. C. R. Burt, president and general manager, Pratt & Whitney Co., Hartford, Conn.

Mr. C. C. Chesney, Pittsfield, Mass.

Mr. Arthur B. Reynders, works manager, Westinghouse Electric & Manufacturing Co., Springfield, Mass.

Mr. Philip B. Gale, chairman of the board, Standard Screw Co., Hartford, Conn.

Mr. John H. Goss, vice president and general manager, Scoville Manufacturing Co., Waterbury, Conn.

Mr. E. Kent Hubbard, president the Manufacturers Association of Connecticut, Hartford, Conn.

Mr. Edwin Pugsley; Mr. Stone, president Colt's Patent Firearms Manufacturing Co.; and Mr. Webster, chairman of the board, Bridgeport Brass Co., Bridgeport, Conn.

Have this particular board and the other boards advised the War Department with respect to the forms of contract that we have discussed heretofore, Colonel Harris?

Lieutenant Colonel HARRIS. The forms of contract have been sent out to these districts for consideration. Whether these members have advised with them, I do not know, but they were sent out for that purpose.

Mr. HISS. They were sent out for that purpose?

Lieutenant Colonel HARRIS. Yes.

Senator CLARK. Colonel, would not a man who was on this advisory committee, who represents one of the manufacturing companies who would be involved, and who is also on the advisory committee of the Government, necessarily occupy a dual position? In other words, is he not dealing on both sides of the table at the same time?

Lieutenant Colonel HARRIS. Mr. Senator, we expect to do business with industry. We expect to make contracts with them. We are hoping to reach, before war is declared, a form of contract that they will be willing to sign. So I think it is only natural that we should confer with them.

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[1] Entered as "Exhibit No. 1340", see p. 4021.

Senator CLARK. Yes; but can you not negotiate those contracts across the table, even in peace times, rather than having one man occupy the dual position of being an adviser of the Government on these contracts and at the same time being an interested party on the other side of the table?

Lieutenant Colonel HARRIS. I can readily visualize a case of asking the advice of people, even if they were on the industry side, as to the form of a contract.

Senator CLARK. Yes; but I understand that a committee or a body has been created to advise the Government as to what they should accept and what they should not accept.

Lieutenant Colonel HARRIS. No, no; to advise the Government what they think.

Senator CLARK. What they think as to what they should accept and what they should not accept.

Lieutenant Colonel HARRIS. Yes, sir.

Senator CLARK. It comes back to that. Now, how can one man sit on one side of the table as an adviser of the Government and on the other side of the table as an officer of an interested company, either as stockholder, director, or paid employee, and at the same time exercise the same disinterested view as to both bodies? Do you not see a conflict of interests there?

Lieutenant Colonel HARRIS. I can see the point you are making, Mr. Senator.

Senator CLARK. That is the point that has run through the law from the very foundation of Anglo-Saxon law, Colonel.

Lieutenant Colonel HARRIS. If this were a question of negotiating business agreements, I could see your point. But we are discussing ways and means of doing business.

Senator CLARK. Does not that lead to the same result, Colonel?

Lieutenant Colonel HARRIS. I do not see it that way. Perhaps I am wrong. I do not anticipate the Government is going to be influenced adversely by these advisory committees.

Senator CLARK. Colonel, I have never been an officer of a corporation except nominally, but I have been attorney for several. If you will let me draw up the contract for both parties, I will see that my client does not get very much the worst of it.

Lieutenant Colonel HARRIS. We drew the contract up. I would say that from the testimony of yesterday or the day before we did not get great deal of support from these advisory committees.

Senator CLARK. Then what is the use of having them?

Lieutenant Colonel HARRIS. We want to give them a chance, anyway, to say what they have to say.

Senator CLARK. In other words, this is just a gesture?

Lieutenant Colonel HARRIS. No, sir. I think that a straight-out and honorable way of showing them what we are trying to do.

Senator CLARK. You do not think that one man who is an officer of a corporation at one moment, and at the same moment a member of an advisory committee of the Government, can sit on both sides of the table at the same time and render full service to both parties, do you?

Lieutenant Colonel HARRIS. I think it is in the national interest to have a form of contract that will be acceptable, and not leave that negotiation until after "M day",[1] after war is declared.

Senator CLARK. I am entirely in accord with you. That is the reason I today urged you to send in these laws to be passed on by Congress in peace time. I think it would be a fine thing to have the form of the contracts passed on by Congress. But I do not think that you are going to arrive at any substantial Governmental reform by having one man occupy the dual position of an officer of a corporation interested and at the same time an adviser to the Government. I am not reflecting on anybody. You can call in an officer of the corporation and get his views to the fullest extent, without making him an officer of the Government and an adviser of the Government, because he can not occupy a dual position. One of the oldest books in the world says that where a man's treasure is, there is his heart.

Lieutenant Colonel HARRIS. We reserve the responsibility of making a decision in this matter. We have under the law the power of making a compulsory order, and we have under the law the power of commandeering.

Senator CLARK. We have had a good deal of evidence in this record up to date of the machinations or influences of various ammunition manufacturers on the War Department and on the Navy Department. I am not trying to reflect on anybody. But we are looking at this thing from an entirely impersonal standpoint. I do not see how it is possible for a man to render efficient service and disinterested service both to the Government and to a munitions company, or to any sort of an interested company, a wheat company, a cotton company, or anybody else, if he is going to deal with the Government at the same time.

Lieutenant Colonel HARRIS. Senator, this is only one phase of this industrial planning.

Senator CLARK. It seems to run through the whole planning.

Lieutenant Colonel HARRIS. No, sir. We have other phases, I would like to mention to you, if I may.

Senator CLARK. I would be glad to hear them.

Lieutenant Colonel HARRIS. We have the raw material and commodity phase. We are in touch with all the Government Departments, the Department of Commerce, the Department of the Interior, the Bureau of Mines. We have labor problems that we are in consultation on with the American Federation of Labor and the Department of Labor of the Government. In fact, we try to tap in this work all sources of information. It is a big, broad job.

Senator CLARK. To what extent throughout that whole program, taking it on the broadest possible basis, does this dual capacity of adviser to the Government and interest in a private corporation run?

Lieutenant Colonel HARRIS. In the peace time development of this thing?

Senator CLARK. The peace time development will later develop into the war time development.

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[1] "M day" is the date designated in War Department orders as the first day of mobilization. Popularly referred to as the first day of war.

Lieutenant Colonel HARRIS. I grant you that. In the peace time development of this thing the interests of industry and the Government you might say are intermingled. But the plan for operation in a war separates the two interests definitely, and the operation will be under a separate organization.

Senator CLARK. Even when you get down to that, Colonel, is it not the plan to have the very officials in many instances of the corporations which are going to deal with the Government taken over into the Government service as procurement officers?

Lieutenant Colonel HARRIS. We are going to be forced to do something of that kind.

Senator CLARK. That is exactly what I thought. In other words, to come back to the case I stated the other day, going back very far, as far as I can in my recollection, to avoid any personal inferences, it is a fact that some 40 years ago it was discovered and judicially ascertained by the United States Government that the Carnegie Steel Co. had been engaged in selling the United States Government defective armor plate at exorbitant rates. As a matter of fact, I think they were fined under President Cleveland $250,000.

Assuming that that situation existed in the case of a new war, if an officer, a vice president, we will say, or a paid employee of the Carnegie Steel Co. had in the meantime been made a colonel, or since it is a naval matter a commander or a captain in the Navy, and he happened to be the procurement officer charged with the responsibility of protecting the Government on that, and he had previously been engaged in selling this defective armor plate to the Government, as the evidence showed at that time that Mr. Schwab, who is now chairman of the board of the Bethlehem Steel Co., and Mr. Corey, who was later president of the United States Steel Corporation, were, do you think the Government would be in a position to get fair service from such officers as that?

Lieutenant Colonel HARRIS. I am willing to admit every case in which there has been anything wrong that is proved, but in planning for the next war industrially, if we are to be put in a glass case and not be allowed to contact industry, or if Government officials are of a character that they cannot associate with industry and still remain honest to their trust, the whole thing is going to fall down anyway.

Senator CLARK. I am not talking about Government officials associating with industry. What I am speaking about is the Government in the event of war taking over the very personnel that might have been engaged in such practices as I have been talking about, making them the procurement and inspection officers. Does your plan contemplate that?

Lieutenant Colonel HARRIS. As I tried to explain the other day, our plan calls for having people on procurement matters that have a knowledge of the subject. I think that is necessary. Our contemplated action will attempt to safeguard any one man being in a position to negotiate or deal with the company from which he came. That is my position. I tried to explain that the other day.

Senator CLARK. Colonel, I think I understand your position.

Lieutenant Colonel HARRIS. This is a big question. I am glad to have the benefit of your quizzing me.

Mr. Lammot du Pont. May I say a word on this subject?

Senator Clark. Yes, sir.

Mr. Lammot du Pont. You seem to be trying to view the problem from a common-sense viewpoint and are evidently not familiar with modern business practice. I can state that it is a very common practice and is considered very good practice for a seller to maintain an advisory division whose duty it is to advise the customer as to what he should buy and how he should use it.

Senator Clark. That is perfectly true, Mr. du Pont.

Mr. Lammot du Pont. Because the customer knows perfectly well that the advisory division is employed by the seller, yet he accepts the advice and even seeks it.

Senator Clark. But in such instances the seller and the buyer deal at arms' length, do they not? That does not involve the buyer.

Mr. Lammot du Pont. Not as regards the advice, though.

Senator Clark. They do deal at arms' length. Both parties realize that the adviser is a representative of the seller. Now in this case, as I listened to Colonel Harris' testimony, I understand that in this case the United States Government is taking over the agents of the seller and making them officers of the Government, and they are advisers on the matter of purchase. It seems to me that it is entirely possible that a man might get into a triple capacity. This Captain Bleasdale that we talked about here yesterday—I do not know whether you were here or not, Mr. du Pont—was a partner in a concern which is manufacturing munitions. He was manufacturing a compensator for use on machine guns and Army rifles. He was not only a partner, profiting to the extent of his percentage of the royalty on every sale of that sort of thing, but he was an active officer in the Marine Corps, that was at that time occupying Nicaragua. In that capacity he proceeded to sell, so the correspondence showed, his superior officers, against their wishes, on the merits of of the Thompson submachine gun; which was certainly to that extent at least a dual capacity.

In addition to that, he was subsequently appointed ordnance officer for Nicaragua during the Marine Corps occupation, and while still a partner in the concern, getting a royalty, and still an officer on the active list of the Marine Corps, he became ordnance officer for Nicaragua and in that capacity proceeded to negotiate and approve the purchase of 61 of these guns, out of every one of which he was going to get a royalty. That created not only a dual but a triple capacity.

I think that it is very dangerous in any of these Government relationships when a man occupies a dual capacity trying to deal across the table with himself. Of course, it is very much worse when he happens to occupy a triple capacity, as he did in this case I have just been stating.

Mr. Lammot du Pont. I just wanted to point out to you what is a very common practice in commercial business, that an adviser does act in a dual capacity, and very frequently he acts as an adviser to the customer, as an employee of the seller. In this case that Colonel Harris has described I see this difference: In commercial practice the seller selects the adviser. In this case the Government, who is the prospective purchaser, selects the adviser. I do not know whether that makes any difference or not.

Senator CLARK. Mr. du Pont, I do not think there is any difference between you and myself on that point. I realize that when a man wants to install a particular line of goods he is very likely to consult with the selling agency of the company from which he is going to buy those goods, ordinarily, if it is a patented article or an article in active competition. But in this case here is the United States Government operating in a sovereign capacity, and these men, when they are appointed on this advisory committee, whether they serve with compensation or without, nevertheless become public officials, and they certainly occupy a dual capacity when they sit on one side of the table and advise the Government as to what they should purchase and the kind of contracts they should make and on the other side of the table as an officer of an interested company.

The CHAIRMAN. Does it not become more than a dual capacity at times, especially where the individual is serving as an adviser to the Government, as he is in a reserve capacity? He has his selfish commercial interests, he serves as an adviser to the Government, then he serves as a Reserve officer of the Army, something more than a dual capacity.

Senator CLARK. It seems to me that it puts even the most honest man, of the most rigid integrity, in an intolerable position.

Mr. LAMMOT DU PONT. Not at all, in my estimation.

Senator CLARK. It would seem so to you, Mr. du Pont. I think I am an honest man, as honest as I could possibly be, but I do not see how I could personally serve the Government and a company with which the Government was dealing, in a matter of details of a contract, at the same time. It would be an intolerable position to me.

Mr. IRÉNÉE DU PONT. Mr. Senator, I do not think anybody can possibly quarrel with what you are saying. I agree 100 percent with it. I think, however, you are talking at cross purposes with Lammot or he is talking at cross purposes with you.

I thought this advisory board or committee was to try to draw up a form of contract which is likely to appeal to the industries when war is declared, so that they will be willing to sign it. The only way you can find out whether the contract is agreeable is to go ask the people whether they would be willing to sign such a contract in advance. If I were on the advisory committee and asked to sign it on behalf of the du Pont Co., I would refuse to do it.

Senator CLARK. I can understand exactly what you are saying and I agree with you entirely. If I were an officer of the Government and wanted to negotiate a contract with an industry, particularly the du Pont Co., I could go to you and say, "Now, Mr. du Pont, will you stand for this, or will you stand for this?" and we might just sit down across the table and argue that matter pro and con in the most friendly sort of way and finally arrive at a conclusion. But I do not see that to conduct that sort of negotiation on the part of the Government, since you essentially represent the viewpoint of the du Pont Co., it is necessary to constitute you a public officer, which you are when you are appointed a member of the advisory committee in any governmental department, and accept your advice if I go to consult with you.

Mr. IRÉNÉE DU PONT. I concur with you 100 percent. The difference between us is this: I say the industries are passing on a type of contract which they think will appeal some day in the future to all industry. I should think the advice in an advisory capacity, or whatever you call it, of a man in that position would be the best information you could get of what would be his type of contract.

Senator CLARK. All right, Mr. du Pont, but I would much rather stand on a contract that Colonel Harris would be in charge of on which he had obtained the best information he could get, for example, by his going to you and saying, "Mr. du Pont, you are connected with the du Pont Powder Co. Now, do you think that this sort of a contract would be acceptable to industry?" and you say, "No." "Why not?" and he would argue it out with you. I would much rather have him do that than have him go to a representative of the Government who is also a representative of the company with which that contract is going to be drawn, and who would tell Colonel Harris what sort of a contract to frame up before he goes out.

That is just the difference in our viewpoint.

Lieutenant Colonel HARRIS. Senator, I think, generally speaking, that is what has been done. The contract was drawn up and was submitted to them for their concurrence.

Senator CLARK. Then why did you have this advisory committee?

Lieutenant Colonel HARRIS. The advisory committee is in being at all times and it probably was submitted to them from time to time.

Senator CLARK. Does it function or does it not?

Lieutenant Colonel HARRIS. It does not function very much.

Senator CLARK. Then let us wipe it off; let us abolish it.

Lieutenant Colonel HARRIS. To clarify this—Lieutenant Brannon suggests that I do so—the general advisory committee, of which a list was given to you, there was a special subcommittee in each district on this particular contract form, but, generally speaking, both committees are of some cross-section. They may not be the same companies, but they come from industry.

INDUSTRIAL CONNECTIONS OF CERTAIN WAR DEPARTMENT AND OTHER OFFICIALS INVOLVED IN PROCUREMENT AND RELATED ACTIVITIES DURING WORLD WAR [1]

The CHAIRMAN. Colonel Harris, is Lt. Col. William Williams in the service now?

Lieutenant Colonel HARRIS. He is not, sir. I have looked up his record at the request of the counsel and gave them all I found, but he is not in the service at the present time.

The CHAIRMAN. But he was, was he?

Lieutenant Colonel HARRIS. He was in the service for a while, in a division of the procurement department, but left the service very shortly after the war.

The CHAIRMAN. We find as to him, as one of the principal officials in the Army in the procurement personnel, that Lieutenant Colonel Williams signed various contracts for ordnance material as contracting officer, including certain contracts with the du Pont Nitrate Co. for nitrate of soda amounting to $16,000,000 and another for $33,000,000 for TNT for the plant at Barksdale, which was with the du Pont Engineering Co.

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[1] This subject continued from Hearings, Part XV, p. 3655 and infra, p. 3991.

We find his industrial connections as follows: Lawyer; commissioner of water supply, New York, 1914 to 1917; stockholder in General Electric, United States Steel, Otis Elevator Co., du Pont Powder Co., Westinghouse Electric, and bondholder in United Lead and Bethlehem Steel.

Wasn't he most assuredly in a dual capacity there as a part of the procurement personnel?

Lieutenant Colonel HARRIS. I do not dispute that, Senator, but if you recall during the war, any person who had a pound of TNT we would have bought. We bought every bit of TNT we could possibly scrape up. We even installed an expensive set-up to take toluol out of the lighting systems of cities. In other words, we were tapping every possible source for TNT. It didn't make any difference whether it was du Pont or who had it, we would have bought it.

Senator CLARK. Colonel, what we are interested in is not the mistakes you made in the last war, but the extent to which we can profit by the mistakes we made in the last war in preparing for the next war. What steps have you taken to prevent such dual capacity representation as Senator Nye has just mentioned.

Lieutenant Colonel HARRIS. We recognize fully the disadvantages and objections to that system.

Senator CLARK. You are chief of the planning division down there. To what extent has your effort over 15 years since the last war been directed in trying to see that such dual representation as Senator Nye has just mentioned does not take place in the next war?

Lieutenant Colonel HARRIS. Most of our work has to do with plans rather on the material side than the personnel side. The personnel side is changing constantly. With a mounting list of personnel there is constant change in that list. So far as the personnel plan is concerned, it is more a question of what plan should be used.

Senator CLARK. You have meetings from time to time of these Reserve officers listed on procurement which are equal to what they used to do in the National Guard—go to camp every year.

Lieutenant Colonel HARRIS. Of that character; yes.

Senator CLARK. The camp of these procurement officers is the Mayflower Hotel, is it not?

Lieutenant Colonel HARRIS. I don't know where it is.

Senator CLARK. Isn't that where it is; that you have a camp here every year; I mean, similar to the National Guard and the Organized Reserve, that you have a conference every year at the War Department, and the real headquarters or camp, you might say, of these officers is the Mayflower Hotel in the city of Washington?

Lieutenant Colonel HARRIS. I don't know anything about that. From my own knowledge of Reserve officers' training, I can give you my own experience—we recently had 18 in the office of The Assistant Secretary of War. I do not know where one of those people live. The only time I saw them out of the office was at a dinner they gave when they were leaving, which they invited us to attend.

Senator CLARK. Where was that, Colonel?

Lieutenant Colonel HARRIS. At the Army and Navy Club.

Mr. IRÉNÉE DU PONT. May I ask if that list of officers mentioned named Williams as a stockholder in the du Pont Co. in 1917, when he signed those contracts?

Mr. GREGG. 1918.

Mr. Irénée du Pont. 1918. I think it is rather important. He may have bought that years afterward, and I think it is a great pity to blacken a man's character when he is not here.

Mr. Hiss. The information in the chart is based upon a letter in the files of the War Department as to Lieutenant Colonel Williams' stockholdings. We will get that letter, which has already been introduced, from the reporter, so we will have that specific letter in front of us.

Mr. Irénée du Pont. Of course, it is none of my business, but I did not want to see him falsely accused.

The Chairman. Mr. du Pont, seriously, do you think it is good policy for a stockholder in the du Pont Co. to be entering into contracts for the Government with the du Pont Co.?

Mr. Irénée du Pont. Of course not, sir. I thought there was a rule in the Army that you could not hold those positions; you could not hold stock in any corporation you dealt with. My reason for that is my recollection of the time Colonel Spruance left us. I understood he had to divest himself of every drop of ownership in the company.

Senator Clark. We find here from the correspondence taken from your files where Colonel Simons, who was an employee of your company, considered it a persecution for officers of the Army to be asked whether they owned any stock in the du Ponts. He said he considered the investigation was a persecution. You would not consider that persecution, would you?

Mr. Irénée du Pont. I am not familiar with that quotation. I don't think you got it straight.

Senator Clark. I put it in the record myself, so I ought to know. Colonel Simons wrote a letter to your Major Casey, in which he said there was an investigation being made by the Inspector General's Department of the Army, and that the Inspector General, Colonel Van Schaick, had been going around asking Army officers who had had to do with Old Hickory whether they owned any du Pont stock. He said that this conclusively showed that that was a persecution and not an investigation. You would not agree with that yourself, would you, Mr. du Pont?

In other words, if Old Hickory was under investigation, you would consider it a proper question for the Inspector General to be asking the Army officers involved whether they were stockholders in the du Pont Co., wouldn't you?

Mr. Irénée du Pont. I think if I had any relationship with the du Pont Co. it would be a proper question to ask.

Senator Clark. That is what the records show, that all the Inspector General asked was whether the Army officers owned any du Pont stock, and Colonel Simons of your staff considered that persecution.

Mr. Lammot du Pont. Major Simons was a du Pont employee at the time.

Senator Clark. Yes.

Mr. Lammot du Pont. He was not a Government employee.

Senator Clark. No; I say he was a du Pont employee, and he was commenting on the investigation.

Mr. LAMMOT DU PONT. I do not see that it makes any difference if a du Pont employee has any du Pont stock or not.

Senator CLARK. No; you misunderstood me, Mr. du Pont. Colonel Simons said that the Inspector General had been going around asking officers on the active Army list who had had something to do with the Old Hickory proposition whether they owned any du Pont stock or not, and he said the fact they did ask them whether they owned and du Pont stock conclusively showed that that was a persecution rather than an investigation. You would not feel that way, would you, Mr. du Pont?

Mr. LAMMOT DU PONT. I would not feel so. I think you must have gotten Major Simons wrong.

Senator CLARK. No; Major Simons was very clear in his expression.

Mr. CASEY. That was not an investigation of Old Hickory. The investigation was this question of putting the powder under water. Further than that, what Colonel Van Schaick asked for was this: He asked the du Pont Co. to supply him with a list of all of the stock held by Army officers, and we were scared to death that some poor officer might have some du Pont stock at the time.

Senator CLARK. All right, Major, I will ask you the question. Colonel Simons, as you will remember, said that there was an investigation going on of Old Hickory.

Mr. CASEY. No; not of Old Hickory.

Senator CLARK. Of Old Hickory; yes.

Mr. CASEY. Following the war?

Senator CLARK. Old Hickory. I will stand on the record. And he said the fact they asked Army officers whether they owned any du Pont stock showed that it was a persecution rather than an investigation. Now, do you dispute that?

Mr. CASEY. No; but I just want to say——

Senator CLARK. You just answer my question and then you can make any speech you want to.

Mr. CASEY. Simons said it might become persecution.

Senator CLARK. He said it was persecution.

Mr. CASEY. What is that?

Senator CLARK. He said it was persecution.

Mr. CASEY. That is Simons. I am not speaking for Simons. But suppose they had found an Army officer who held some du Pont stock. They would have started right after him. Fortunately, they did not find any.

Senator CLARK. Let me ask you a direct question, Major. Do you think on any deal in which the du Pont Co.—I know you are loyal to the du Pont Co. and I have high respect for you—do you think on any deal in which the du Pont Co. was involved with the Government that it is persecution for the Inspector General, in the exercise of his proper right, to ask the officers who had to do with that deal if they owned any stock in the du Pont Co.

Mr. CASEY. Simons did not say that.

Senator CLARK. Just answer my question.

Mr. CASEY. He is not talking about persecution of du Pont.

Senator CLARK. Just answer my question, Major. Do you think yourself that it shows persecution rather than investigation to ask any officer on the active list of the Army who has had to do with the contract of any company whether he owned any stock in that company or not?

Mr. Casey. Personally, I do not.

Senator Clark. All right.

Mr. Gregg. Might I say something in connection with Lieutenant Colonel Williams?

The Chairman. Yes.

Mr. Gregg. This is the first time that I ever heard that he owned any stock in the du Pont Co. When the March 1923 contract for the construction and operation of Old Hickory was being drawn up, Colonel McRoberts assigned Lieut. Col. William Williams to draw up that contract with me.

We worked on it for, I should say, at least a week. I remember distinctly working all day one Sunday. He left me in the evening and I continued until midnight, going over the contract. There were certain provisions in that contract that I wanted inserted in it. Colonel Williams would not agree with me. I remember distinctly the Sunday afternoon that we were working on the contract. We got into a serious dispute, and he said, "Well, I will not consent to what you want to put in the contract. The only thing to do is to take that to Colonel McRoberts the next morning to settle it", which we did.

Senator Clark. Now, Mr. Gregg, I will ask you a question.

Mr. Gregg. Go ahead.

Senator Clark. I know nothing about Colonel Williams or his connections. I do not wish to reflect in any way on him. But you have had great experience in these matters. I recognize that many a man who is a stockholder in a private company in negotiating with the Government would not only give the Government the best of it, but he might be so straight that he would lean backwards in giving himself the worst of it. But do you yourself in these matters consider it good practice to have an official, as applies to most of these cases we are talking about, or even a stockholder of an interested company, make a contract for the Government, even assuming the highest motives, the highest character and the highest degree of honesty on the part of the contracting officer with that company?

Mr. Gregg. I am giving you my personal opinion now, Senator.

Senator Clark. Yes.

Mr. Gregg. I do not.

Senator Clark. And I dare say I can ask Mr. Pierre du Pont, Mr. Irénée du Pont, Mr. Lammot du Pont or Major Casey, or any other man who has had any experience in those matters in the town of Washington, the same question, and they will all say the same thing.

Mr. Gregg. Might I say this, Senator? I do not know that it has been definitely established that Colonel Williams was a stockholder of the du Pont Co. in 1918. I will go further, Senator, and I will say that at the time I was dealing with Colonel Williams in drawing up the contract, the Nashville contract, if he was a stockholder at that time and I had known it, I would have suggested to him that he have nothing to do with it.

Senator CLARK. Now, Mr. Gregg——

Mr. GREGG. May I finish?

Senator CLARK. Certainly, go ahead.

Mr. GREGG. I prosecuted for the Government for several years and I have my own views.

Senator CLARK. Let me say this: This matter that has come up is not intended to reflect on any individual. We are not concerned really with what happened in the last war, as I said a moment ago, except as it may be a guide for the future, but we are interested in what steps the planning board or the war and navy representatives have taken to see that men who are interested one way or the other personally in contracts will not be negotiating them on the part of the Government, and from my cursory investigation I cannot see that if the program of drafting executives of the corporations which are going to deal with the country into the Reserve Corps and making them procurement and supply officers to deal with their own employees is adopted that it can possibly work out to the Government's interest.

Lieutenant Colonel HARRIS. Senator, did you state that was the plan? I am trying to state that that is not the plan.

Senator CLARK. Colonel, that is the slant I have been able to get on your plan, from such intensive study as I have been able to make up to date.

Lieutenant Colonel HARRIS. I would like to state once more that the plan is that they shall not deal with the companies from which they came.

Mr. PIERRE DU PONT. Senator, I will state that when I am in an official capacity it is my plan to consult with the people on the other side, not follow their advice necessarily; perhaps to find out what not to do. I dare say Colonel Harris has exactly the same experience with people that he knows are interested. He invites them to recommend, and in that way he finds out what they are trying to do.

Senator CLARK. Mr. du Pont, you have been a very successful business man and have been an executive for a great many years. You are in the habit of keeping the other fellow on the other side of the table, aren't you, when you are talking with him?

Mr. PIERRE DU PONT. It depends on who the other fellow is.

Senator CLARK. You don't have him over on your side of the table; you keep him on the other side of the table.

Mr. PIERRE DU PONT. It depends on who the other fellow is. That does not necessarily follow.

Senator CLARK. Can you tell me of any time in your experience that you have allowed the fellow you were dealing with to come around on your side of the table and whisper in your ear and tell you what to do?

Mr. PIERRE DU PONT. Yes. But I don't always follow his advice.

Senator CLARK. But you don't get him over on your side of the table?

Mr. PIERRE DU PONT. On my side?

Senator CLARK. You don't give him a vote on what you are going to do.

Mr. PIERRE DU PONT. No; and I don't think Colonel Harris does, either.

Senator CLARK. He makes Government officials out of these people and puts them in the position of being his official advisers. You don't do that when you are making a deal.

Mr. PIERRE DU PONT. Official adviser, but not the man to perform the contract which he has agreed to accept.

Senator CLARK. Mr. du Pont, you just think it over and if you can tell me one deal you ever had in your life in which you had the fellow sitting on one side of the table make you a proposition and then come over to the other side of the table and tell you what to do, as an adviser of the du Pont Co., official adviser of the du Pont Co., I will be glad to put that in the record.

Mr. PIERRE DU PONT. I think I could cite several instances if I chose to dig them up. I don't have any in mind now. But Colonel Harris is not proposing such a thing as that. I understand this advisory committee is to advise as to the form of contract, but they do not have a vote as to what contract is adopted. He decides that.

Lieutenant Colonel HARRIS. We have a practical illustration as to the operation of this right now. Senator, your counsel has had some of the digests of the views of these advisory councils written out and submitted to us and they are under consideration. We distinctly reserve the right of decision, but we are glad to have their views, and I think the record will bear that statement out.

Senator CLARK. Colonel, wouldn't you have their views just as frankly as officers of the interested companies with which you are trying to deal?

Lieutenant Colonel HARRIS. Would you mind repeating that? I didn't quite get it.

Senator CLARK. I am talking about this dual capacity, Colonel. I say wouldn't you get the full force of their views if they were speaking in their true capacity as officers of the interested company, as you would if they came in and sat on the board with you as members of an advisory committee and told you what they were asking for?

Lieutenant Colonel HARRIS. The advisory committee was simply to form a method of exchanging views relating to these matters. Whether they are called an advisory committee or presidents of companies, it might be better to keep them in their true position.

Senator CLARK. All right, Colonel. What I am trying to get is simply some benefit out of this.

Lieutenant Colonel HARRIS. I am willing to abolish these advisory committees.

Senator CLARK. I don't care whether you abolish the advisory committees.

Lieutenant Colonel HARRIS. Their being on the advisory committees does not give them any more influence, in my judgment.

Senator CLARK. Colonel, I don't care whether you abolish the advisory committees or not. What I am trying to get at is this: Isn't there anybody in the United States who has no financial interest in the matter that you could put on these advisory committees?

Lieutenant Colonel HARRIS. Well, you might, after a long search. But it just came out here today that Colonel Williams, who nobody knew had any holding in du Pont stocks, seems to have a few shares—I don't know how much—but it is stated, I think, as small. It would be very difficult to get a group of responsible, intelligent, and able men and not have them own something that is involved in the form there.

Senator CLARK. I do not know what Colonel Williams' interest was in the du Pont Co. and I am not trying to use Colonel Williams as a scapegoat in this thing, since you brought that up. Is not any man who does own an interest in the company with which he may have to deal primarily incapacitated to be on such an advisory committee and should not Colonel Williams when he had stock in the du Pont Co. have told the War Department about it before he accepted the appointment?

Lieutenant Colonel HARRIS. I am only prepared to answer my own view.

Senator CLARK. I don't want to press you for an answer.

Mr. IRÉNÉE DU PONT. Is not Colonel Harris' position on all fours with that of your committee? You were good enough to ask us a few weeks ago if we would not write out our ideas of recommendations you might report to Congress. We certainly never had in our hearts the idea that it would have any say-so.

Senator CLARK. We did ask you for your views and we were very happy to have them. I dare say there are many things in the views expressed by Mr. Lammot du Pont which will be of great value to this committee, but we did not put you on any advisory committee to tell us what to say in our report.

Mr. IRÉNÉE DU PONT. I thought it was advice to you.

Senator CLARK. No, sir. It was evidence to be used by us, views that you expressed, but we did not certainly give you any official position to control what we might put in our official report, and it seems to me that certainly is the essential difference between those two things.

Lieutenant Colonel HARRIS. Might I say something about these advisory committees? On this industrial planning it is very difficult, with no return, to engage the interest of industry to work out these things. We were not making progress. In the hope of enlisting the personal interest of these people, this was a means of endeavoring to get a little more of their interest in these matters.

Mr. GREGG. Might I say for the information of the committee that shortly after the war—probably Colonel Harris can give a closer date than I can—it was just about the time that Charles G. Dawes became Director of the Budget. He was the first Director of the Budget, and he had under him, as I recall it, a board that was working on forms of contracts, starting as early as that period, for use in the event of another war.

Now, Mr. Dawes asked me if I would not come down and address that board and give my views on the types of contracts the Government should have in the event of another war. One thing he asked me to talk about was cost plus contracts. I did come down and I addressed the board and I gave them my position on cost plus contracts.

Senator CLARK. Mr. Gregg, nobody ever criticized anybody who appeared in response to any governmental agency or a request from any governmental agency for expressing any views they might hold when they appeared in the proper capacity, either as a citizen or as a representative of the company with which they were connected. But what this investigation has been directing itself to is the question of a man appearing in a dual capacity, on the one hand as a stockholder, employee, or officer of a corporation doing business with the Government, and, on the other hand, as adviser of the Government.

Mr. GREGG. Personally, Senator, I may say that I agree with you entirely.

Senator CLARK. I am coming back if I may, Mr. Chairman, just a moment, because I have to leave the hearing, as you know, to this question as to whether the inspector general, Colonel Van Schaick, who was investigating this, was conducting a persecution, as Colonel Simons seemed to believe.

I desire to read a letter dated December 14, 1929, signed by Mr. Lammot du Pont, addressed to Col. Louis J. Van Schaick, inspector general, United States Ordance Department, Washington, D.C.:

> DEAR SIR: Your letter of December 11, addressed to E. I. du Pont de Nemours & Co., for attention of Maj. K. K. V. Casey, has been referred to me for reply.
>
> It is contrary to our policy to give information with respect to the share holdings of any of our stockholders. We have, however, compared the list of names given in your letter with our list of stockholders and find that not one of these individuals appears as a stockholder of E. I. du Pont de Nemours & Co. We do note that one of these parties, together with another party not named in your list, appear as joint tenants in the ownership of 10 shares of the common stock of E. I. du Pont de Nemours & Co. The registered address of these joint tenants is in Massachusetts.
>
> Trusting that this information will be sufficient to serve your purposes, I am
>
> Yours very truly,
>
> LAMMOT DU PONT.

Admittedly the joint ownership of 10 shares of stock is not very much. It certainly shows that Colonel Van Schaick's investigation was not a persecution but was a bona fide investigation, because at least he drew a drop or two of blood.

The CHAIRMAN. Colonel Harris, just what is the form or regulation as respects ownership of stock or bonds in industrials which have dealings with the War Department?

Lieutenant Colonel HARRIS. Suppose you let Lieutenant Brannon answer that, please.

The CHAIRMAN. All right.

Lieutenant BRANNON. I have not that information offhand. There is an oath of disinterestedness for contracting officers. I do not recall whether that was suspended during the war or not. That is in the Revised Statutes, I believe. In addition, there was the provision Mr. Hiss mentioned yesterday or the day before in the Food and Fuel Act about persons occupying a dual capacity. I do not remember the details of that.

The CHAIRMAN. The Department does strive to ascertain what the military man's connections are?

Lieutenant BRANNON. Yes, sir.

The CHAIRMAN. In connection with Lt. Col. William Williams, I have before me a letter written by him dated November 1, 1918, written on the stationery of the War Department, Office of the Chief of Ordnance, Procurement Division, Washington.

To insure prompt attention, in replying refer to no. ——.
(Attention of Lt. Col. Wm. Williams.)

NOVEMBER 1, 1918.

From: Lt. Col. Wm. Williams, staff officer, Procurement Division.
To: Maj. Gen. C. C. Williams, Chief of Ordnance.
Subject: Names of manufacturers dealing with the Ordnance Department in which the undersigned has an interest.

1. As directed by the Chief of the Procurement Division under date of October 19, I annex hereto a statement showing to the best of my knowledge and belief the name of each manufacturer or dealer in materials or supplies, purchased through the Procurement Division, with whom I have relationship as officer, employee, stockholder, or bondholder.

2. Such relationship existed for some time, in most instances for many years, prior to the date when I entered the service and my several stated interests (which in no case are large) have neither been increased nor decreased since said time.

3. I am financially interested in other industrial concerns, but, so far as I am aware, these concerns have no dealings with the Procurement Division or War Department.

WILLIAM WILLIAMS,
Lieutenant Colonel, Ordnance Department, United States Army.

Then it was made part of this statement, which is noted at the foot of the letter, which is signed by William Williams, lieutenant colonel, Ordnance Department, United States Army. [Reading:]

General Electric Co. (stockholder), United States Steel common and preferred (stockholder), Otis Fensom Elevator preferred (stockholder), du Pont Powder Co. preferred (stockholder), Westinghouse Electric preferred (stockholder), United Lead Co. (bondholder), Bethlehem Steel Co. (bondholder).

Now, would not a statement of that kind have the effect of leading to his retirement?

Lieutenant BRANNON. What is the date of that, Mr. Chairman?

The CHAIRMAN. November 1, 1918.

Lieutenant Colonel HARRIS. I am not qualified to speak for the Chief of the Procurement Division, but in my judgment it should have led to relief of his duties so far as they related to those companies mentioned.

The CHAIRMAN. Let the letter which I have just read be identified as an exhibit.

Mr. HISS. It was introduced before.

Lieutenant Colonel HARRIS. You took them back.

(The letter referred to was marked "Exhibit No. 1339–A" and is included in the appendix on p. 4147.)

Mr. GREGG. Mr. Chairman, as I understand it, Colonel Williams does not state in there when he acquired those interests.

The CHAIRMAN. No; he states that he had held them for some time before he went into the service.

Mr. HISS. And he did not decrease them.

The CHAIRMAN. He did not increase them or decrease them since that time.

Mr. GREGG. I see.

The CHAIRMAN. You may read the exhibit, if you wish.

Mr. HISS. Colonel Harris, you made a reference some time back to the power of commandeering in time of war. Could you testify at this time, or, if you have not the details in your head at the present moment, could you supply the committee a list of those cases during the war in which there was actual commandeering?

Lieutenant Colonel Harris. I could give a résumé. There are two phases to compulsory action. Should they take a compulsory order, it placed upon the contractor a duty and that forced him to comply with it, the compensation being arrived at in the statute. If he failed in that compulsory order, the act carried with it the power of commandeering. This actual commandeering was exercised to a very limited degree, for the reason, as very ably stated by Mr. Baruch, that the personnel to operate the plants were not available and if the existing personnel of those plants could not operate them effectively, there was little hope of getting any personnel in time of war that could do so.

Mr. Hiss. Do you remember approximately how many cases of actual commandeering there were?[1]

Lieutenant Colonel Harris. Actual commandeering, very few, but I will have to get the records. Do you wish that?

Mr. Hiss. If you please.

Lieutenant Brannon. What you want is actual plants as to which the compulsory orders had been issued, which were actually commandeered?

Mr. Hiss. Yes, sir. Colonel Harris, returning again to the duties of the Ordnance district advisory boards and the personnel of those boards, I do not know whether you testified to this or not, it may be a repetition of previous testimony, but in time of war would any of the members of those advisory boards be eligible to become officials of the War Department in the procumenet field?

Lieutenant Colonel Harris. I think it is quite likely that some of those men would be. Did you say in the procurement field?

Mr. Hiss. Yes, sir.

Lieutenant Colonel Harris. Subject always to that statement which I have made time and time again, that they should not negotiate procurement contracts with their own companies.

Mr. Lammot du Pont. Mr. Chairman, may I interrupt a moment to correct a possible error?

The Chairman. Yes, Mr. du Pont.

Mr. Lammot du Pont. In reading the list of stock holdings of Colonel Williams, you read the du Pont Powder Co. That may have been a typographical error, meaning the du Pont Co. At that time there was in existence a du Pont Powder Co. that did not have any contracts and did not negotiate any contracts with the United States Government.[2]

Mr. Irénée du Pont. It was not engaged in the manufacture of munitions.

Mr. Lammot du Pont. He may have used the correct name, and he may have used the incorrect name, but if he used the correct name, he did not own anything in the du Pont Co., which made the contract.

The Chairman. Who owned the du Pont Powder Co.?

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[1] Colonel Harris later submitted a list of plants commandeered by the Ordnance Department. Hearings, Part XVII, p. 4270.

[2] Mr. Irénée du Pont later informed the committee that Colonel Williams was the owner of 100 shares of debenture stock of the E. I. du Pont de Nemours & Co., from November 1913 to May 1925. Hearings, Part XVII, p. 4167.

Mr. LAMMOT DU PONT. The stock was quite widely held at that time, I think.

Mr. HISS. Mr. Lammot du Pont, was not the du Pont Powder Co. the predecessor of the present company, E. I. du Pont de Nemours & Co.?

Mr. LAMMOT DU PONT. It was.

Mr. HISS. Was there not a reorganization in 1915?

Mr. LAMMOT DU PONT. There was.

Mr. HISS. That was when the present company was formed?

Mr. LAMMOT DU PONT. Yes.

Mr. HISS. Was there not also an arrangement that the stockholders of the powder company could receive shares of stock in the new company by surrendering shares of stock in the old company?

Mr. LAMMOT DU PONT. Not at that time, I think. They received the new company's stock as dividends, it is my recollection.

Mr. HISS. All stockholders of the powder company received stock of the new company in the form of a dividend?

Mr. LAMMOT DU PONT. All the common stockholders of the du Pont Powder Company received the stock of the new company as a dividend. He was down as a holder of preferred stock, was he not?

Mr. HISS. That is correct, from that letter.

Mr. LAMMOT DU PONT. I do not know where the mistake is, but there is something wrong some place.

Mr. HISS. The present du Pont Co. took over all the assets of the powder company? Is that correct?

Mr. LAMMOT DU PONT. I think that is correct; yes, sir.

Mr. HISS. In exchange for stock issued to the powder company, which it then distributed to its stockholders?

Mr. LAMMOT DU PONT. I believe that is correct.

Mr. IRÉNÉE DU PONT. The Supreme Court found, however, that that was a sale, in which we purchased the assets and paid for them by the stock of the E. I. du Pont de Nemours & Co.

Mr. HISS. By the issuance of stock. So that the powder company held shares of stock of E. I. du Pont de Nemours & Co. Do you know how much of the stock of the new company was issued to the old company for its assets, of the then-outstanding stock?

Mr. IRÉNÉE DU PONT. It was the entire amount, something of the order of 60,000,000 preferred and 60,000,000 common, I think, but you can find that in the report of the company.

Mr. HISS. Then the du Pont Powder Co., after receiving all the stock of the new company, controlled the new company? Is that correct?

Mr. IRÉNÉE DU PONT. No.

Mr. HISS. It held all the stock of the new company, which it distributed to its stockholders. Is that correct?

Mr. LAMMOT DU PONT. Yes, sir.

Mr. HISS. As I understand your statement, Mr. Lammot du Pont, it was that no stock of the new company was issued to the holders of preferred stock of the old company, but it was to the common stockholders of the old company. Is that correct?

Mr. LAMMOT DU PONT. I think that is correct.

Mr. IRÉNÉE DU PONT. I do not think so. My impression is that the preferred stockholders of the old company—this is going back a good many years, 19 years ago—my impression was that the preferred stockholders of the old company got new preferred stock of the new company, with the exception of some small amount, I think $10 shares left over to wind up some residual assets.

We will have to get out the statement of the company at that time to verify it.

The CHAIRMAN. What was the du Pont Powder Co. during the war?

Mr. IRÉNÉE DU PONT. I think it was nothing but a shell, with a few minor assets.

Mr. LAMMOT DU PONT. All the plants were sold out in 1915.

The CHAIRMAN. Are you meaning to say, by reason of his ownership of preferred stock in the du Pont Powder Co., that Lieutenant Colonel Williams really had nothing after all?

Mr. LAMMOT DU PONT. He had nothing in the du Pont company's business.

Mr. HISS. Is it true, then, that the preferred stock in the new company was issued to holders of preferred stock in the old company as a dividend?

Mr. LAMMOT DU PONT. I do not think they were issued at that time.

Mr. HISS. Mr. Irénée du Pont thought they were.

Mr. LAMMOT DU PONT. They were held by the powder company until a much later date. My point is that the du Pont Powder Co., in which Colonel Williams had stock holdings, did not have any contracts with the United States Government.

Mr. HISS. But, Mr. Lammot du Pont, the company which succeeded the powder company is the present company, which did have contracts with the United States Government, and the issue that I believe you and Mr. Irénée du Pont are not in complete agreement on, and which you can determine by referring to the records of the company, is whether or not the preferred stockholders of the powder company received any interest in the new company, whether preferred or common.

Mr. LAMMOT DU PONT. They did eventually.

Mr. HISS. That really is the point at issue, is it not?

Mr. LAMMOT DU PONT. No; that is not the point at issue. The question is whether the colonel held any stock in a company which had a contract with the United States Government.

Mr. HISS. I thought the question was whether he had any interest in a company which had a contract with the United States Government.

Mr. LAMMOT DU PONT. I thought that was a list of his stock holdings.

Mr. HISS. That is correct, but the conclusion drawn by the chairman from that was that he had an interest in a company having contracts with the United States Government.

Mr. LAMMOT DU PONT. I thought that list purported to be a list of this stock holdings in companies that had contracts.

The CHAIRMAN. That is correct.

Mr. LAMMOT DU PONT. The du Pont Powder Co. did not have any contracts.

Mr. HISS. Did he have any interest in it through his preferred stock in the powder company, the predecessor of the present company?

Mr. LAMMOT DU PONT. That is too deep for me to say.

The CHAIRMAN. Colonel Williams in his letter said that the du Pont Powder did have contracts with the Government.

Mr. LAMMOT DU PONT. If he said that, I think he was mistaken.

The CHAIRMAN. It might easily mean, then, that he was referring to the E. I. du Pont de Nemours Co.?

Mr. LAMMOT DU PONT. He may have used the wrong name inadvertently. He may have been mistaken about their having a contract. It must have been one or the other.

Mr. HISS. May we reserve that for further determination, and have a statement furnished by your company as to the exact interest in the new company of preferred-stock holders in the old company, and also a reference to the old company records, where Colonel Williams' interest should appear? [1]

Mr. LAMMOT DU PONT. That interest is in 1918.

Mr. HISS. The interest stated in this letter dated November 1, 1918, is the interest which apparently he had when he entered the service. The second paragraph says:

> Such relationship existed for some time, in most instances for many years, prior to the date when I entered the service, and my several stated interests (which in no case are large) have neither been increased nor decreased since said time.

Mr. LAMMOT DU PONT. It would seem to be correct to state, then, that it was the powder company in which he had preferred stock, because he could not have held preferred stock in E. I. du Pont de Nemours & Co. for a long time because it was not organized until 1915.

Mr. HISS. There are a total of seven companies which are listed here.

Mr. GREGG. I might say—and this has been several years ago, and these things come back as you think them over—Col. Robert P. Lamont, who was Secretary of Commerce in Mr. Hoover's administration, was an officer in the procurement division during the war. Colonel Lamont and myself worked for several days on a new contract for the construction and operation of the Penniman shell-loading plant. The du Pont Engineering Co. had previously had a contract for the construction and operation of the Penniman shell-loading plant, similar to the first contract for the construction and operation of the Old Hickory powder plant, under which they were to get a profit on construction.

Just shortly after the new contract of March 23 covering Old Hickory was entered into, a new contract was entered into for the construction and operation of the Penniman shell-loading plant, under which the construction was to be at cost plus $1 eliminating any profit on construction.

As I said, Colonel Lamont and I worked on the contract for several days. We finished it one evening, and Colonel Lamont said that he would send it upstairs and have it typewritten; in other words, we had marked it up in going through it.

The following day I called him up and asked him if he had the contract, because we were anxious to have the contract executed as soon as possible, so that we could operate under it.

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[1] For this statement see Hearings, Part XVII, p. 4167.

He said, "It has not come back to me, and I will try to find out where it is."

He finally found that Lieutenant Colonel Williams had it. I went to see Colonel Williams and Colonel Williams had made a number of changes in the contract, which changes were more favorable to the Government than the contract that Colonel Lamont and I had drawn up.

The changes made by Colonel Williams I declined to agree to and, as in the Old Hickory case, we again had to take it to Colonel McRoberts to settle.

PERSONNEL UNDER INDUSTRIAL MOBILIZATION PLAN

Mr. Hiss. Referring again to the list of members of the Ordnance District Advisory Board, I have read through the list of those in the Hartford district.

New York district:

Patrick E. Crowley, president New York Central Lines.
J. M. Davis, president Delaware, Lackawanna & Western Railroad.
John I. Downey, vice president Bankers Trust Co.
Malcolm Muir, president McGraw-Hill Publishing Co.
Gen. James G. Harbord, president Radio Corporation of America.
William C. Dickeeman, president American Locomotive Co.
B. L. Winchell, chairman Remington Rand, Inc.
Owen D. Young, chairman General Electric Co.
James A. Farrell, former president United States Steel Corporation.
Hon. Nathan L. Miller, of the law firm of Hornblower, Miller, Miller, and Boston.

In the Rochester district:

Edwin Corning, chairman, board of directors, Ludlum Steel Co.
C. E. Eveleth, vice president, General Electric Co.
Edward Hoagland, assistant general freight agent, New York Central Railroad.
J. T. Loree, general manager, Delaware & Hudson Co.
G. S. Ruffner, president Mohawk Hudson Power Co.
Carl L. Bausch, director, Bausch & Lomb Co., Rochester, N. Y.

In the Philadelphia district:

Samuel M. Vauclain, chairman of board, Baldwin Locomotive Works.
W. W. Atterbury, president Pennsylvania Railroad.
George Horace Lorimer, editor Saturday Evening Post.
Josiah Penniman, president University of Pennsylvania.
Charles R. Richards, president Lehigh University.
A. Atwater Kent, president Atwater Kent Manufacturing Co.
Irénée du Pont, president E. I. du Pont Co.
Eugene G. Grace, president Bethlehem Steel Co.

It gives Mr. Irénée du Pont as president of the company, and as of today that is in error.

Mr. Irénée du Pont. That is a little bit antique, I think.

Mr. Hiss. Do you know the date of this list, Colonel?

Lieutenant Colonel Harris. It is probably several years old.

Mr. Hiss (reading):

E. T. Stotesbury, financier.
Leanard H. Kinnard, president Bell Telephone Co. of Philadelphia.
John E. Zimmerman, president, U. G. I. Co.

Do you know what company that is, Colonel?

Lieutenant Colonel HARRIS. That is the United Gas Improvement Co.

Mr. HISS. In the Pittsburgh district:

F. J. Chesterman, P. P., Bell Telephone Co. of Pennsylvania.
George Gordon Crawford, president Jones & Laughlin Steel Corporation.
T. H. Girdler, president and chairman, board of directors, Republic Steel Corporation.
A. L. Humphrey, president Westinghouse Air Brake Co.
C. D. Marshall, president McClintic-Marshall Co.
W. L. Mellon, president Gulf Refining Co.
F. A. Merrick, president Westinghouse Electric & Manufacturing Co.
William L. Munro, president American Window Glass Co.
A. W. Robertson, chairman board of directors, Westinghouse Electric & Manufacturing Co.
Homer D. Williams, chairman, president Pittsburgh Steel Co.
E. T. White, regional vice president, Pennsylvania Railroad.
I. Lamont Hughes, president Carnegie Steel Co.
E. T. Weir, chairman board, National Steel Corporation.
Arthur E. Braun, president Farmers Deposit National Bank.

In the Cleveland district:

Henry C. Osborn, vice president and chairman, executive committee, Addressograph-Multigraph Corporation, Euclid, Ohio.
Benedict Crowell, brigadier general, Crowell & Little Construction Co.

That is the former Assistant Secretary of War, Colonel Harris?

Lieutenant Colonel HARRIS. Correct.

Mr. HISS (reading):

Allyn F. Harvey, president Pittsburgh Steamship Co.
Colonel Frank A. Scott, chairman, India Tire & Rubber Co.

Is that the Frank Scott who was chairman of the General Munitions Board?

Lieutenant Colonel HARRIS. It is.

Mr. HISS (reading):

Alexander C. Brown, president Industrial Brownhoist Corporation, Cleveland, Ohio.

In the Cincinnati district:

Frank Andrews, vice president, Andrews Steel Co., Newport, Kentucky.
B. S. Armstrong, president the Mabley & Carew Co.
C. H. M. Atkins, president Warner Elevator Co.
J. B. Doan, president American Tool Works Co.
Walter A. Draper, president the Cincinnati Street Railway Co.
Nelson Emons, Jr., vice president, Dayton Manufacturing Co.
Tylor Field, president Ferro-Concrete Construction Co.
F. A. Geier, president the Cincinnati Milling Machine Co.
C. R. Hook, vice president, American Rolling Mill Co., Middletown, Ohio.
R. K. LeBlond, president the R. K. LeBlond Machine Tool Co.
H. M. Lefton, treasurer and general manager the Columbian Iron Works Co., Chattanooga, Tenn.
A. B. Morgan, vice president, the United States Printing & Lithograph Co., Norwood, Ohio.
George Puchta, president Queen City Supply Co.
Walter D. Randall, vice president and mill manager, Champion Coated Paper Co., Hamilton, Ohio.
J. A. Reilly, vice president, Queen City Coal Co.
J. J. Rowe, president First National Bank.
Herman Schneider, president University of Cincinnati.
Colonel Clarence O. Sherrill, vice president, Kroger Grocery & Baking Co.
F. D. Stalneker, president Indiana National Bank, Indianapolis, Ind.
T. H. Townsend, executive vice president, Hardwood Manufacturers Institute, Memphis, Tenn.

William F. Wiley, general manager the Cincinnati Enquirer.
H. A. Worcester, vice president, the Cleveland, Cincinnati, Chicago & St. Louis Railway Co.
Lucien Wulsin, president the Baldwin Piano Co.

In the Chicago district:

Frank R. Bacon, president Cutler-Hammer Manufacturing Co., Milwaukee, Wis.
William Butterworth, president United States Chamber of Commerce, Washington, D. C.
Col. W. W. Coleman, president Bucyrus-Erie Co., South Milwaukee, Wis.
Brig. Gen. Charles G. Dawes, chairman Central Republic Bank & Trust Co.
A. R. Erskine, president the Studebaker Corporation, South Bend, Ind.
George M. Gillettee, Minneapolis, Minn.
R. P. Lamont.
B. C. Heacock, president Caterpillar Tractor Co., Peoria, Ill.

In the St. Louis district:

Louis H. Egan, president Union Electric Light & Power Co.
George B. Evans, St. Louis, Mo.
H. I. Finch, president the Emerson Electric Manufacturing Co.
S. W. Fordyce, Fordyce, White, Mayne & Williams, St. Louis, Mo.
J. M. Kurn, president St. Louis-San Francisco Railroad Co.
John J. Lonsdale, president Mercantile Commerce Bank & Trust Co.
J. M. Olin, vice president Western Cartridge Co., East Alton, Ill.
E. H. Steedman, president Curtis Manufacturing Co.
John B. Strauch, president National Bearings Metals Corporation, St. Louis.

San Francisco district:

C. N. Black, chairman of board Ford, Bacon & Davis, engineers.
Theodore J. Hoover, lieutenant colonel Ordnance Reserve, dean school of engineering, Stanford University, California.
D. C. Jackling, president Utah Copper Co.

Is that the Mr. Jackling who was in the War Department during the World War?

Lieutenant Colonel Harris. It is.

Mr. Hiss (reading):

W. H. Oliver, president Oliver United Filter Co.
D. C. Seagrave, colonel Ordnance Reserve, vice president and general manager Pacific Coast Shipbuilding Co.
Stanley G. Harris, Harris Trust & Savings Bank of Chicago, San Francisco
K. R. Kingsbury, president Standard Oil Co. of California, San Francisco.

Is Mr. Hoover a member of the Ordnance Reserve Corps?

Lieutenant Colonel Harris. He is.

Mr. Hiss. And Mr. Seagrave, of the Pacific Coast Shipbuilding Co.?

Lieutenant Colonel Harris. He is. He was when this was put into being. I do not know about now.

Mr. Hiss. In addition to the ordnance district advisory boards, Colonel Harris, there are ordnance district contract boards, are there not?

Lieutenant Colonel Harris. That is a temporary matter. There are. That is a temporary arrangement for advice on these particular contract forms.

Mr. Hiss. Upon the particular contract forms?

Lieutenant Colonel Harris. Yes, sir.

Mr. Hiss. On those boards there are some members of the Ordnance Reserve and more men who are not connected with the Army. Is that correct?

Lieutenant Colonel Harris. That is true.

Mr. HISS. In the Boston ordnance district there are:

H. C. Dodge, president S. A. Woods Machine Co.
Alf Anderson, president Albert & J. M. Anderson Co.
Mr. Alvin C. Simonds, president Simonds Saw & Steel Co.

In the Chicago district:

Colonel Hamilton, president, M. H. Treadwell Co.

Is Colonel Hamilton a member of the Reserve Corps of the Ordnance?

Lieutenant Colonel HARRIS. This record shows that he was at that time.

Mr. HISS. Lt. Col. F. A. Lorenz, general works manager, American Steel Foundries.

He was also at that time in the Ordnance Reserve?

Lieutenant Colonel HARRIS. The same.

Mr. HISS. Lt. Col. Max Epstein, chairman, board of directors, General American Tank Car Corporation.

He also was in the Ordnance Reserve?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. Capt. Whitney B. Hobbs, superintendent at the Western Electric Co.

He was also in the Ordnance Reserve?

Lieutenant Colonel HARRIS. Yes, sir.

Mr. HISS. Capt. John Sezak, vice president, Turned Brass Co.

He was also in the Ordnance Reserve?

Lieutenant Colonel HARRIS. Yes, sir.

Mr. HISS. In the Cincinnati ordnance district:

Mr. Ludwig Kemper, president Cincinnati Ball Crank Co.
Alternate, Mr. W. W. Sudmeier, Mr. Kemper's assistant.
Mr. George W. Haydock, head of Haydock, Lamson & Co.
Col. George G. King, head of King Powder & Peters Cartridge Co.
Alternate, Mr. R. E. King, his son.
Maj. A. C. Rasmussen, chief engineer, Insley Manufacturing Co.

Major Rasmussen was also in the Ordnance Reserve?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. In the Hartford district:

Mr. John H. Goss, Scoville Manufacturing Co.
Mr. C. R. Burt, Pratt & Whitney Co.
Maj. D. B. Wesson, vice president and purchasing agent, Smith & Wesson.

Major Wesson was a member of the Ordnance Reserve at this time?

Lieutenant Colonel HARRIS. That is true.

Mr. HISS (reading):

Capt. J. A. Lavallee, superintendent Westinghouse Electric & Manufacturing Co.

Captain Lavallee at this time was in the Specialist Reserve?

Lieutenant Colonel HARRIS. Right.

Mr. HISS. The Specialist Reserve is distinguished how from the Ordnance Reserve?

Lieutenant Colonel HARRIS. The Specialist Reserve was of men who came in at an older age, who are supposed to be especially qualified in special matters, and do not come in at the bottom of the list, but come in at higher ranks.

Mr. Hiss. In time of war what would be their assignment?

Lieutenant Colonel Harris. Their assignment would be particularly related to the industrial situation.

Mr. Hiss. Procurement?

Lieutenant Colonel Harris. And supervisory work, control measures.

Mr. Hiss. Capt. J. V. Montague, assistant comptroller, Scoville Manufacturing Co., was also in the Ordnance Reserve at this time?

Lieutenant Colonel Harris. Right.

Mr. Hiss. The New York Ordnance district:

Col. Frank W. Roller, president Roller-Smith Co., was also in the Ordnance Reserve at this time?

Lieutenant Colonel Harris. Right.

Mr. Hiss. Lt. Col. C. O. Brown, chemist, American Cyanamid Co. He was also in the Ordnance Reserve at this time?

Lieutenant Colonel Harris. Right.

Mr. Hiss. Lt. Col. T. F. Brown, vice president, National Distillers Products Co. He was also in the Ordnance Reserve?

Lieutenant Colonel Harris. Right.

Mr. Hiss. Lt. Col. C. E. MacQuigg, research director, Union Carbide & Carbon Testing Laboratories; also in the Ordnance Reserve?

Lieutenant Colonel Harris. Right.

Mr. Hiss. Lt. Col. Crosby Field, president Flakice Corporation; also in the Ordnance Reserve?

Lieutenant Colonel Harris. Right.

Mr. Hiss. Maj. H. H. Hall, mechanical engineer, Aluminum Co. of America; also in the Ordnance Reserve?

Lieutenant Colonel Harris. Right.

Mr. Hiss. Maj. R. L. Hall, technical adviser, Kearny plant of Western Electric Co.; also in the Ordnance Reserve?

Lieutenant Colonel Harris. Right.

Mr. Hiss. Schenectady, in the Rochester ordnance district:

Mr. J. F. Cunningham, General Electric Co., and Mr. W. E. Hoffman, General Electric Co.

In Rochester, Mr. James Gleason, president Gleason Gear Works, and Mr. Carl L. Bausch, Bausch & Lomb Optical Co.

San Francisco ordnance district:

Mr. Roland Oliver, president California Cap Co.
Mr. Milton S. Ray, president Ray Burner Co.
Mr. E. H. Daniel, treasurer, Columbia Steel Co.

St. Louis ordnance district:

Col. Harry Scullin, Auxiliary Reserve.

What was the Auxiliary Reserve· Colonel Harris?

Lieutenant Colonel Harris. That is when they get beyond an active age. They are subject to call, but not subject to active call.

Mr. Hiss (reading):

President Scullin Steel Co.
Mr. F. W. Olin, president Western Cartridge Co.
First Lt. G. C. Hetlage, Ordnance Reserve, of Hetlage & Co., appraisal engineers.

In the Philadelphia district:

Maj. I. E. Lambert, vice president, R. C. A.-Victor Co.
Mr. Charles E. Acker, treasurer Baldwin Locomotive Works.
Mr. E. Grant Tice, special representative, Bethlehem Steel Co.
Mr. J. H. Hubbs, purchasing agent, United Gas Improvement Co.

In the Detroit ordnance district:

Mr. Alex Dow, chairman.
Mr. C. S. Hirshfeld, vice chairman, chief of research, Detroit Edison Co.
Mr. C. J. Jolly, legal department, General Motors Corporation.
Maj. John Worley, Specialist Reserve, Quartermaster Corps, professor of transportation, University of Michigan.
Mr. E. B. Stason, law department, University of Michigan.
Mr. J. W. Parker, chief engineer, Detroit Edison Co.
Mr. Edward T. Gushwe, purchasing agent, Detroit Edison Co.

Pittsburgh ordnance district:

Mr. T. S. Grubbs, comptroller, Westinghouse Air Brake Co.
Mr. W. V. McConnor, assistant general manager of sales, National Tube Co.
Lt. Col. G. Elkins Knable, Ordnance Reserve, Carnegie Steel Co.
Mr. James O. Carr, vice president, Allegheny Steel Co.

That is all that I will read. Those are both offered as exhibits.

(The two lists referred to were marked "Exhibit No. 1340", and "Exhibit No. 1341", and are included in the appendix on pp. 4148 and 4150.)

The CHAIRMAN. I have been patient here, but I have not heard you reading any of the names of these profiteering farmers in the reserve list.

Mr. HISS. Colonel Harris, yesterday I think the question was raised, based upon certain minutes of the War Industries Board, as to whether or not the civilian members of the War Industries Board received any compensation. Have you been able to find out about that?[1]

Lieutenant BRANNON. I have some data on that, Mr. Hiss.

In the files of the Army Industrial College, where are kept the files of the Council of National Defense and the War Industries Board, are card indexes which I believe show the salaries paid by the Government to all members of both the War Industries Board and the various subdivisions of the Council of National Defense. Of course, I have not checked to say all, but I think all of them.

Here is the list made up on November 12, 1918, of the War Industries Board organization. This does not show the salaries, but it shows which were dollar-a-year men; in other words, which were drawing a nominal salary. I believe it is correct, presumably made from the files.

Mr. HISS. The particular reference in the minutes was to the five civilian members of the Board as opposed to assistants and members of the staff; I refer to a resolution providing a salary of $400 a month for those particular men.

Lieutenant BRANNON. Do you have the names of those?

Mr. HISS. Those five civilian members of the War Industries Board, as I recall them——

Lieutenant Colonel HARRIS. There is a little confusion, Mr. Hiss. This is a later War Industries Board that he is reading, and you were discussing an intermediate board. I think we had better pursue the research further before we answer your question. I think we had better reply later to that.

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[1] Colonel Harris later submitted a list of salaries for civilian members of War Industries Board. Hearings, Part XVII, p. 4269.

PROBLEMS INVOLVED IN PRICE FIXING [1]

Mr. **Hiss**. Colonel Harris, the plan of the War Department involves also, does it not, the question of the possible fixing of prices in order to avoid profiteering. Is that correct?

Lieutenant Colonel **Harris**. The plans provide for that contingency.

Mr. **Hiss**. In controlling prices, I assume that your first problem will be the problem of at what level the prices should be fixed. Is that correct?

Lieutenant Colonel **Harris**. That will be one of the first things to be considered.

Mr. **Hiss**. Then some agency would have to be established to see that prices were properly adhered to, the prices fixed, so that there is a theoretical or research problem and in addition to that an administrative problem.

The Industrial Mobilization Plan recommends the fixing of uniform per-unit prices slightly above the bulk line of cost. This chart, Colonel Harris, which was prepared by the Tariff Commission, represents the costs of beet sugar, the season of 1917–18. This jagged line at the bottom represents production. This column to the left is cost. This amount of production was possible, in other words, or occurred, according to the Tariff Commission, at this particular level of cost. In referring to the bulk line of cost, what does the War Department have in mind, Colonel Harris?

Lieutenant Colonel **Harris**. You have me out of my depth, Mr. Hiss. You need not ask me any questions on that. It is beyond me. I do not know.

Mr. **Hiss**. Do you know, Lieutenant Brannon?

Lieutenant **Brannon**. We have not established, Mr. Hiss, any definite policy as to where prices should be fixed. In other words, we do not contemplate that the War Department will be the one to enforce any general price-fixing measures.

Mr. **Hiss**. Has any consideration up to the present time been given as to the problems of fixing prices?

Lieutenant **Brannon**. Yes. There has consideration been given. That is covered in the industrial mobilization plan and in possible actions by the price-fixing committee.

Mr. **Hiss**. Do you know what is meant in the plan where the statement is made that prices will be fixed so that there will be uniform per-unit prices slightly above the bulk line of cost?

Lieutenant **Brannon**. The bulk line of cost is the cost which will bring out the necessary production.

Mr. **Hiss**. Referring to this chart, if you wanted this much production, it would be necessary to fix the price at this level, would it not, in the beet-sugar field? That means that for units producing at these costs there would be the amount of profit over and above cost at that price represented by the blue-shaded area on this chart.[1]

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[1] In this connection see "Exhibit No. 1406", a memorandum on Price Control. Hearings, Part XVII, appendix, p. 4457.

Lieutenant BRANNON. That is right. Where the bulk line principle is followed, the low-cost producers will make a profit.

Mr. HISS. That will be graduated on up as to those right on the margin of the fixed line?

Lieutenant BRANNON. Up to the marginal producer, the last marginal producer that we have to bring in to get the quantity necessary.

Mr. HISS. Under the mobilization plan or in time of war in general, the Government's purchases are terrifically increased, as has already been indicated. That is true, is it not?

Lieutenant BRANNON. That is right.

Mr. HISS. Therefore, one of the desiderata must be maximum production?

Lieutenant BRANNON. That is correct.

Mr. HISS. Consequently any fixing of the price level at a sufficiently high level to bring all or as many of the high-cost producers into production as possible must of necessity provide for high profits to low cost producers?

Lieutenant BRANNON. That is correct. As I understand it, there were two general principles followed in the war. The Fuel Administration and the War Industries Board followed the bulk-line principle of making a price to bring in the necessary number of high-cost producers, and allowing the low-cost producers to make a profit. The Food Administration, as I understand it, worked on a somewhat different principle there, on the question of the margin of profit rather than a definite price.

Mr. HISS. Which is meant by the mobilization plan, which speaks of the bulk line of cost.

Lieutenant BRANNON. The plan of making a price which will bring in the necessary marginal producers.

Mr. HISS. That will be a uniform price for that particular industry.

Lieutenant BRANNON. That is correct.

Mr. HISS. The Industrial Mobilization Plan also states that in fixing prices the principle will be followed which will allow just compensation. How is it possible to follow that principle and still fix the price at the bulk line of cost insofar as low cost producers contrasted to high cost producers are concerned?

Lieutenant BRANNON. Of course, we do not know that that possibility is going to be followed. It is one of the ways of working it. Of course, the low-cost producer will make a profit. The advantage of this plan is that it is easy to work. There is no great amount of accounting. You get information from the Federal Trade Commission, the Tariff Commission, and other bodies, and you set one price. It is simple. But your low-cost producers will make an additional profit.

Mr. HISS. When the plan speaks of just compensation as a principle to be followed in fixing prices, it must mean, therefore, just compensation to the higher cost producers rather than to the lower cost producers. Is that correct?

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[1] Chart entered as appendix to "Exhibit No. 1406", Hearings, Part XVII, appendix, facing p. 4473.

Lieutenant Brannon. That is what I understand, if this principle is followed.

Mr. Hiss. If you fix a price which guarantees just compensation, have you not guaranteed to certain high-cost producers more than they are guaranteed in an ordinary competitive system, where they run the risk of bankruptcy or failure or what not?

Lieutenant Brannon. When you say " guarantee ", what they mean there, I think, is a price at which they can afford to produce.

Mr. Hiss. They have no assurance under all circumstances that they will be able to get a price——

Lieutenant Brannon. They will not get any profit, as I understand, in other words, other than the fact that there is such a broad demand for the product that we can use all they produce. That is, the combined demands of the Government and the civilian population will be such that, let us say, certain high-cost producers will be able to sell what they produce. If they are going to produce it, they must get some profit. It is not a case of guaranteeing them a profit; it is simply fixing a price at which they can afford to produce.

Lieutenant Colonel Harris. Under this price fixing, if a man can produce it for less and sell it to the Government, he makes the difference. That difference varies according to whether it is a high- or low-cost product.

Mr. Hiss. Do you know whether the item of depreciation will be counted in in fixing that cost, Colonel Harris?

Lieutenant Colonel Harris. Mr. Hiss, as I said before, in this phase of our planning work we believe that different planners are going to operate these plans. They are way above our heads. We are charged with planning to meet that contingency, but the operation of price fixing and setting up of price levels is a matter that probably will be handled under special committees designated by the President and answerable directly to him.

Mr. Hiss. You do not regard the present Industrial Mobilization Plan as providing a basis on which prices can be fixed?

Lieutenant Colonel Harris. I would say the present Industrial Mobilization Plan provides a vehicle to take care of this situation. How the organization will function is a question for the people at the time to decide, in my opinion.

Mr. Hiss. In those parts of the plan which refer to price control and price fixing, there must have been some economic theory or philosophy back of the drafter of those particular provisions.

Lieutenant Colonel Harris. Yes; that is true.

Mr. Hiss. It is that particular theory that I wish to attempt to bring out.

Lieutenant Colonel Harris. That particular theory is really what remained of the philosophy of operation of that activity at the close of the last war.

Mr. Hiss. I notice that at pages 65 and 66 of the plan there is reference to the fixing of the actual cost of production with a reasonable return on capital investment. Would that be used as a basis of fixing prices by the control committee, Lieutenant Brannon?

Lieutenant Brannon. I will have to look at that, Mr. Hiss.

Mr. Hiss. That states the general policies to be followed.

Lieutenant BRANNON. Yes; I see. You see, it is one of four different policies that may be adopted.

Now, where this policy came in, as I understand it, in the early days of the World War, where the General Munitions Board advised the Government departments as to prices, on April 17, I think, the Secretary of War, as chairman of the Council of National Defense, authorized any Government department to go to the General Munitions Board for advice as to particular prices. One of the bases for advising them, where competitive conditions were not fixed at a satisfactory price, was this plan (*d*), that is, the actual cost of production plus a reasonable return on capital investment.

Mr. HISS. The next sentence says:

> The determination of what constitutes capital investment presents many difficulties which make this method one of limited use, except in the formation of rate schedules for services of public utilities.

In other words, the plan does not look with particular favor upon fixing a price based on cost of production plus a reasonable return on capital investment.

Lieutenant BRANNON. In any general price fixing, I think the idea is that you could not possibly do the necessary accounting to establish this kind of price.

Mr. HISS. There is another suggestion in connection with bases for determination of prices. That is (*c*), on page 66, "prevailing market prices."

Does that mean a fixing of prices at the prevailing market prices at some particular date?

Lieutenant BRANNON. I assume that is substantially what is called the "Baruch plan."

Mr. HISS. In other words, the freezing of prices at a particular level?

Lieutenant BRANNON. I presume that is what is meant.

Mr. HISS. Let us assume, Lieutenant Brannon, referring again to this chart, that in a given industry the price went down to the line (*a–b*) at the time that it became necessary to fix prices. If you froze prices at that level, you would lose, would you not, the capacity represented from (*b*) to the heavy black line through this square into here? You would lose all that capacity.

Lieutenant BRANNON. That is correct. If you froze them and kept them frozen at that level. But, as I understand the Baruch plan, if that is what is meant here, and I presume it is, a general freezing of prices, after particular prices are once frozen they may be raised where the necessity is apparent.

Mr. HISS. That is more or less the method followed during the World War by the Price Control Committee of regulating specific industrial prices rather than a uniform freezing or limiting of all prices to any one particular scale, is it not?

Lieutenant BRANNON. I believe so. If I understand it, they fixed certain prices, and even on those prices some slight changes, some slight advances, were necessary from time to time on steel and copper.

Mr. Hiss. If you will look again at page 66, still another possibility is suggested in the plan:

> The cost of producing the last unit of the indispensable amount of the commodity required by the war program either throughout the industry as a whole or upon a regional or territorial basis.

What would be the difference between that particular method, Lieutenant Brannon, and the ordinary market demands followed during the war when prices went up to extremely high levels?

Lieutenant Brannon. This is substantially the bulk-line principle, where you base it on the cost of the marginal producer, the necessary marginal producer that you would bring in.

Mr. Hiss. But this particular suggestion is the last unit of the indispensable amount. In other words, then, by "bulk line" you do not mean where the major part of the production lies?

Lieutenant Brannon. The bulk line is the line necessary to bring in the necessary production; in other words, it is the marginal unit.

Mr. Hiss. So by establishing the so-called "bulk line", the War Department plan recommends the establishing of a line sufficiently high to give the maximum required capacity; is that correct?

Lieutenant Brannon. That is correct. In other words, just slightly above the actual cost of this last man that must be brought in.

Mr. Hiss. In the case of steel, for example, what producers, how many producers, and how large a capacity would the Government be willing to include? Would not the Government need all possible steel capacity in time of war, Colonel Harris?

Lieutenant Colonel Harris. The military program of steel in volume is something like 20 percent of the total capacity of this country.

Mr. Hiss. The total present turn-over or the total possible capacity, Colonel Harris?

Lieutenant Colonel Harris. The total military requirements for steel are approximately 20 percent of the present steel capacity in this country.

Mr. Hiss. Do you know of any items in which the total requirements exceed the estimated capacity?

Lieutenant Colonel Harris. Ferromanganese.

Mr. Hiss. Where would the bulk line be fixed for that, Colonel Harris?

Lieutenant Colonel Harris. It would be a question of judgment. You could not fix it high enough to get all the production needed in this country, because it does not exist. It would be a question of judgment as to how much premium we would want to pay to get the part of the production in this country that was essential to supplement other sources.

Mr. Hiss. In time of war does the Government have the problem of restricting civilian demand so that more of the existing capacity or more of the available capacity may be utilized for Government requirements?

Lieutenant Colonel Harris. That is one of our methods of conserving supply and making that supply available to the military effort.

Mr. Hiss. I call your attention to a statement by Mr. Taussig, who was a member of the price-fixing committee:

> In the main the course of action by that committee was comparatively simple: A maximum price the same for public purchases as for private, the Government taking all it wanted and the general public scrambling to buy at the maximum prices whatever it could get.

Lieutenant Colonel Harris. That held in the early part of the last war. It did not hold in the latter part.

Mr. Hiss. Would there not be extreme danger under any such principle as that, of the civilian supply being inequitably distributed and reaching only those who could afford to pay extremely high prices?

Lieutenant Colonel Harris. The maintenance of morale in this country is one of the principal responsibilities of anyone directing the effort of the country, and the civilian requirements will have to be given due consideration.

Mr. Hiss. Has the War Department considered whether in a case where it was necessary to limit the civilian requirements in order to increase the Government requirements to the required level, the civilian supply would be rationed out rather than left to the course described by Dr. Taussig?

Lieutenant Colonel Harris. There will be several methods used: First, public opinion, to achieve voluntary curtailment of use through the agencies of the Government acquainting the people with the status of conditions. It might become necessary finally to ration them out. It did in England during the last war.

Mr. Hiss. Colonel Harris, going back to your testimony as to steel, when you said that 20 percent of capacity represented the estimated Government requirements——

Lieutenant Colonel Harris. I said the military requirements. That means Army and Navy.

Mr. Hiss. Does that take into account the requirements of contractors with the Government?

Lieutenant Colonel Harris. That takes into account the amount of steel needed for the Army and Navy needs.

Mr. Hiss. Does that include steel for construction purposes to build any increased plant to fill Government requirements?

Lieutenant Colonel Harris. It does.

Mr. Hiss. In addition to that 20 percent, of course, the normal commercial demand for steel would have to be added.

Lieutenant Colonel Harris. I think I made a wrong statement. I meant 20 million tons out of 65 million tons. 20 millions is the figure. It is about one-third.

Mr. Hiss. Sixty-five millions being the estimated maximum capacity?

Lieutenant Colonel Harris. Yes.

Mr. Hiss. Twenty millions being the estimated military requirements, and in addition to that 20 millions the ordinary commercial requirements?

Lieutenant Colonel Harris. And there will be some other governmental requirements.

The Chairman. "Some other", you say?

Lieutenant Colonel Harris. Some other Government requirements.

Mr. Hiss. There might be such a thing as shipbuilding requirements for other than naval requirements?

Lieutenant Colonel Harris. The railroad requirements, ocean transportation, other than military.

The Chairman. Would not commercial demand remain about as it was in normal times?

Lieutenant Colonel Harris. No, sir. Commercial demand is very materially decreased. Building construction falls down. Bridges are not built. That steel that ordinarily goes into those activities could be diverted to military needs. In the last war nearly all building was discouraged and prohibited in some cases; certainly very materially limited.

Mr. Hiss. Colonel Harris, do you know how much of the capacity of the United States in the field of steel was used during the last war?

Lieutenant Colonel Harris. Approximately the same percentage.

Mr. Hiss. Do you know whether the steel industry considered that it had any idle excess capacity during the World War?

Lieutenant Colonel Harris. It did not. The steel capacity at that time was some 43 million tons, as against a present capacity of some 65 million tons.

Mr. Hiss. There was a tremendous expansion at the outbreak of the war?

Lieutenant Colonel Harris. That is correct, and since the war.

Mr. Hiss. Referring back again to the question of cost, in determining your price I assume that first the price-fixing agency must determine costs in order to determine how much above cost to fix the price. Is that correct, Lieutenant Brannon?

Lieutenant Brannon. They must have some basis; yes.

Lieutenant Colonel Harris. Mr. Hiss, I do not mind answering the question, but I would like to state again that in the operation of price-fixing our plan, while it discusses these various alternatives, provides a structure to take care of this activity. But I, and I think the other members who made the plan, felt that the method of approach was a question to be determined at the time. We named a certain number of alternative methods that could be utilized.

Mr. Hiss. Do you not think, Colonel Harris, that it would be helpful, prior to the outbreak of the war, to attempt to analyze and study possible methods of price control?

Lieutenant Colonel Harris. That is what we have endeavored to do, is to develop possible methods.

Mr. Hiss. In the plan?

Lieutenant Colonel Harris. Yes.

Mr. Hiss. You analyze the efficacy of particular plans?

Lieutenant Colonel Harris. Within our limitations, yes.

Mr. Hiss. That is merely the point to which I am addressing myself, Colonel Harris.

In fixing costs it will not be past costs so much as future costs that will have to be estimated in order to assure adequate production, particularly in those industries where increased production is necessary?

Lieutenant Colonel Harris. I would say rather present conditions at that time.

Mr. HISS. Will you not want to fix the price at such a level as to insure production for a reasonable period ahead of time, Colonel Harris?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. Does that not require some estimate of the costs in the immediate future?

Lieutenant Colonel HARRIS. If I understood your statement, it was that the analysis would be based on either past or future. My point was that I thought the present situation would be a factor in determining the action to be taken.[1]

Mr. HISS. May I call your attention to the fact that costs vary from time to time and change radically over short periods. The costs that have been introduced today for the du Pont Co., for example, show that from year to year there has been considerable fluctuation in costs.

I further call your attention to a memorandum that Dr. Taussig wrote to the price-fixing committee, in which he stated:

> In the first place, costs are not clearly ascertainable. They vary from month to month, from year to year. We get figures from cost accountants which are worked out to the last cent. but which, as a matter of fact, contain arbitrary and debatable elements.

Have you had any experience in the field of cost accounting or cost estimating, Colonel Harris?

Lieutenant Colonel HARRIS. I have had no experience in cost accounting. I have had some experience in cost estimating in my Government service.

Mr. HISS. Mr. Brookings stated at a meeting of May 22, 1918, of the price-fixing committee:

> We have gone into that very exhaustively. As I have explained to you, we have had the cost sheets for the month of March.

This was a meeting in May.

> That was the latest month we can get. We never can bring figures much closer to a meeting of this kind than 60 days, if we get reliable figures.

Is it not true that any determination of costs in any single industry, particularly projected costs, is a very difficult and a rather elaborate task?

Lieutenant Colonel HARRIS. Yes; and that is the reason I said that the present condition—I mean the condition at that time. I don't think I said the cost. I said the condition relates to the subject.

Mr. HISS. In order to make sure that production will not be hampered——

Lieutenant Colonel HARRIS. Just a minute. Lieutenant Brannon wishes to say something there.

Lieutenant BRANNON. I wish to give this thought, Mr. Hiss. During the World War prices were fixed piecemeal; copper at one time, steel at another. The thought for the next war is that it will start out with general price fixing, and if we have general price fixing so that the cost of basic raw materials remains relatively the same and the cost of living remains relatively the same, then there will not be that constant necessity for readjustment.

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[1] Further testimony on cost element in price fixing, Hearings, Part XVII, p. 4289.

Mr. Hiss. Do you believe that the present thought of the War Department is that there will be a general freezing of all prices? Does that also mean all wages?

Lieutenant Brannon. I don't know.

Mr. Hiss. May I just follow this up?

Lieutenant Colonel Harris. I do not think we are qualified to discuss price freezing at this stage, any more than it has been discussed in general principles. I do not like to feel that I am not fully answering your question, but price fixing and price freezing are matters that have been widely discussed by abler men than we are, and our opinions are worth just what they are worth. Very little, I should imagine.

Mr. Hiss. Colonel Harris. I am attempting to limit myself to the specific suggestion raised in the Industrial Mobilization Plan prepared in the office of the Secretary of War.

Lieutenant Colonel Harris. We shall endeavor to answer your question in relation to that plan to the best of our ability.

Mr. Hiss. That plan does contemplate price control as one of the major mobilization control forces in time of war; isn't that correct?

Lieutenant Colonel Harris. It certainly contemplates price control and governmental effect on price.

Mr. Hiss. Is there someone else in the War Department who you feel is more familiar with this particular field than yourself?

Lieutenant Colonel Harris. Yes, there is. I would like to bring an officer of my branch who has made a particular study of this matter here.

Mr. Hiss. Could you bring him tomorrow?

Lieutenant Colonel Harris. I would be very glad to.

Mr. Hiss. Shall we adjourn then, Mr. Chairman?

The Chairman. Colonel Harris, I have one question that you can give response to. Assume now that we are going into another war, as we did the last one, after it has been 2 years in progress—2 years during which prices in America were kited clear to the sky. Are these prices that prevail at the moment and after the war the ones that are going to be determining in declaring what prices we are going to pay?

Lieutenant Colonel Harris. I want to say something just before I answer your question, Mr. Chairman.

The Chairman. All right.

Lieutenant Colonel Harris. In the last war the conditions you mention were certainly apparent. In other words, the thing had run away, and to get hold of it in the last war was a very much more difficult matter than it would be starting from scratch in a new war, in my opinion. Our plans, which are really a digest of opinions left from similar activities during the war, contemplate the application of measures just as soon as possible, and under the legislation recommended it will be possible to do that.

Mr. Hiss. Colonel Harris, I don't want to ask you questions that you have indicated you prefer to have someone else answer, but on that specific point you just raised, do you know whether the plan is to fix prices as of some day after war is declared or will you go back to a prior period and attempt to reestablish prices already long since passed?

Lieutenant Colonel **Harris**. I really would ask to be excused from answering that, because my opinion is not worth enough to answer that question.

The **Chairman**. Perhaps I am confused on it, but does the War Department plan provide for a 3-year average in determining prices? Or have I confused that with the Baruch plan?

Mr. **Hiss**. I think that is the basis of the excess-profits plan.

The **Chairman**. I see. I have been confused. Have you finished for tonight?

Mr. **Hiss**. I would like to read into the record at this time a provision of law, being section 41 of the Criminal Code:

> No officer or agent of any corporation, joint stock company, or association and no member or agent of any firm or person directly or indirectly interested in the pecuniary profits or contracts of such corporation, oint stock company, association, or firm shall be employed or shall act as an officer or agent of the United States for the transaction of business of such corporation, joint stock company, association, or firm. Whoever shall violate the provision of this section shall be fined not more than $2,000 and imprisoned not more than 2 years.

Lieutenant Brannon, do you know whether or not that particular statute was suspended during the World War?

Lieutenant **Brannon**. I do not think so. I do not know for sure.

The **Chairman**. The committee will stand in recess until 9:30 tomorrow morning.

(Whereupon, at 5:07 p.m., the committee recessed until 9:30 a. m., Thursday, Dec. 20, 1934.)

This concludes that part of the testimony known as "Part XVI, Industrial Organization in War." At this point the committee continued hearings on Industrial Organization in War and the subject is concluded in Part XVII.

APPENDIX

Exhibit No. 1283

[File]

July 12, 1926.

Mr. E. C. Hadley,
Ballistic Engineer, U. M. C. Bridgeport Works.

Confirming our conversation I quote from the proposal on the 30 Springfield contract as follows:

(a) That, owing to the fact that this will be in the nature of an educational order designed to give the manufacturers experience in making the service type of ammunition, which has never yet been manufactured commercially in the United States, ammunition which fails to meet the requirements of paragraph 14 of the specifications in regard to accuracy, may be accepted if, in the opinion of the Chief of Ordnance, the accuracy is sufficiently good to make the ammunition serviceable.

(f) That the eight-hour law will apply to the manufacture of the ammunition.

I am also enclosing the blue prints referred to and also a copy of a letter from Mr. Keplinger to Mr. Reierson and a copy of Mr. Keplinger's letter to Frankford Arsenal, which may contain suggestions which will be valuable in your discussion with the people at Frankford.

The proposal calls for 17,500,000 cartridges and is divided into groups in multiples of 3,500,000 each. It is probable that we will bid on one group only of 3,500,000.

Mr. Reierson before leaving asked me to have this matter discussed very carefully for there is a question in our minds whether the contract in its form will be acceptable from a manufacturing standpoint. Therefore, after you have an opportunity of visiting Frankford and also studying the proposition carefully, we will want you to be prepared to recommend whether it is advisable to make a bid.

General Sales Manager.

Exhibit No. 1284

Remington Arms Company, Inc.,
Cunard Building,
25 Broadway, New York City, November 10, 1926.

Mr. J. B. Smiley,
Chairman, Executive Committee, New York Office.

I called at the Office of the Chief of Ordnance of the Army in Washington yesterday and presented to Colonel Whelen the special .22 caliber "Springfield" type of cartridge we have recently developed and asked him to try them out in his own rifle. He was very glad to have them and expressed gratification that we are at last getting into the manufacture of a cartridge which he hopes will prove to be the best one yet developed for use in the Government's .22 caliber rifle and said he felt every confidence that we could do this if we made up our minds to go at it seriously. He is very friendly to us and it is desirable to keep him so for many reasons.

While sitting in the Colonel's office with him General Ruggles looked in and seeing me invited me into his office. He called in Major Clay, who is an important factor in the development of the new .30 caliber mark 1 Government ammunition. Colonel Whelen also came into the general's office.

They were all very anxious to know the result of Cost Accountant Craig's visit to Frankford Arsenal and the General stated that while he had heard from Colonel Horney, Commanding Officer at Frankford, the general results of the comparison, he would like to see Mr. Craig's comments and the tabulated comparison and I told him I would furnish him with this.

Naturally, we shall have to go over Mr. Craig's report and see just how much of it we can furnish to General Ruggles. So far as the actual figures are concerned, you will recall that the Craig report stated that it had been necessary for him to give to Frankford comparisons of our factory costs so we shall not be furnishing anything in the way of figures that Frankford is not already in possession of and I think it desirable to show this intention and effort to be frank with General Ruggles.

He told me that after the failure of the recent bids, none of which could be accepted because of much higher cost of cartridges, he had been compelled to instruct Frankford Arsenal to immediately begin to increase manufacturing capacity. Up to that time Frankford had been making about 70 M cartridges per day. Their intention had been to gradually increase that capacity up to a point where the annual production would be somewhere between 20 to 30 million of these cartridges. He said that was an ample volume to keep Frankford comfortably busy.

He particularly dislikes to increase the personnel at Frankford to the point necessary to make all the cartridges they will require because he says it involves a good many undesirable things, among them the necessity of purchasing additional equipment in the way of loading machines and especially a new straight-line type of bullet-making machine for the new type of bullet. He says that when they increase their personnel it is very difficult to discharge or lay off any of them. Between the Congressmen whose constituents are thus discharged and the labor leaders he says his life is made a burden whenever anything of that kind happens and he very much prefers to keep Frankford's manufacture down to the basis mentioned.

Their requirements for these cartridges, he says, under present conditions will be about 74 million cartridges per annum and that he would very much prefer having the ammunition companies manufacture annually 45 to 50 million of these cartridges and let Frankford make the balance but, he says, that under the law he cannot pay private manufacturers any more for them than Frankford's costs.

He stated very frankly that he appreciates the fact that private manufacturers must take into consideration the element of profit which Frankford does not have to consider but that under the law as it exists today he simply cannot pay the cartridge companies any higher price than Frankford's manufacturing costs.

He stated that this law is unsatisfactory to the Ordnance Department and that they are making strong efforts to have it changed so that some discretion may be used and so that there may be some just and fair differential that can in an emergency be used to justify the Ordnance Department in placing orders outside even at a little higher price which will affòrd private manufacturers a small profit.

As conditions exist today and in view of the law he says that with the failure of the recent bids he had no option but to instruct Frankford to immediately proceed to increase production and that it has now been increased to 120 M cartridges per day. He showed me a letter from Colonel Horney stating that by November 15th production will be increased to 140 M per day and by December 15th to 160 M per day and by April 1st it was believed that production would be brought to a point where it would take care of the entire 74 million estimated to cover their next year's requirements.

He says that if the cartridge companies are to do anything about getting any of this business—provided they want it—it should be done just as soon as possible. He pointed out that once they have gotten their production up to a point that will take care of their full requirements, he will be powerless to give the cartridge companies any business as he much prefers to do. Moreover, he says that each time Frankford's production is increased their costs will naturally go down somewhat and it will make it all the more difficult from the standpoint of price for the private manufacturers to get any of this business.

About this stage of the game Major Clay told me that he had written me a letter on Monday of this week, showing me a copy of it. The original of that letter is attached. In discussing the matter with him he stated that he would be at Frankford Arsenal Monday and Tuesday, November 15th and 16th, and asked if I would have Mr. Craig, our cost accountant, there to meet him on Tuesday morning to go over with him the comparisons of the manner of computing Frankford Arsenal costs. I told him I would arrange to have that done.

Then he asked me to confirm the appointment to talk to him at nine o'clock Thursday morning, November 18th, on the subject of placing of orders for this ammunition with the cartridge companies. I told him I would be very glad to see him.

Accordingly, between now and that time it is up to us to decide just what we are going to say to Major Clay in regard to this matter. General Ruggles stated that the letter of November 8th had been written to me by the Major under General Ruggles' instructions.

There is also attached a letter of November 8th addressed to me by Colonel Herrmann with further reference to a talk that Mr. Hadley had with Major Clay at Aberdeen Proving Ground on Friday, November 5th.

I would like to talk to you about this matter sometime within the next few days so that we may determine just what we are going to do.

(Signed) C. L. REIERSON, *President*.

CLR.JLH

EXHIBIT NO. 1285

"P"
US

[Copy]

REMINGTON ARMS COMPANY, INC.,
September 3, 1927.

COMMANDING OFFICER,
Frankford Arsenal,
Philadelphia, Pa.

DEAR SIR: 1. We return herewith circular advertisement and proposal #28–71, dated August 23, 1927, in triplicate, constituting our bid or proposal on ball cartridges, cal. 30 m. completed rounds, as per Ordnance Department Specifications 50–1–17, revised May 14, 1927.

2. Our proposal contemplates furnishing ten million (10,000 M) rounds at a price of thirty dollars ($30.00) per M rounds, f. o. b. Raritan Ordnance Reserve Depot, Nixon, N. J.

3. Our bid is made with the provision that the Ordnance Department will furnish without charge, f. o. b. our plant at Bridgeport, Conn., the following:—

Smokeless powder for propelling charge.
Wooden packing boxes (including copper sealing wires and paper seals).
Metallic liners.
Cartridge clips.
Bandoleers.

Should we be the successful bidder, we would like the privilege, subject to the Ordnance Department's approval of supplying any or all of the components above mentioned, excepting powder.

4. Dating from the day of receipt of contract and essential materials to be supplied by the Ordnance Department, we can make delivery of one million (1,000 M) rounds during the first 90 days, and one million (1,000 M) rounds per month thereafter; and the entire lot of ten million (10,000 M) rounds will be completed within twelve (12) months.

5. We propose to prime the cartridges under advertisement #28–71 with our regular commercial primer for military cartridges. This primer will be modified slightly in order to meet the sensitiveness requirements of Ordnance Department Specifications 50–1–3 entitled "Primers, Calibre .30."

6. In accordance with long established custom, after securing bills of lading from the railroad company, our responsibility ceases, and the safe or timely delivery of ammunition at destination rests with the railroad.

7. It will be noted on Circular Advertisement and Proposal #28–71 that this letter forms a part of our proposal.

Yours very truly,

REMINGTON ARMS COMPANY, INC.,
——— ——— *President.*

EXHIBIT NO. 1286

REGULAR REMINGTON ARMS LETTERHEAD

BRIDGEPORT, CONN., *September 2, 1927.*

MR. J. B. SMILEY, *President,*
25 Broadway, New York City, N. Y.

DEAR MR. SMILEY: We are enclosing herewith, proposal in triplicate, with price inserted in accordance with your instructions of this date.

It will be necessary to sign each one of these proposals, also each copy of the accompanying letter. We have not had an opportunity to check over carefully all of our cost data up to date, but, as calculated from the usual method, our cost per thousand rounds (commercial) is $29.67 per M. The costs as computed from actual data relative to burden items secured in running the half million lot earlier in the year, shows a commercial figure of $25.52 per M. You will note that we have again put in our accompanying letter our desire to furnish any or of the materials accompanying powder, usually supplied by the Government.

If we are the successful bidder, we should look very carefully into the desirability of supplying clips. We have several hundred thousand in stock which might be used and, in any event, if we were to purchase them in the outside market, we would proabably realize a saving in excess of $7,000.00.

Yours very truly,

(Signed) R. C. Swan,
Sales Manager Ammunition Division.

RCS/H
(Pencil note.)
P. S.—Attached copy is for your files.

Exhibit No. 1287

[Copy for New York office]

April 24, 1928.

Remington Arms Co., Inc.,
Bridgeport, Connecticut.
(Attention Colonel Hermann.)

Gentlemen: Attention is invited to your correspondence with Frankford Arsenal in connection with the acceptance test on caliber .30 M1 cartridge lot no. 1614 under your contract no. 3564 for 10,000,000 rounds of this ammunition.

The commanding officer of Frankford Arsenal has referred the papers in connection with the test of this particular lot to this office for a decision. It appears that the lot consists of 1,000,800 rounds which are loaded with powder furnished by the Ordnance Department under the above contract. It is understood that the cartridges have not been assembled in clips and bandoleers and have not been packed.

An examination of the data submitted in connection with the test of this particular lot of ammunition indicates that in the firings in the Browning water-cooled machine gun in the first test of 800 rounds, two bullets were lodged in the bore approximately three (3) and five (5) inches, respectively, from the breech end. On a retest of 1,800 rounds in the same machine gun, one (1) bullet was lodged in the bore approximately three (3) inches from the breech end. In other respects the ammunition appears to meet the specifications, although it is noted that the spread of the groups in the hang-fire test is in most cases considerably larger than those obtained with Frankford Arsenal ammunition.

The defect of having a bullet lodge in the bore when a cartridge is fired is a very serious one, in that it precludes the issue of this ammunition to the service. Cartridges of this type would be dangerous to fire in the service weapons and in our surveillance tests of the great quantity of ammunition left over from war production we would relegate ammunition of this type to the unserviceable class and would withdraw it from the hands of troops for breaking down.

The Ordnance Department greatly regret that the defect is not one that can be overcome by reworking the ammunition and, therefore, under the terms of the contract the ammunition cannot be accepted. It will, therefore, be necessary for your company to submit another lot of ammunition to replace that rejected. In this connection it will also be necessary for you to provide the powder for the additional lot since the Government has already furnished you powder.

The department realizes that you have limited, if any, outlet for this ammunition and it has been considering how it might help reduce the loss to your company by buying from you from time to time such amounts of this ammunition as might be used in its own tests at a price which would relieve you of some of the loss and still not increase the cost to the department of the tests to be made.

We have been considering the use of this ammunition in certain erosion and other tests of machine guns. You realize, of course, that the lodgement of a bullet in the bore of a machine gun would cause a failure of the gun to continue fire. With ordnance personnel posted as to the defect in this ammunition there would not be much danger because they can be warned not to resume fire until they have determined by inspection if the bullet is lodged in the bore, and, if so, to remove the bullet. The possibility of a cartridge being fired with a bullet already lodged in the bore is considered too great to permit the use of this ammunition except under the most carefully guarded conditions.

We are not now in a position to say how much of this ammunition we might be able to buy for limited tests but are making a study to determine this as exactly as possible under the circumstances. We will let you know what the possibilities are within a short time. We can, of course, only agree to buy this ammunition from time to time as the possibility for using it arises.

After having determined the probable amounts of this ammunition which we may use in limited tests within the next few years, we will communicate with you further so that you may determine then whether it will be more profitable for you to hold the defective lot on the prospect of selling part of it from time to time to the Government at a reduced price or to break the lot down. In case you determine it will be to your advantage to hold the lot in store on the prospect of selling it from time to time to the Government, you will be in a position to quote us a price at which you will sell it to us. Under the circumstances we would be able to purchase the ammunition without advertising for competitive bids.

In closing, the department wishes to express its extreme regret that this defect as occurred in lot no. 1614 and the loss that has accrued to your company, and it is desirous of reducing this loss to you as much as possible under the circumstances.

Very truly yours,

C. L'H. Ruggles,
Brig. Gen., Ass't Chief of Ordnance.

Exhibit No. 1288

[Pencil Note Met. Ammun. Tickler 30 days. Oct. 28]

Bridgeport, Conn., *May 18, 1934.*

To H. J. Strugnell.
From J. H. Chasmar.

You will recall that some weeks ago I talked with you about a lot of .30—06 Springfield 172 gr. taper heel cartridges, head stamped "RA28." These cartridges are left over from a run made for the U. S. Government in 1928 and they do /not have Kleanbore primers. This makes them unsalable commercially.

We wish to either pull down these cartridges or dispose of them at a reduced price and you indicated that you might be able to move them to Lyman Gun Sight or through some other concern. The latest cost figures which we have on 0.30–06 Springfield cartridges indicate—factory cost $26.28—commercial cost $32.85.

We have available almost exactly 5,000 of these cartridges. Will you please see what you can do in disposing of these cartridges in order that we may clear up this matter which has been pending so long?

(Signed) J. H. C.

JHC:R.

Exhibit No. 1289

[Pencil note—ECH]

Remington Arms Company, Inc.,
Cunard Building,
25 Broadway, New York City, August 23, 1929.

Re: Noncorrosive Nonmercuric Primers.

Col. L. J. Herrmann,
Works Manager, Bridgeport, Conn.

I did not get any great amount of pleasure out of reading the letter from Frankford Arsenal dated August 21st, a copy of which was enclosed with your letter of August 22nd. I think as you do that this letter was probably dictated by Mr. Pritham. The position he takes on styphnate is certainly an arbitrary one.

It strikes me as very presumptuous for anyone at Frankford to try to tell us anything about styphnate. They have never manufactured it as far as we know and we are manufacturing it every day and in commercial quantities. It might be pertinent, although not politic, to ask them where they have acquired this great fund of information. They have apparently swallowed the du Pont propaganda and have paid more attention to that than the long experience of R. W. S., Nobels, and ourselves.

Mr. Purvis told me about a week ago that Canadian Industries Limited is just beginning the manufacture of styphnate for detonators and they will soon use it in primers. He also indicated that du Pont might have to take up styphnate for detonators. This may be the reason why one of the R. W. S. styphnate experts is coming over to America this fall, as indicated in Dr. Hutchinson's letters.

I agree with you that nothing could be gained by further correspondence at this time but I believe that at the first opportunity after Dr. Hutchinson's return it would be a good plan to take up with Colonel Munroe or his superiors at Washington the exact situation on styphnate in an effort to break down the effect of this propaganda and the feelings of Dr. Pritham in the matter.

I also feel that the inquiry from Picatinny Arsenal is very opportune and we should avail ourselves thereof to interest them in styphnate-tetracene priming.
AAD/c.

(Signed) A. A. Dicke.

(Pencil note LJH.)

Exhibit No. 1290

New York, *May 20, 1931.*

Mr. H. J. Strugnell:

The file I have given you, correspondence with the du Pont Company, in relation to Government business in China, I believe indicates they are merely playing with us as usual on foreign business. This impression is also gained from other dealings we have had with du Pont. For over a year we have showed a very willing attitude to cooperate with them on foreign government business, but not a single bit of business has resulted; in fact, we have not had a lead through them which could be considered worthwhile. Yes, they have asked for quotations on large quantities of military cartridges, but never have they put us in touch with any of the principals and every such inquiry has led to absolutely nothing.

You know, Mr. O'Gorman of du Pont kept us interested in the China proposition for many months. Then he did a lot of talking of the good that should be done by Mr. Bates' trip to South America. We have had a couple of communications from Mr. Bates, the last one asking for prices c. i. f. a large number of South American ports. A number of these points of destination could absolutely never be considered as places where a foreign government would take delivery. The only impression we received from his communications was that of stringing us along.

Mr. Bates' real mission in South America is to cooperate with Nobels of England in the establishment of a powder plant for the Argentine Government. A local plant in the Argentine manufacturing commercial ammunition is controlled by Nobels so it can readily be seen how close du Pont and Nobels would have to work in that country, not only on government business, but also commercial ammunition.

Mr. Singer, the du Pont representative in Paris, has on occasions supplied us with data, always of a historical nature so it was of no use from the standpoint of getting an order.

du Pont, Nobels, and the German company, R. W. S., you are aware have practically divided the world on chemicals and higher explosives. We also know of where they have all worked together, particularly du Pont and Nobels, on Government business for powder in military cartridges. An important feature of this tie-up is that du Pont and Nobels jointly own the Canadian Explosives, Limited, in Canada, whose subsidiary is the Dominion Cartridge Company. For the past couple of years the Dominion Cartridge Company has made surveys of foreign markets, particularly Latin America, with a view of getting some of this volume.

Lately, Mr. Henning returned from Europe and told me it was their intention to cooperate with us, rather than the industry as a whole, in obtaining Government business, especially in Europe. He said while in Europe he had succeeded in raising the standard of specifications of some of the governments so that our competitors on the Continent would not be able to comply, thereby giving us the chance to get our price. He was not specific as to the countries involved.

Then he laid great stress on the possibilities of .50 caliber ammunition. He told of Poland having placed an order with Fabrique Nacional, Liege, Belgium, for 2,500—.50 caliber machine guns, but no order was placed for the cartridges.

One of the reasons he says he left Europe so quickly was that Fabrique Nacional and other companies were inquiring for too much detail on the manufacture of .50 caliber ammunition and he did not want to give it. He spoke of Nobels and ourselves being the only manufacturers of .50 caliber ammunition, and that our product was superior to Nobels. Yet there was no information forthcoming from him as to what we should do to go after the business.

Yesterday we received from our agent in Greece, who is also the du Pont agent in that country, a report of the bids made some months ago on 13.2 cartridges (13.2 is almost identical with the .50 caliber cartridge). This report states bids were entered by Nobels of England, Nobels of Holland, Fabrique Nacional and Italian, French, and Swiss companies, with the contract being awarded to Nobels of England. We knew we had no chance on our bid as the Hotchkiss Company of France, who make this gun, would recommend only Nobels ammunition. For this reason our prices were lower than Nobels of England who were awarded the contract as we wanted Nobels to learn of our low prices and open negotiations to establish a higher basis for the future in cooperation with them.

Mr. Henning also gave Mr. Hadley the story on .50 caliber in Europe and how he wanted to work with us, but the facts of the report from Greece are at variance in many respects with Mr. Henning's advices to us.

It would not be surprising to have confirmed the impression that du Pont does not like to see our nonmercuric primer developments, as it means the loss of business to them on mercury fulminate. If the United States Government were to take up a nonmercuric primer, du Pont's loss in this respect would be increased, which may account for Mr. Henning's talk against our nonmercuric primer in .50 caliber.

The cost of materials in a military cartridge is approximately $15.00. With an average of 7 pounds of powder to a thousand cartridges du Pont receives from us, at the price of 90¢ a pound for powder, $6.30 of this $15.00, or 40% of the material cost. In the prices we have given them for military cartridges we have figured on the necessity of the price being reduced $1.00 or $2.00 per thousand because of competition. Our attitude, so far unexpressed to them, is if this must be done they should absorb most of the reduction in the price of their powder. While we cannot advance concrete evidence we believe that when in competition with some of the other European powder companies they quote as low as 60¢ a pound for powder, compared with their price to us of 90¢.

Even on powder for commerical cartridges we have had the impression they quote quite low prices for export. It might do no harm to query them on their export price of powder compared with their prices to us.

Reverting to the China business du Pont has told us they have sold powder to the government arsenals there at about 90¢ a pound and they probably consider that so long as they can get 90¢ a pound selling powder in bulk to China it is preferable to giving us a lower price so we could get completed cartridge business.

All in all we have never found any cooperation from du Pont unless it meant at least 90% of the advantage to them.

——— ———,
Export Manager.

FJM:AF.

Exhibit No. 1291

[Copy]

(Pencil note, Mr. Bowers, Mr. Craig.) U. S. R.

Remington Arms Company, Inc.,
Bridgeport, Conn., June 30, 1928.

Subject: .30 M–2.

Colonel G. L. Wall,
Commanding Officer, Frankford Arsenal, Philadelphia, Pa.

Dear Sir: Attached to this letter you will find the schedule of depreciation which we discussed with you on the occasion of our recent visit to Frankford Arsenal. You will recall that the plan agreed upon, was that we should send you this schedule and that you would arrive at the book value of the various items shown thereon, so that a direct comparison could be made with figures representing commercial manufacture.

The value of land used should, doubtless, be added to the book values obtained above, the resulting figure will then show the capital book value of assets being used. Of course, that part used for .30 caliber manufacture is the only part under discussion.

We are expecting to send this same schedule to all of the commercial manufacturers, requesting them to work up their figures on this basis, so that a uniform system will have been followed by all concerned.

We hope to get off to you on Monday a schedule of items entering into general and administrative expenses. We will refer to this in more detail when we forward it to you.

The figures worked up on the schedule we are sending you today and those that will be prepared on the basis of the schedule referred to in the paragraph above, when added to the operation figures that Captain Chavin is preparing on the uniform schedule sent to all manufacturers, will make the work fairly complete.

We think the tax item will have to be discussed separately.

Very truly yours,

Remington Arms Company, Inc.,
(Stamped) (Signed) Egbert C. Hadley,
Ballistic Engineer.

ECH: RH.

Exhibit No. 1292

[Copy]

AMM. WKS. FORM NO. 265 "M" US

Remington Arms Company, Inc.,
Bridgeport, Conn., July 2, 1928.

Subject: Cost of .30 caliber M–1 components and cartridges.

Peters Cartridge Co.,
Cincinnati, Ohio,
(Att.: *Col. Geo. G. King, Pres.*)
Remington Arms Co.,
New York, N. Y.,
(Att.: *Mr. Saunders Norvell, Pres.*)
Western Cartridge Co.,
East Alton, Ill.
(Att.: *Mr. F. W. Olin, Pres.*)
Winchester Repeating Arms Co.,
New Haven, Conn.,
(Att.: *Mr. W. A. Tobler, Vice Pres.*)

Gentlemen: We wrote you on June 25th on the above subject, enclosing eight multigraphed pages showing operations, etc., in order that each company might work up costs which could be averaged or compared with those of other companies. Frankford Arsenal has been supplied with similar sheets and is preparing figures to conform, so that a direct comparison can be made.

This same idea is being developed further in the sheets which you will find attached to this letter. Frankford Arsenal is, also, being supplied with similar sheets.

The first enclosure consists of a tabulation showing rates of depreciation. If everyone follows this uniform method the values arrived at, when added to the appropriate land values, will give fixed investments on a comparative basis.

Another sheet shows the items to be included in general and administrative expense and shows the method to be used in allocating that expense to proposed .30 caliber M–1 manufacture.

An additional sheet shows the method to be pursued in determining interest on fixed investment and interest on working capital.

It is appreciated that the preparation of figures in accordance with these formulae represents quite a bit of labor. The object to be attained, however, has seemed to justify a painstaking comparison, otherwise the points of diversions might be so numerous and so large as to vitiate the comparison desired.

Very truly yours,

———— ————
Chairman, Special Committee.

ECH: RH

EXHIBIT NO. 1293

"M"

REMINGTON CASH REGISTER COMPANY, INC.,
(Subsidiary of Remington Arms Company, Inc.)

REMINGTON.

ILION, NEW YORK, *July 5, 1928.*

Office of The District Sales Manager, 1105 Liberty Trust Building,
Broad and Arch Streets, Philadelphia, Pa.

MR. E. G. HADLEY,
Ballistic Engineer, Bridgeport, Conn.

DEAR SIR: Answering your letter of June 29th relative to the tax rate in Bridesburg, Pa.

We have consulted the Chief Clerk of the Tax Bureau at City Hall in Philadelphia, and he states that Bridesburg is a part of the city of Philadelphia. He also states that the tax rate in Bridesburg is $1.95 per hundred, except that in wards 22, 23, 35, 41, and 42 there is a 4¢ allowance made (making the rate $1.91). This 4¢ represents the amount which the city of Philadelphia assesses as a poor tax, and is allowed because the local officials in Bridesburg collect their own poor tax.

These rates are based upon the full valuation.

If there is any further information along these lines which you need, please advise and we shall be glad to make further inquiries.

Yours very truly,

J. B. WALLIS,
District Sales Manager.

JBW S

EXHIBIT NO. 1294

Cost formula .30/172 Springfield '06 boat tail cartridge

SHELL

Sheet #1

	Direct labor cost per M				
	Frankford Arsenal	Peters	Remington	Western	Winchester
OPERATION					
Blank & cup		$0.064	$0.0700	$0.1656	$0.0389
1st draw	$0.0273	.068	.0300	.0728	.0210
2nd draw	.0152	.068	.0359	.1180	.0210
Swage	.0243	.136	.0200	.0475	
3rd draw	.0172	.086	.0437	.1184	.0410
1st cut off	.0161	.052	.0310	.0969	.0215
4th draw	.0349	.086	.0437	.2273	.0540
5th draw	.0282				
2nd cut off	.0161	.052	.0310	.0644	.0195
Strike up	.0841		.1656	.0790	.0905
Size					.0540
Head & stamp	.0848	.218	.1656	.0833	.0960
1st mouth anneal	.0292	.131	.0150	.0473	.0295
Taper	.0853	.208	.0367	.1598	.0700
Turn head	.0649	.150	.0740	.0876	.1400
Unprimed inspection	.1393	.150	.0689	.1400	.0185
Trim	.0208	.135	.0236	.0786	.0325
2nd mouth anneal	.0307	.131	.0170	.0459	.0330
Pierce, prime & stake	.1764	.486	.0400	.0924	.0520
Shave & crimp					.0695
Primed inspection	.1166	.150	.1640	.1655	.1665
Anneals	.2155				.0722
Washes					.0827
Dries					.0475
Adjusting shell	.1421				
Checking & gauging		.282			
Total labor cost per M	1.3690	2.653	1.0757	1.8903	1.2713
MATERIAL					
Size of metal	(Cups)	5 x .133	3.94 x .140	6.19 x .126	5.19 x .147
Gross lbs. per M	(36)	(56.3)	(46.50)	(47.70)	(56.0)
Scrap lbs. per M	[1] (.04)	(26.1)	(18.84)	(15.85)	(27.9)
Net lbs. per M at purch. price	(35.96) 6.26	(30.2) 6.416	(27.66) 5.3155	(31.85) 6.6170	(28.1) 5.5830
Factory overhead cost per M	1.9459	4.320	3.5606	4.3765	5.0459
Total factory cost per M	9.5749	13.389	9.9518	12.8848	12.1002

[1] Close scrutiny of Frankford's figures seems to show that this figure, 0.04, should be 4.0. This would make the net pounds 31.0.

Cost formula, .30/172 Springfield '06 boat tail cartridge—Continued

PRIMER ANVIL

Sheet #2

	Direct labor cost per M				
	Frankford Arsenal [2]	Peters	Remington	Western	Winchester
OPERATION					
Blank	$0.0065	$0.0045	$0.0071	$0.0124	$0.0110
MATERIAL					
Size of metal	.25 x .138	1.66 x .040	.875 x .037	.219 x .039	.26 x .025
Gross lbs. per M	(.61)	(.467)	(.402)	(.373)	(.530)
Scrap lbs. per M	(.06)	(.257)	(.208)	(.187)	(.348)
Net lbs. per M at purch. price	(.55) .1086	(.210) .0525	(.194) .0472	(.186) .0528	(.182) .0654
Factory overhead cost per M	.0071	.0033	.0199	.0107	.0275
Total factory cost per M	.1222	.0603	.0742	.0759	.1039

[2] We have not had opportunity to check with Frankford, but it looks as though the thickness of their anvil metal should perhaps be .038 instead of .138. All of the weights given for Frankford seem to be out of line. The weight of the anvil as shown on a Frankford drawing is less than half of that shown above

PRIMER

Sheet #3

	Direct labor cost per M				
	Frankford Arsenal	Peters	Remington	Western	Winchester
OPERATION					
Blank & cup	$0.0165	$0.0026	$0.0071	$0.0216	$0.0030
Wash & dry	.2078				.0004
Flatten		.0256	.0095	.0244	
Shellac					.0042
Load		.1879	.0396	.0418	.0771
Anvil			.0200	.0968	
Inspecting				.0609	
Total labor cost per M	.2243	.2161	.0762	.2455	.0847
MATERIAL				.0134	
Size of metal	.35 x .027	2.25 x .028	.34 x .027	.31 x .0258	4.5 x .025
Gross lbs. per M	(1.1)	(1.018)	(.920)	(.715)	(.692)
Scrap lbs. per M	(.1)	(.509)	(.363)	(.248)	(.285)
Net lbs. per M at purchase price	[4] (1.0) .2062	(.509) .1375	(.557) .1371	(.467) .1247	(.407) .0878
Factory overhead cost per M	.2467	.1404	.2134	.2305	.2124
Total factory cost per M	.6772	.4940	.4267	.6141	.3849

[3] This item is not described. Inasmuch as it is added in the sum (0.6141), it is being included here.

[4] We do not understand why the net pounds per thousand should be so high. A Frankford drawing shows primer cup weight as about 0.485, which would be heavier than the weight of two commercial manufacturers and lighter than two others. We have not had opportunity to check these with Frankford Arsenal.

FULMINATE

Sheet #4

	Direct labor cost per M				
	Frankford Arsenal	Peters	Remington	Western	Winchester
OPERATION					
Mixing	$0.0165	$0.0228	$0.0111	$0.0050	$0.0125
MATERIAL					
Mixture	.0478	.0415	.0559	.0605	.0232
Factory overhead	.0181	.0076	.0286	.0050	.0315
Total factory cost	.0824	.0719	.0956	.0705	.0672

Cost formula, .30/172 Springfield '06 boat tail cartridge—Continued

BULLET

Sheet #5

	Direct labor cost per M				
	Frankford Arsenal	Peters	Remington	Western	Winchester
OPERATION					
Cast metal		$0.025			$0.0070
Cast	$0.0123		$0.0900	$0.1752	.0480
Extrude wire	.0210				
Cupola and cup		.100			
Truck and tumble			.0110		.0049
Inspect			.0050		.0265
Swage	.0322	.094	.0278	.0207	.0590
Truck and tumble			.0053		.0049
Inspect		.111	.0340		.0265
Blank and cup	.0310	.045	.0670	.0833	.0248
First draw	.0109	.046	.0364	.0975	.0390
Second draw	.0109	.046	.0364	.1091	.0390
Third draw	.0109	.038	.0364	.1310	.0465
Fourth draw	.0109				.0360
Fifth draw					.0360
Cut off	.0169	.049	.0427	.0463	.0155
Second cut off					.0155
Tumble and inspect					.0492
Assemble:					
Operator	.3164	.372	.1091	.4003	.1500
Toolsetter	.1354		.0205		.2120
Heel:					
Operator		.372	.0918		.1060
Toolsetter			.0205		
Groove	.0248		.0100		.0900
Refinish:					
Operator		.087	.0918		.0650
Toolsetter			.0205		
Clean					.0068
Inspect	.0658	.182	.1168	.2782	.0490
Adjust for bullet draws	.0439				
Wash and dry between draws	.0250				.0400
Total labor cost per M	.7683	1.567	.8730	1.3416	1.1971
MATERIAL					
Slug-material lbs. per M at purchase price	.9149	(15.6) 1.129	(15.65) 1.0448	1.0588	(16.5) 1.1680
Jacket:					
Size of metal	4.25 x .040	4.07 x .036	3.84 x .065	3.94 x .066	4.63 x .039
Gross lbs. per M	(16)	(18.0)	(13.78)	(14.10)	(20.0)
Scrap lbs. per M	(1)	(5.9)	(4.85)	(3.99)	(10.2)
Net lbs. per M at purchase price	[5] (15) 2.5311	(9.0) 2.715	(8.93) 2.0514	(10.11) 2.2238	(9.8) 2.3640
Factory overhead cost per M	.8451	1.759	2.4008	2.5353	3.2627
Total factory cost per M	5.0594	7.170	6.3700	7.1595	7.9918

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[5] This figure seems very high. (See footnotes on preceding sheets on weights of Frankford materials.

CARTRIDGE

Sheet #6

	Direct labor cost per M				
	Frankford Arsenal	Peters	Remington	Western	Winchester
OPERATION					
Varnish mouth of shell & primer	(6)	$0.209	$0.1317	$0.2868	$0.1200
Load	$0.2342	.246	.2031	.4769	.0950
Inspect	.4792	.247	.0810	.1558	.0980
Gauge		.203	.1690	.4816	.3200
Clip	.1672	.350	.1300	.2069	.1965
Box	.1699		.0600	.4322	.0750
Bandoleer			.1131		.0800
Prepare cases	.0725		.0292		.0150
Varnish tin covers		.145	.0035		.0500
Case			.0500		.0440
Solder			.0625	.2389	.0660
Finish cases			.0275		.0950
Test at proof house	.0836				
Total factory cost per M	1.2066	1.400	1.0606	2.2791	1.2545

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[6] See shell sheet.

Cost formula, .30/172 Springfield '06 boat tail cartridge—Continued

CARTRIDGE—Continued

Sheet #6

	Direct labor cost per M				
	Frankford Arsenal	Peters	Remington	Western	Winchester
PACKING MATERIALS FURNISHED BY MANUFACTURER					
100-Bandoleer boxes per M ctges	.20	.415	.4900	.3004	.4048
16⅔ " cards " M ctges	.01	.007	.0117		.0250
10/12-felt case liners per M ctges	.05	.021	.0432	.0780	.0579
Material for solder & test			(7)	(8)	.0520
Factory overhead cost per M	1.3273	.750	3.5089	2.3949	3.1363
Total factory cost per M	2.7939	2.593	5.1144	5.0524	4.9305

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(7) In overhead.

(8) Incl. above.

Sheet #7

Schedule of factory component costs per M

	Frankford Arsenal	Peters	Remington	Western	Winchester
Shell:					
Material	$6.2600	$6.4160	$5.3155	$6.6170	$5.5830
Labor	1.3690	2.6530	1.0757	1.8903	1.2712
Burden	1.9459	4.3200	3.5606	4.3765	5.0459
Factory cost	9.5749	13.3890	9.9518	12.8838	11.9001
Primer anvil:					
Material	1.086	.0525	.0472	.0528	.0654
Labor	.0065	.0045	.0071	.0124	.0110
Burden	.0071	.0033	.0199	.0107	.0275
Factory cost	.1222	.0603	.0742	.0759	.1039
Primer:					
Material	.2062	.1375	.1371	.1381	.0878
Labor	.2243	.2161	.0762	.2455	.0847
Burden	.2467	.1404	.2134	.2305	.2124
Factory cost	.6772	.4940	.4267	.6141	.3849
Fulminate:					
Material	.0478	.0415	.0559	.0605	.0232
Labor	.0165	.0228	.0111	.0050	.0125
Burden	.0181	.0076	.0286	.0050	.0315
Factory cost	.0824	.0719	.0956	.0705	.0672
Bullet:					
Material	3.4460	3.8440	3.0962	3.2826	3.5320
Labor	.7683	1.5670	.8730	1.3416	1.1971
Burden	.8451	1.7590	2.4008	2.5353	3.2627
Factory cost	5.0594	7.1700	6.3700	7.1595	7.9918
Cartridge:					
Material	.2600	.4430	.5449	.3784	.5397
Labor	1.2066	1.4000	1.0606	2.2791	1.2545
Burden	1.3273	.7500	3.5089	2.3949	3.1363
Factory cost	2.7939	2.5930	5.1144	5.0524	4.9305
Sum of factory costs above	18.3100	23.7782	22.0327	25.8562	25.3784

Sheet #7A

Schedule of factory component costs per M—Continued

	Frankford Arsenal	Peters	Remington	Western	Winchester
Material:					
Shell	$6.2600	$6.4160	$5.3155	$6.6170	$5.5830
Primer anvil	.1086	.0525	.0472	.0528	.0654
Primer	.2062	.1375	.1371	.1381	.0878
Fulminate	.0478	.0415	.0559	.0605	.0232
Bullet	3.4460	3.8440	3.0962	3.2826	3.5320
Cartridge	.2600	.4430	.5449	.3784	.5397
Total material cost	10.3286	10.9345	9.1968	10.5294	9.8311
Labor:					
Shell	1.3690	2.6530	1.0757	1.8903	1.2712
Primer anvil	.0065	.0045	.0071	.0124	.0110
Primer	.2243	.2161	.0762	.2455	.0847
Fulminate	.0165	.0228	.0111	.0050	.0125
Bullet	.7683	1.5670	.8730	1.3416	1.1971
Cartridge	1.2066	1.4000	1.0606	2.2791	1.2545
Total labor cost	3.5912	5.8634	3.1037	5.7739	3.8310
Burden:					
Shell	1.9459	4.3200	3.5606	4.3765	5.0459
Primer anvil	.0071	.0033	.0199	.0107	.0275
Primer	.2467	.1404	.2134	.2305	.2124
Fulminate	.0181	.0076	.0286	.0050	.0315
Bullet	.8451	1.7590	2.4008	2.5353	3.2627
Cartridge	1.3273	.7500	3.5089	2.3949	3.1363
Total burden	4.3902	6.9803	9.7322	9.5529	11.7163
Sum of above total costs	18.3100	23.7782	22.0327	25.8562	25.3784

Sheet #8

Summary of total costs per M

	Frankford Arsenal	Peters	Remington	Western	Winchester
Materials furnished by manufacturer	$10.3286	$10.93	$9.1968	$10.52943	$9.8311
Materials furnished by Government	11.8200	11.73	11.7000	11.73000	11.7300
Handling charges on U. S. materials	----------	----------	1.1700	----------	.2111
Labor	3.2671	5.86	3.1037	5.77390	3.8310
Factory overhead and percent shrinkage [1]	[2] 5.3326	9.37	9.9525	10.91286	14.7617
Cost at factory	30.7483	37.89	35.1230	38.94619	40.3649
General and adm. expense	.50	.59	1.3700	.74440	1.3901
Interest on plant investment and working capital	.68	.76	1.5105	2.72162	.4263
Total cost exclusive of profit	----------	39.24	38.0035	42.41221	42.1813
Profit	----------	3.92	2.3623	4.24279	3.0451
Total cost including profit	----------	43.16	40.3658	46.65500	45.2264
Less cost of materials furnished by Government	----------	11.73	11.7000	11.73000	11.7300
Net selling price of manufacturer	----------	31.43	28.6658	34.92500	33.4964
Freight N. H. to Nixon, N. J	----------	----------	----------	----------	.2573
	----------	----------	----------	----------	33.7537

NOTE.—(1) Selling expense is not to be included in General and adm. expense.

(2) Leave time, peculiar to Government plant, amounts to $1.15 per M.

(3) All of these figures are as received from the different manufacturers. Certain adjustments to make a direct comparison easier have been made on the modification of this sheet, #8 A.

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[1] Percent shrinkage based on factory costs of sheet #7: F. A., 0 percent; Peters, 10 percent; Remington, 1 percent; Western, 5.2 percent; Winchester, 12 percent. The Remington 1-percent shrinkage is intended to cover unaccounted for shrinkage. Known loss on condemned product and cost of repairing product are included in overhead.

[2] This figure is very much altered on sheet #8 A for the reason that scrap allowance for shell material has been transferred to material cost. Tool and machine expense on shell and bullet have been transferred to General and administrative on sheet #8 A.

Sheet #8 A

Summary of total costs per M—Continued

	Frankford Arsenal	Peters	Remington	Western	Winchester
Materials furnished by manufacturer	$10.33	$10.93	$9.20	$10.53	$9.83
Materials furnished by Government (made uniform)	11.73	11.73	11.73	11.73	11.73
Labor	3.59	5.86	3.10	5.77	3.83
Factory overhead and percent shrinkage [1]	[2] 4.39	9.37	9.95	10.91	14.76
Cost at factory	30.04	37.89	33.98	38.94	40.15
General and adm. expense (see note)	.83	.59	1.37	.74	1.39
Interest on plant investment and working capital	.82	.76	1.51	2.72	.43
Total cost exclusive of profit	31.69	39.24	36.86	42.40	41.97
Profit, 10 percent on above less interest	3.09	3.85	3.54	3.97	4.15
Total cost including profit	34.78	43.09	40.40	46.37	46.12
Less cost of materials furnished by Government	11.73	11.73	11.73	11.73	11.73
A. Net selling price of manufacturer	23.05	31.36	28.67	34.64	34.39
Less 10 percent on the U. S. materials since Ord. Dept. unwilling to recognize	1.17	1.17	1.17	1.17	1.17
C. Net selling price of manufacturer	21.88	30.19	27.50	33.47	33.22
Add 5 percent for rejections	1.09	1.56	1.38	1.67	1.66
D. Net selling price of manufacturer	22.97	31.75	28.88	35.14	34.88

NOTE.—Selling expense is not to be included in General and adm. expense.

There were three different prices for Government materials, as shown on sheet #8. It has seemed best for this comparison to show the same figure in each tabulation, $11.73.

Handling charges on Government materials have been left out. In the case of Remington the cost of handling these materials is included in regular overhead. Winchester shows $0.21 on sheet #8. If the handling of Government materials is not included in their overhead, doubtless this charge should have been included on this sheet. We rather presume that the overhead of the other factories includes the cost of handling Government materials.

Formula circulated for interest on fixed investment considered interest after proposed increase in business of additional .30 Springfield. Frankford's figures above are intended to represent present cost not contemplating any increase in business.

No account has been taken of Frankford's leave time expense of $1.15 per M.

[1] Percent shrinkage based on factory costs of sheet #7: F. A., 0 percent; Peters, 10 percent; Remington, 1 percent; Western, 5.2 percent; Winchester, 12 percent.

[2] See footnote [2] on sheet #8.

Sheet #8 B

	Frankford Arsenal	Peters	Remington	Western	Winchester
Materials furnished by manufacturer	$10.33	$10.93	$9.20	$10.53	$9.83
Materials furnished by Government (made uniform)	11.73	11.73	11.73	11.73	11.73
Labor	3.59	5.86	3.10	5.77	3.83
Factory burden from sheets #7 and #7 A	4.39	6.98	9.73	9.55	11.72
Add 1-percent shrinkage of total factory cost—See sheet #7—as done by Remington	.18	.24	.22	.26	.25
Cost at factory	30.22	35.74	33.98	37.84	37.36
General and adm. expense	.83	.59	1.37	.74	1.39
Interest on plant investment and working capital	.82	.76	1.51	2.72	.43
Total cost exclusive of profit	31.87	37.09	36.86	41.30	39.18
Profit, 10 percent on above less interest	3.11	3.63	3.54	3.86	3.88
Total cost including profit	34.98	40.72	40.40	45.16	43.06
Less cost of materials furnished by Government	11.73	11.73	11.73	11.73	11.73
A. Net selling price of manufacturer	23.25	28.99	28.67	33.43	31.33
Less 10 percent on the U. S. materials since Ord. Dept. unwilling to recognize	1.17	1.17	1.17	1.17	1.17
C. Net selling price of manufacturer	22.08	27.82	27.50	32.26	30.16
Add 5 percent for rejections	1.10	1.39	1.38	1.61	1.51
D. Net selling price of manufacturer	23.18	29.21	28.88	33.87	31.67

The differences in percentage allowed for shrinkage were so great that it has seemed possibly worth while to make another sheet #8 B, made up with a uniform shrinkage of 1 percent for each manufacturer. This sheet differs from 8 A only in this particular.

We have omitted from this sheet all of the footnotes on sheet #8 A. They should be borne in mind, however, in studying this sheet.

EXHIBIT NO. 1295

File

Amm. Works Form No. 266 "M" US

REMINGTON ARMS COMPANY, INC.
Bridgeport, Conn., June 29th, 1928.

To: Mr. Saunders Norvell, president.
From: Mr. E. C. Hadley, chairman special committee.
Subject: .30 Springfield M1.

Acknowledgement only of communications.—Your letter of June 27th on the above subject, has been received together with copy of letter to you dated June 21st by Mr. J. M. Olin; copy of letter to you dated June 21st by Mr. F. W. Olin; copy of your letter to Mr. F. W. Olin dated June 27th, and copy of your letter of June 27th to Messrs. Olin, King, and Tobler.

Progress report only.—Mr. Bowers, Mr. Craig and the writer visited Frankford Arsenal on June 28th, inasmuch as Frankford Arsenal accountants had then completed their figures worked up on the inventory of June 15th. These figures were discussed. Comparison was also made of the kind of items which we are obliged to consider in our over-head and those which they consider. We left with them the eight-page cost formula which we forwarded to the different manufacturers on June 25th. They are going to adjust their operation cost figures to conform to this formula. They sent us on June 20th information which they had available on the capital value of their buildings, land, etc. These figures were discussed at some length. We agreed to send to them a formula showing the method used by us in dealing with these items. They agreed to recast their figures on the basis of our formula so that a direct comparison would be possible. We said that we would also send that same formula to the other manufacturers, supplementing our letter of June 25th which we discussed with them. Our hope is that we will be satisfied with figures which Frankford also can approve so that when these figures go to General Ruggles, they will represent agreement in principle between us and Frankford and form the basis for a real comparison. We found that Frankford readily admitted the item of interest on working capital. They were unwilling to consider any profit on material supplied by the Government, but they were willing to have included necessary handling charges.

Change in policy proposed, decision desired.—Capt. Chavin expressed himself as being opposed to a comparison of Frankford figures with an average of the costs of other manufacturers. He felt that the averaging of these costs would obscure some of the very items upon which it was desired to fix attention. Two alternatives were suggested: One was the general exchange of complete figures, competitors' tabulations being designated not by name but by symbol as A, B, C, D. The other one was that the detailed figures should be submitted to Frankford Arsenal and/or Washington in confidence, in the event that certain manufacturers did not wish to disclose their own cost figures to other manufacturers but were willing to do so to the Government.

Capt. Chavin seemed very decided in his expression of opinion that Frankford's figures should not be given to the other manufacturers unless they, in turn, gave their figures to Frankford. Col. Wall did not express himself on these points. Since it is very distinctly understood that we will not make any move which would be offensive to the Ordnance Department and because, on the other hand, our desire is to work with them in very friendly fashion, we belive that before showing Frankford's figures to the different manufacturers we should have corresponding figures from them and authority from them to transmit these figures to Frankford Arsenal and to the Ordnance Department. This would involve a change in the plan suggested by you at our last meeting in New York and is occasioned, as indicated above, by the opinion of Frankford Arsenal as expressed yesterday. If you agree to this change of plan, will you ask the different companies to authorize exchange of their figures with those of others submitting figures (their's to be designated by letter and not by name) or would you prefer to have me write a supplement to my letter of June 25th requesting their assent to this plan?

Alternative policy.—It might be that General Ruggles would be perfectly ready to give out Frankford figures regardless of whether he received any complete or individual figures in exchange or not. However, in view of the fact that the exchange idea was uppermost in the meeting of June 8th in New York City, it seems better, if possible, to actually plan to effect a complete exchange rather than to ask him to permit us to give out Frankford figures to any not giving their figures in return.

Acknowledgement only.—The last paragraph in your letter of June 27th has been noted. We shall doubtless visit Frankford again and if it then proves desirable we shall also hope to see General Ruggles in Washington.

Decision desired.—Referring to copy of your letter of June 27th to Messrs. Olin, King, and Tobler, I would like to urge that Mr. Bowers be invited to be present at the discussion of .30 caliber M1 costs at the proposed Niagara Falls, Ontario meeting. I am sure that if the subject is fully discussed, there will be numerous instances where Mr. Bowers' information would be of great value.

——— ———,

ECH:J *Chairman, special committee.*

(written in red pencil)

(1) Subject matter discussed with Col. Herrmann.

(2) Draft oked by Bowers & Craig. (Herrmann out of town.)

(There was no exhibit marked "No. 1296".)

Exhibit No. 1297

[Memo]

Subject: Visit of Major W. L. Clay, July 30th, 1928.

As advised in his letter of July 28th, Major W. L. Clay visited Bridgeport on the morning of July 30th. He had just returned from about three weeks' leave and said that he wanted to get in touch again with the situation in respect of .30 MI costs.

Major Clay had not seen the letter which the writer had addressed to General Ruggles dated July 26th. A copy of this letter was shown to him together with General Ruggles' reply of June 28th as follows:

"Your twenty sixth received. Major Clay expected visit your plant Monday. No objection to Frankford's figures being given commercial manufacturers. Ruggles."

The file of correspondence and figures prepared by Frankford Arsenal, were shown to Major Clay and were the subject of discussion.

The writer said that figures from some companies had been received, but not from all, and that there was evident reluctance in certain quarters to exchange all of the figures with Frankford Arsenal, and that some who might themselves have been willing to do so, did not feel that they wished to do this if some of the others were unwilling to make the exchange.

Major Clay seemed disappointed at not obtaining cost figures from the different manufacturers. Since "Half a loaf is better than no bread", the writer agreed to raise the question specifically with the different manufacturers as to whether they would be willing that their direct labor figures be sent to Frankford Arsenal and Washington.

Major Clay seemed to think it unlikely that General Ruggles would care to be in New York on September 6th, as suggested in letter of July 26th mentioned above. Major Clay felt that there would be nothing that General Ruggles could say that he had not already said.

Major Clay was questioned as to whether they would postpone the issuing of proposals until after opportunity for a meeting in New York on September 6th. His feeling seemed to be that but little could be gained under the circumstances by discussion at such a meeting. It was pointed out to him, however, that the situation would have changed from that which obtained early in June in that (1) the manufactuers would have accumulated additional data in the making of .30 MI ammunition so that they might be surer of their costs; (2) that they would have had a chance to study the Frankford Arsenal cost figures; and (3) that Frankford Arsenal and Washington would have had a chance to study at any rate the direct labor costs of the different manufacturers should it prove that they acceded to the request that these figures be forwarded to Frankford. Major Clay agreed that these things might result in further conversations being worth while on September 6th but he seemed to doubt it.

Major Clay intimated that they might arrange to have Frankford issue proposals for twenty million rounds with no bid upon a lesser quantity than ten million rounds. He was agreeable to the suggestion that the proposals should not be opened until September 10th or 11th. He said that the detailed points which had been discussed at the technical committee meeting of the Institute on June 8th had been, or would shortly be, incorporated in the cartridge specification. This new specification will apply on the proposal under discussion.

Major Clay's general feeling seems to be that the ammunition manufacturer's costs are probably not very far from those of Frankford after all.

Needless to say, none of the cost figures of commercial ammunition manufacturers were given to Major Clay.

(Stamped) (Signed) Egbert C. Hadley,
Chairman, Special Committee.

Exhibit No. 1298

[File]

Remington Arms Company, Inc.,
Bridgeport, Conn., August 14, 1928.

Subject: Cost of .30 Caliber M1 Components and Cartridges.

Peters Cartridge Co.,
Cincinnati, Ohio.
Att.: Col. Geo. G. King, pres.
Remington Arms Co., Inc.
New York City, N.Y.
Att.: Mr. Saunders Norvell, pres.
Western Cartridge Co.,
East Alton, Ill.
Att.: Mr. F. W. Olin, pres.
Winchester Repeating Arms Co.,
New Haven, Conn.
Att.: Mr. W. A. Tobler, vice pres.

Gentlemen: Detailed cost figures were received from the Peters Cartridge Company on August 9th. Tabulation of these figures together with those of the other manufacturers, has now been completed as planned, except that General Ruggles' authority for sending out Frankford figures has enabled us to add theirs to the tabulation. The general form followed was that of the eight-sheet formula circulated with our letter of June 25th. The summary originally called for on sheet #7 has been presented in two different forms for convenience in studying. These sheets are numbered "Sheet #7" and "Sheet #7A". The comparison on sheet #8 has been altered so as to show figures more directly comparable. The sheet with this tabulation is #8A. Another sheet #8B eliminates another item of difference and makes a still closer comparison. Copious footnotes are intended to explain various steps taken.

In our letter of July 31st, to which was attached memorandum covering Major Clay's visit to Bridgeport on Monday, July 30th, several questions were raised in regard to information which might be given to Frankford Arsenal. Messrs. King and Tobler have since written expressing their unwillingness that any of their figures should be shown to Frankford Arsenal. Mr. Norvell has written saying that, if possible, he thinks the ammunition manufacturers should act as a unit in regard to this.

No reply has been received from the Western Cartridge Co.

If there are any questions which arise from study of the tabulation of comparative costs, the writer will be glad to do whatever he can toward answering them.

Yours very truly,

(Signed) Egbert C. Hadley,
Chairman, Special Committee.

Exhibit No. 1299

[File]

"M" US

Remington Arms Company, Inc.
Bridgeport, Conn., August 24, 1928.

Subject: *.30M1*

Major W. L. Clay,
Office of the Chief of Ordnance,
War Department, Washington, D. C.

Dear Major Clay: You will recall that on the occasion of your visit to Bridgeport on July 30th, we discussed the matter of costs of .30M1 ammunition ammunition and that I agreed to see whether I could obtain permission to send to the Ordnance Office and/or Frankford Arsenal, the direct labor figures of the different manufacturers.

I had hoped to have these figures for you, but so far I have not been able to accomplish this.

I shall hope to see you at the institute meeting on September 6th, if not before.

Sincerely yours,

(Signed.) EGBERT C. HADLEY,
Chairman Special Committee.

ECH:J

EXHIBIT NO. 1300

[Copy]

SPORTING ARMS AND AMMUNITION MANUFACTURERS' INSTITUTE,
103 Park Avenue, New York, August 17th, 1932.

Mr. B. L. WINCHELL,
Chairman, Committee on Gov't. Competition with Private Industry,
National Association of Manufacturers.

DEAR SIR: In accordance with the suggestion made at your meeting of August 4th to Mr. Edwin Pugsley of the Winchester Repeating Arms Company, I submit the following report with Mr. Pugsley, after conference with other manufacturers representing 95% of the available capacity, has prepared setting forth in detail the Government competition which has been experienced by the arms and ammunition industry and making suggestions for remedying the situation.

Competition which the small arms and ammunition manufacturers experience from the Government may be divided into five general classifications:

1. Current manufacture by Government arsenals of relatively large quantities of small arms ammunition for use in the various arms in the service.
2. Sale by the Government of service and subcaliber rifles at prices below those of private manufacturers for similar arms.
3. Resale by the Government of ammunition to civilians at prices below those prevailing in the open market. Part of this ammunition has been purchased by the Government under its specifications and its sale through the National Rifle Association competes directly with all jobbing and retailing outlets for ammunition throughout the country.
4. Export competition through the sale at very low prices, to friendly foreign governments, of arms and ammunition.
5. Sale by Government through American Legion, National Rifle Association, and others of obsolete equipment at scrap prices.

Under item #1 it should be pointed out that the Government produces at Frankford Arsenal near Philadelphia, all of the .30-caliber Springfield ammunition at present used by the service, a large portion of .45-caliber Colt, and practically all of .50-caliber machine-gun ammunition. During the war it was necessary for the Government to call on private manufacturers for over 90% of all the ammunition used by United States troops. Government arsenals were capable of producing such small quantities that they were not considered seriously as sources of supply for this material.

The war pointed out plainly the tremendous advantage to the country, in point of preparedness, of having commercial organizations scattered throughout the country capable of producing ammunition to Government specifications. Our experience proved that only the established companies were successful in producing this ammunition, although there were numerous attempts to establish ammunition factories by firms of excellent manufacturing experience, though not versed in the technicalities of ammunition. In no case did such a factory survive and produce useable ammunition for the Government.

This fact was recognized by the Ordnance Department and with the passage of the National Defense Act cognizance was taken to the extent of including in the act a provision for so-called "educational" orders for small-arms ammunition, particularly .30 caliber 06. Such orders were allotted by competitive bidding among the five commercial companies then in existence, with the result that these orders were allocated to various companies, with the consequent training of commercial organizations.

Several years ago the Ordnance Department rejected private bids on the basis that the law required that material purchased by the Government should not cost more than a similar article made in a Government arsenal, and Frankford Arsenal's costs were cited to show that the Government could manufacture the ammunition much cheaper than it could purchase it. In October 1926, as a result of numerous conferences between members of the arms industry and the Ordnance Department, an investigation was undertaken of the costs of ammunition as produced at Frankford Arsenal, an accountant was sent by the ammunition industry to Frankford and a summary of his findings will be of interest. In the first place, he found that:

Direct labor at Frankford Arsenal was considerably more than similar items in industrial plants partly due to the fact that the Government charged into direct labor some items that the industry charged to burden.

He found, however, that the great discrepancy in cost between the Government arsenal and the private institution was due to the fact that practically no overhead charges were made in the case of the Government arsenal. All salaries of officers directing the operation of the arsenal which would compare with the executive officers of a commercial plant, are paid from an Army fund, and are not applied as burden against the cost of cartridges produced. Experimental work on equipment was done on a special appropriation and was not a cost factor. Hospital and first aid is maintained by the Medical Corps as a separate unit. Depreciation is not considered, as the arsenal, in their method of accounting, do not carry any capital assets on which to charge off depreciation. This, as can be readily seen, is a large factor in a commercial plant. Donations and gifts are something that do not enter into Government consideration. Insurance of any kind is not carried. Postage: No expense to the arsenal. Telephones: Automatic inside telephone system which was installed entirely gratis, the upkeep and maintenance of which was practically a negligible item of expense. Outside telephone and toll calls are covered by a special appropriation. Taxes: None paid by the Government. Workmen's compensation and public liability insurance: Not carried. Any expense incidental to this item would be paid from the employees' pension fund which is set aside by deducting 2½% of every Government employee's earnings during each year. Since this comes out of the employees, it is not a factor of cost of ammuition.

About 80% of the cost of ammunition is the raw material, and all fired shells and bullets where recovered are sent to Frankford Arsenal free of charge from various Government depots where they are accumulated and reshipped to a brass company to be converted into good metal, the only expense to the Arsenal being the transportation and handling charges. This salvage material, of course, is only a portion of their total metal used but nevertheless it is a very appreciable item, which is furnished at no cost to the arsenal.

When this report was discussed with the Ordnance Department, orders were issued to the department to work out a percentage which should be added to the cost to cover these items, and a percentage of 13.9 was submitted. This figure was later increased by about 3% for expenses of men in Washington which they felt should be charged to Frankford, making a total of 17% which the Government proposed to add to the cost of their goods to make them comparable with those of commercial manufacture. Obviously, this was totally inadequate. There is, of course, no provision in Government costs for interest on investment, or profit, both of which are essential in the case of commercial manufacturers.

Following this discussion, it was apparent that no common basis could be arrived at, and as a result new and up to date machinery was installed by the Government for increasing the production capacity of and reducing costs at Frankford Arsenal. Machines were re-arranged and extensive conveyor systems were installed. An excellent job of mechanical engineering resulted in elimination of operations and labor which with the increased production now totaling about 300,000 rounds per day, brought the costs at Frankford, when figired by their system of accounting, far below anything that a commercial manufacturer could attain. With the uncertainty of repeat orders on Government materials, no commercial manufacturer up to the present time has been justified in spending the amount of money necessary to equip his plant for the production of one type of cartridge, to the extent that has been done at Frankford.

There is still another factor in commercial costs not shown in Frankford's costs, which is the commerical hazard that the non-government producer must assume, i. e.: the possibility of having a lot of ammunition rejected. Commercial manufacturers are required to submit ammunition in large lots, from a half million to several million, which must pass Government inspection. Frankford Arsenal produces ammunition in the same way that the industry produces commercial ammunition, viz., gaging and testing the product currently and not accumulating it in large lots to be subject to acceptance tests. The commercial manufacturer who suffers a rejection of a lot of Government ammunition has no alternative but to scrap it, as the specifications for Government ammunition are not applicable to commercial ammunition. Due to the rearrangement at Frankford Arsenal, they are now prepared to furnish only .30 Gov't. '06, .45 caliber Colt, .50 caliber machine-gun ammunition. They are not willing to consider making the .30 Army cartridge used for the Krag or the .38 pistol cartridge used for the many .38 caliber revolvers still on issue, showing the extent to which Frankford Arsenal has been made a single purpose machine for producing in quantity particular items.

It is the feeling of the ammunition industry that mass production at Frankford Arsenal should not continue, that the arsenal should contract for .30 caliber '06, .45 caliber Colt, and .50 caliber machine-gun ammunition from the various factories capable and willing to supply competitive bids on this type of material. We believe that this will result in a very considerable ultimate economy to the Government in the cost of ammunition, and will be of great educational value to the private manufacturers recognized by the Government as the source of supply in case of need. It would be our recommendation that the technical personnel at Frankford be confined to experimental work, the development and tests of new types of ammunition, and the inspection and acceptance of ammunition purchased from commercial manufacturers. The objection may be raised by the Government that there is only one commercial plant at the present time equipped to supply .50 caliber ammunition, but there is at least one more plant entirely willing to undertake the tooling up for this type of ammunition if assured of sufficient Government business.

Springfield Arsenal produces the Springfield 30–06, the Springfield subcaliber .22 target rifle, the Springfield sporter which is a sporting model of the Army action, the Colt automatic pistol and various machine guns, as well as numerous other items. The service rifle is sold to the civilian population through the National Rifle Association for less than similar comparable commercial arms. The Government alters its military gun as a sporting model and sells the Springfield sporter in direct competition with and at lower prices than similar arms furnished by private industry. The .22 caliber Springfield rifle is a design for superaccurate .22 caliber shooting and likewise competes as above.

The industry suggests in the case of Springfield Arsenal that the sale of the Springfield 30–06 rifle be restricted for military purposes, and if sold, that the Government exercise care to see that it does not compete with private manufacturers. The question may be raised as to why recommendation is not made to discontinue the manufacture of Springfield rifles at Springfield in the same line as the manufacture of cartridges at Frankford in the paragraphs preceding. This is due to the fact that no commercial manufacturer is at the present time tooled up to produce the Springfield rifle. It would be our feeling that if two or more of the reputable gun companies were tooled to produce the Springfield rifle, under these circumstances, the production of the rifle should be discontinued at the arsenal.

The Government purchases in large quantities for resale throughout the country, .22 caliber ammunition, .38 caliber ammunition, and .30 Army ammunition. This ammunition is bought under Government specifications and at extremely low prices which are accorded the Government on all purchases. This ammunition is then sold throughout the country to shooters, thereby competing directly with the comparable ammunition sold through the regular jobbing and retailing channels.

There have been numerous instances in the last few years where the Government has sold arms and ammunition at very low figures to friendly foreign governments, thereby blocking any possibility of sales by private manufacturers. One particular instance may be cited in connection with Mexico in which one of the large arms manufacturers was negotiating with Mexico for the sale of a large quantity of arms. The Government supplied Mexico with a large quantity of surplus war rifles, thereby effectively ending all negotiations by the Mexican Government with private manufacturers for the production of these arms. We believe the Government should be prohibited by law from entering into competition with commercial manufacturers in this fashion.

The industry is informed that thousands of Krag-Jorgensen rifles have been disposed of in a manner so that the user can obtain them through service organizations at about $2.00 each. This displaces the sale of rifles of a similar type which might be supplied by private manufacturers. Further, it is understood that the stock of Krag rifles formerly held by the Government has been depleted in this manner, but the industry protests against the marketing of further obsolete models should stocks of them accumulate, except at prices in line with similar guns made by private concerns.

The arms and ammunition industry is not a growing one. Therefore, if the Government is to depend upon private enterprise, as it must, for the major portion of its war material, these manufacturers should be encouraged to keep abreast of the times and placed in position of being able at all times to furnish the necessary supplies, without having to incur the losses that would result if orders were taken on the basis of present Government accounting practice.

We are in complete agreement with the resolutions adopted at the last meeting of the Manufacturers' National Committee on Government competition with private industry, and believe that they express the situation adequately.

Respectfully submitted.

SPORTING ARMS AND AMMUNITION MANUFACTURERS' INSTITUTE,
(Signed.) C. STEWART COMEAUX, *Secretary.*

EXHIBIT No. 1301

STATEMENT FILED WITH THE NATIONAL ASSOCIATION OF MANUFACTURERS' COMMITTEE ON GOVERNMENT COMPETITION WITH PRIVATE INDUSTRY, BY THE SPORTING ARMS AND AMMUNITION MANUFACTURERS' INSTITUTE, IN BEHALF OF ITS MEMBERS MAKING ARMS AND AMMUNITION

Government competition experienced by the Arms and Ammunition Industry may be divided into five general classifications, as follows:

1. Current manufacture by Government arsenals of relatively large quantities of small arms ammunition for use in the various arms in the service.
2. Sale by the Government of service and sub-caliber rifles at prices below those of private manufacturers for similar arms.
3. Resale by the Government of ammunition to civilians at prices below those prevailing in the open market. Part of this ammunition has been purchased by the Government under its specifications and its sale through the National Rifle Association competes directly with all jobbing and retailing outlets for ammunition throughout the country.
4. Export competition through the sale at very low prices, to friendly foreign governments, of arms and ammunition.
5. Sale by Government through American Legion, National Rifle Association and others, of obsolete equipment at scrap prices.

On the following pages will be found a detailed statement regarding this competition and the industry's recommendations.

1. CURRENT MANUFACTURE BY GOVERNMENT ARSENALS OF RELATIVELY LARGE QUANTITIES OF SMALL ARMS AMMUNITION FOR USE IN THE VARIOUS ARMS IN THE SERVICE

Statement of facts.—The Government produces at Frankford Arsenal near Philadelphia, all of the .30 caliber Springfield ammunition at present used by the service, a large portion of .45 caliber Colt, and practically all of the .50 caliber machine-gun ammunition. During the war it was necessary for the Government to call on private manufacturers for over 90% of all the ammunition used by United States troops. Government arsenals were capable of producing such small quantities that they were not considered seriously as sources of supply for this material.

In point of preparedness, the war pointed out plainly the tremendous advantage to the country of having commercial organizations scattered throughout the country capable of producing ammunition to Government specifications. Experience proved that only the established companies were successful in producing this ammunition, although there were numerous attempts to establish ammunition factories by firms of excellent manufacturing experience, though not versed in the technicalities of ammunition. In no case did such a factory survive and produce useable ammunition for the Government.

The foregoing facts were recognized by the Ordnance Department and with the passage of the National Defense Act, cognizance was taken to the extent of including in the act a provision for so-called eductional orders for small arms ammunition, particularly .30 caliber 06. Such orders were allotted by competitive bidding among the five commercial companies then in existence, with the result that these orders were allocated to various companies, with the consequent training of commercial organizations.

Several years ago the Ordnance Department rejected private bids on the basis that the law required that material purchased by the Government should not cost more than a similar article made in a Government arsenal, and Frankford

Arsenal's costs were cited to show that the Government could manufacture the ammunition much cheaper than it could purchase it. In October 1926, as a result of numerous conferences between members of the Industry and the Ordnance Department, an investigation was undertaken of the costs of ammunition as produced at Frankford Arsenal, an accountant was sent by the ammunition industry to Frankford, from whose findings the following summary is submitted:

Direct labor at Frankford Arsenal was considerably more than similar items in industrial plants, partly due to the fact that the Government charged into direct labor some items that the industry charged to burden.

However, the great discrepancy in cost between the Government arsenal and the private institution was due to the fact that practically no overhead charges were made in the case of the Government arsenal. All salaries of officers directing the operation of the arsenal which would compare with the executive officers of a commercial plant, were paid from an Army fund and not applied as burden against the cost of cartridges produced. Experimental work on equipment was done under a special appropriation and was not a cost factor. Hospital and first aid maintained by the Medical Corps as a separate unit. Depreciation not considered, as the arsenal in their method of accounting did not carry any capital assets on which to charge off depreciation. This, as can be readily seen, is a large factor in a commercial plant. Donations and gifts not taken into consideration by Government. No insurance of any kind carried. Postage: No expense to the arsenal. Telephones: Automatic inside telephone system installed entirely gratis, the upkeep and maintenance of which was practically a negligible item of expense. Outside telephone and toll calls covered by a special appropriation. Taxes: None paid by the Government. Workmen's compensation, and public liability insurance: Not carried. Any expense incidental to this item paid from the employees' pension fund set aside by deducting 2½% of every Government employee's earnings during each year. Since this comes out of the employees, it is not a factor of cost of ammunition.

About 80% of the cost of ammunition is the raw material, and all fired shells and bullets where recovered are sent to Frankford Arsenal free of charge from various Government depots where they are accumulated and reshipped to a brass company to be converted into good metal, the only expense to the arsenal being the transportation and handling charges. This salvage material, of course, is only a portion of their total metal used but nevertheless it is a very appreciable item, which is furnished at no cost to the arsenal.

When this report was discussed with the Ordnance Department, orders were issued to the Department to work out a percentage which should be added to the cost to cover these items, and a percentage of 13.9 was submitted. This figure was later increased by about 3% for expenses of men in Washington which they felt should be charged to Frankford, making a total of 17% which the Government proposed to add to the costs of their goods to make them comparable with those of commercial manufacture. Obviously, this was totally inadequate. There is, of course, no provision in Government costs for interest on investment, or profit, both of which are essential in the case of commercial manufacturers.

Following this discussion, it was apparent that no common basis could be arrived at, and as a result new and up-to-date machinery was installed by the Government for increasing the production capacity of, and reducing costs at Frankford Arsenal. Machines were rearranged and extensive conveyor systems were installed. An excellent job of mechanical engineering resulted in elimination of operations and labor which with the increased production now totalling about 300,000 rounds per day, brought the costs at Frankford, when figured by their system of accounting, far below anything that a commercial manufacturer could attain. With the uncertainty of repeat orders on Government material, no commercial manufacturer up to the present time has been justified in spending the amount of money necessary to equip his plant for the production of one type of cartridge, to the extent that has been done at Frankford.

There is still another factor in commercial costs not shown in Frankford's costs, which is the commercial hazard that the nongovernment producer must assume, i. e., the possibility of having a given lot of ammunition rejected. Commercial manufacturers are required to submit ammunition in large lots, from a half million to several million, which must pass Government inspection. Frankford Arsenal produces ammunition in the same way that the industry produces commercial ammunition, viz, gauging and testing the product currently and not accumulating it in large lots to be subject to acceptance tests. The commercial manufacturer who suffers a rejection of a lot of Government ammunition has no alternative but to scrap it, as the specifications for Government ammunition are not applicable to commercial ammunition. Due to the rearrangement at Frank ford Arsenal, they are now prepared to furnish only .30 Government '06, .45 caliber Colt, and .50 caliber machine gun ammunition. They are not willing to consider making the .30 Army cartridge used for the Krag or the .38 pistol cartridge used for the many .38 caliber revolvers still on issue, showing the extent to which Frankford Arsenal has been made for a single purpose machine for producing in quantity particular items.

Recommendation.—It is the feeling of the ammunition industry that mass production at Frankford Arsenal should not continue, that the arsenal should contract for .30 caliber '06, .45 caliber Colt, and .50 caliber machine gun ammunition from the various factories capable and willing to supply competitive bids on this type of material. We believe that this will result in a very considerable ultimate economy to the Government in the cost of ammunition, and will be of great educational value to the private manufacturers recognized by the Government as the source of supply in case of need. It would be our recommendation that the technical personnel at Frankford be confined to experimental work, the development and tests of new types of ammunition, and the inspection and acceptance of ammunition purchased from commercial manufacturers. The objection may be raised by the Government that there is only one commercial plant at the present time equipped to supply .50 caliber ammunition, but there is at least one more plant entirely willing to undertake the tooling up for this type of ammunition if assured of sufficient Government business.

2. SALE BY THE GOVERNMENT OF SERVICE AND SUBCALIBER RIFLES AT PRICES BELOW THOSE OF PRIVATE MANUFACTURERS FOR SIMILAR ARMS

Statement of facts.—Springfield Arsenal produces the Springfield 30–06, the Springfield sub-caliber .22 target rifle, the Springfield Sporter which is a sporting model of the Army action, the Colt automatic pistol and various machine guns, as well as numerous other items. The service rifle is sold to the civilian population through the National Rifle Association for less than similar comparable commercial arms. The Government alters its military gun as a sporting model and sells the Springfield Sporter in direct competition with and at lower prices than similar arms furnished by private industry. The .22 caliber Springfield rifle is a design for super-accurate .22 caliber shooting and likewise competes as above.

Recommendation.—The industry suggests in the case of Springfield Arsenal that the sale of the Springfield 30–06 rifle be restricted for military purposes, and if sold, that the Government exercise care to see that it does not compete with private manufacturers. The question may be raised as to why recommendation is not made to discontinue the manufacture of Springfield rifles at Springfield in the same line as the manufacture of cartridges at Frankford in the paragraphs preceding. This is due to the fact that no commercial manufacturer is at the present time tooled up to produce the Springfield rifle. It would be our feeling that if two or more of the reputable gun companies were tooled to produce the Springfield rifle, under those circumstances, the production of the rifle should be discontinued at the arsenal.

3. RESALE BY THE GOVERNMENT OF AMMUNITION TO CIVILIANS AT PRICES BELOW THOSE PREVAILING IN THE OPEN MARKET. PART OF THIS AMMUNITION HAS BEEN PURCHASED BY THE GOVERNMENT UNDER ITS SPECIFICATIONS AND ITS SALE THROUGH THE NATIONAL RIFLE ASSOCIATION COMPETES DIRECTLY WITH ALL JOBBING AND RETAILING OUTLETS FOR AMMUNITION THROUGHOUT THE COUNTRY

Statement of facts.—The Government purchases in large quantities for resale throughout the country, .22 caliber ammunition, .38 caliber ammunition, and .30 Army ammunition. This ammunition is bought under Government specifications and at extremely low prices which are accorded the Government on all purchases. This ammunition is then sold throughout the country to shooters, thereby competing directly with the comparable ammunition sold through the regular jobbing and retailing channels.

Recommendation.—If this ammunition continues to be sold by the Government it should be done at prices that will be competitive with the product of the regular manufacturer.

4. EXPORT COMPETITION THROUGH THE SALE AT VERY LOW PRICES, TO FRIENDLY FOREIGN GOVERNMENTS, OF ARMS AND AMMUNITION

Statement of facts.—There have been numerous instances in the last few years where the Government has sold arms and ammunition at very low figures to friendly foreign governments, thereby blocking any possibility of sales by private manufacturers. One particular instance may be cited in connection with Mexico in which one of the large arms manufacturers was negotiating with Mexico for the sale of a large quantity of arms. The Government supplied Mexico with a large quantity of surplus war rifles, thereby effectively ending all negotiations by the Mexican Government with private manufacturers for the production of these arms.

Recommendation.—The Government should be prohibited by law from entering into competition with commercial manufacturers in this fashion.

5. SALE BY GOVERNMENT THROUGH AMERICAN LEGION, NATIONAL RIFLE ASSOCIATION, AND OTHERS, OF OBSOLETE EQUIPMENT AT SCRAP PRICES

Statement of facts.—The industry is informed that thousands of Krag-Jorgensen rifles have been disposed of in a manner so that the user can obtain them through service organizations at about $2.00 each. This displaces the sale of rifles of a similar type which might be supplied by private manufacturers. Further, it is understood that the stock of Krag rifles formerly held by the Government has been depleted in this manner.

Recommendation.—The industry protests against the marketing of further obsolete models, should stocks of them accumulate, except at prices in line with similar guns made by private concerns.

GENERAL STATEMENT

The arms and ammunition industry is not a growing one. Therefore, if the Government is to depend upon private enterprise, as it must, for the major portion of its war matériel, these manufacturers should be encouraged to keep abreast of the times and placed in position of always being able to furnish the necessary supplies, without having to incur losses that would result if orders were taken on the basis of present Government accounting practice.

The industry is in complete agreement with the resolution adopted at the August 4th, 1932, meeting of the Manufacturers' National Committee on Government Competition with Private Industry, and believes they express the situation adequately.

Sporting Arms and Ammunition Manufacturers' Institute,
C. Stewart Comeaux, *Secretary,*
103 Park Avenue, New York, N. Y.
September 20th, 1932.

Exhibit No. 1302

[Gov. Bus.—P. S. du Pont, file.]

Naval Consulting Board of the United States
Hotel Biltmore, New York City,
December 4, 1916.

Du Pont de Nemours Powder Co.,
Wilmington, Del.
(Attention of Mr. Pierre S. duPont.)

Dear Mr. DuPont: You will receive, within a day or two, a communication from the board created under section 121 of the Army bill and now in session at the War Department.

This board is composed of officers of the Regular Army and civilians, and its report, which must be ready for Congress before January, will, of necessity, have considerable weight in the argument for or against Government manufacture of munitions and Government ownership of munition plants.

I believe that close observation of European conditions during two and one-half years of the war has convinced all of us who have experience in manufacturing matters that any comprehensive plan for true military and naval preparedness, in this or any other country, must be based upon the most careful education, organization, and co-ordination of the industrial forces in every line. The foreign war has shown us the utter futility of dependence upon Government-owned plants alone for fitting this Nation to defend itself in the event of future aggression upon the part of even any one of the several first-class powers. Private industry in all the varied lines of Governmental supply must be encouraged and not discouraged. It must be educated, organized, and trained for the national emergency service. A closer and more mutually satisfactory business relation must be established between the industrial lines and every Department of the Government, and the work of the newly created Council of National Defense must be directed to this end.

But just now, it is the need that the frankest plssible co-operation and assistance be given to this board, which is to report upon the feasibility of Government manufacture of "arms, munitions and equipment". This board needs facts as to costs and the proper methods of figuring them, in order that a reasonable accurate analysis of the problem in hand may be made, and an intelligent and convincing report rendered to Congress.

May we ask your active aid, in accordance with the more formal request over the signature of Colonel Francis J. Kernan, President of the Board? The report of this body, if based upon facts and statements of business attitude such as you can supply, should go far towards settling, once for all, the question of Governmental munition manufacture.

It is the desire to record in the report of this board a concise and convincing statement of the attitude of the average patriotic American manufacturer toward Government business. Constructive criticism and suggestion as to present Governmental methods of business dealing will be strictly in order. I have myself, during tke past week, spent a day before this board, and desire to strongly second its request for your assistance.

The first meeting of the Council of National Defense and its Advisory Commission will be held in the office of the Secretary of War, December 6th, and within the six months thereafter it is our hope that we may lay the foundation for that closely knit structure, industrial, civil and military, which every thinking American has come to realize is vital to the future life of this country, in peace and in commerce, no less than in possible war.

Very truly yours,

H. E. Coffin, *Chairman.*

Exhibit No. 1303

Pistol and revolver cartridges, .25, .32, .38, 380, .45 and 9 m/m pistol caliber, and military rifle cartridges 7 m/m, 7.62, 7.65, .30 army, .30 government, 303 British and .50 caliber, and in the case of Mexico, .30 Winchester sporting rifles and cartridges

Country and class	1926	1927	1928	1929	1930	1931	1932	1933	1934, to Sept. 5
Belgium:									
Commercial	$3,000	$1,640	$3,002	$2,009	$1,259	$1,691	$695	$1,384	$1,003
Government									
Total	3,000	1,640	3,002	2,009	1,259	1,691	695	1,384	1,003
Germany:									
Commercial	4,962	5,511	3,367	3,399	3,581	2,203	1,979	2,533	1,080
Government									
Total	4,962	5,511	3,367	3,399	3,581	2,203	1,979	2,533	1,080
United Kingdom, including Ireland:									
Commercial	16,001	19,495	22,497	17,663	11,904	8,954	1,458	5,010	3,593
Government									
Total	16,001	19,495	22,497	17,663	11,904	8,954	1,458	5,010	3,593
Europe, including above:									
Commercial	45,890	55,650	48,380	33,437	27,390	24,273	10,207	20,478	14,274
Government	[1] 327	[1] 241	[2] 10,750						[3] 300
Total	46,217	55,891	59,130	33,437	27,390	24,273	10,207	20,478	14,574
China, including Hong Kong:									
Commercial	1,842	555	1,191	849	3,528	379	1,572	2,117	5,251
Government			405		25,272	14,337	37	2,241	481
Total	1,842	555	2,596	849	28,800	14,716	1,609	4,358	5,732
Japan:									
Commercial	499	323	571	420	1,345				119
Government									
Total	499	323	571	420	1,345				119
Mexico:									
Commercial	33,347	8,922	26,591	33,285	45,983	36,552	17,145	36,116	6,983
Government	812	1,437	16,000	53,125	5,690				
Total	34,159	10,359	42,591	86,410	51,673	36,552	17,145	36,116	6,983
Guns—Government	2,719	3,973		115,317	11,525				

Sales of sporting sizes, rim fire target cartridges, etc., are included in commercial sales.

[1] Norway. [2] Russia. [3] Denmark.

Pistol and revolver cartridges, .25, .32, .38, 380, .45, and 9 m/m pistol caliber, and military rifle cartridges 7 m/m, 7.62, 7.65, .30 army, .30 government, 303 British and .50 caliber, and in the case of Mexico, .30 Winchester sporting rifles and cartridges—Con.

Country and class	1926	1927	1928	1929	1930	1931	1932	1933	1934, to Sept. 5
Cuba:									
Commercial	$9,674	$11,389	$2,854	$5,628	$11,120	$1,148	$644	$903	$1,025
Government					39,500	79,011	261	13,300	
Total	9,674	11,389	2,854	5,628	50,620	80,159	905	14,203	1,025
Dominica:									
Commercial		351		5	222			10	47
Government	8,000	11,633					50		4,406
Total	8,000	11,984		5	222		50	10	4,453
Guatemala:									
Commercial	4,355	9,143	2,099	6,302	14,125	4,860	747	3,661	17
Government		106	3,752	5,283	1,500	9,913		1,977	
Total	4,355	9,249	5,851	11,585	15,625	14,773	747	5,638	17
Honduras:									
Commercial		242		3,236	953	1,199		128	3,226
Government					2,358	4,245			
Total		242		3,236	3,311	5,444		128	3,226
Nicaragua:									
Commercial	7		426	8	74	8	11	4	388
Government						17,465	8	81,074	1,865
Total	7		426	8	74	17,473	19	81,078	2,253
Panama:									
Commercial	4,751	2,131	2,277	4,415	5,972	5,499	1,755	1,874	2,432
Government									400
Total	4,751	2,131	2,277	4,415	5,972	5,499	1,755	1,874	2,832
Salvador:									
Commercial	279	399	454	819	3,720	176	678	987	1,148
Government					23,175		7,845	12,241	4,052
Total	279	399	454	819	26,895	176	8,523	13,228	5,200
Argentina:									
Commercial	24,106	11,050	11,059	17,751	12,638	5,978	5,741	6,744	259
Government		11,518		1,890	17				
Total	24,106	22,568	11,059	19,641	12,655	5,978	5,741	6,744	259
Bolivia:									
Commercial	7,830	5,177	2,990	8,857	5,630	3,587	860	896	139
Government							56,250		1,536
Total	7,830	5,177	2,990	8,857	5,630	3,587	57,110	896	1,675
Brazil:									
Commercial	148,873	167,256	211,540	102,997	390	9,121	1,416	18,101	22,322
Government		171			302		35,750		
Total	148,873	167,427	211,540	102,997	692	9,121	37,166	18,101	22,322
Colombia:									
Commercial	11,711	6,059	7,027	4,102	1,514	572	505	613	330
Government				40					
Total	11,711	6,059	7,027	4,142	1,514	572	505	613	330
Paraguay:									
Commercial		956		62	3,129	1,553			
Government									
Total		956		62	3,129	1,553			
Peru:									
Commercial	28,029	10,264	15,797	11,044	1,267	5,106	666	1,246	1,051
Government									
Total	28,029	10,264	15,797	11,044	1,267	5,106	666	1,246	1,051
Venezuela:									
Commercial	2,025	1,602	2,785	1,638	634	490	53	51	54
Government									
Total	2,025	1,602	2,785	1,638	634	490	53	51	54

EXHIBIT No. 1304

Winchester Repeating Arms Co.

	Year 1932	Year 1933	9 months 1934	Total
Net sales, total	$4,985,000	$4,912,000	$4,793,000	$14,690,000
Net sales, export	541,000	628,000	561,000	1,730,000
Export percent, total	10.9	12.8	11.7	11.8
Export net sales:				
Tools	$400	$100	$100	$600
Guns	41,700	60,600	62,000	164,300
Cutlery	1,500	1,900	2,100	5,500
Met. amm	204,100	246,900	156,900	607,900
Shot shells	32,000	64,800	66,600	163,400
Flash. & batteries	247,700	235,200	258,300	741,200
Fish. tackle	1,100	800	0	1,900
Skates	6,100	4,700	3,500	14,300
Repairs	200	12,900	11,600	30,700
Miscellaneous	6,000			
Total	540,800	627,900	561,100	1,729,800

Exhibit No. 1305

Winchester Repeating Arms Co.

ARGENTINE

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
6-17-27	Min. of War	45 auto Colt F. P	500	$18. 00		$18. 00				$18. 00		
7-8-27	Com de Adquisition	45 auto Colt F. P	200, 000	4, 600. 00		4, 600. 00				4, 600. 00		
7-22-27	Com de Adquisition	45 auto Colt F. P	300, 000	6, 900. 00		6, 900. 00				6, 900. 00		
9-21-29	Arg. Naval Com. Min. of Marine.	45 auto Colt F. P	50, 000	1, 175. 00		1, 175. 00	$23. 50			1, 151. 50		
12-5-29	Arg. Naval Com. Min. of Marine Staynless.	38 long Colt tin L	50, 000	715. 00		715. 00	14. 00			701. 00		
11-17-30	Arg. Naval Com	32 long Colt prd. shells	2, 500	17. 50		17. 50		$0. 87	John H. Graham & Co. Inc., N. Y. C.	16. 63		

BOLIVIA

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
11-30-32	Banco Central de Bolivia.	7.65 ptd. smo. F. P	250, 000	$5, 625. 00	$220. 42	$5, 404. 58		$81. 04	Gabriel Ormachea P	$5, 323. 54	$7, 150. 00	
12-14-32	Banco Central de Bolivia.	7.65 ptd. smo. F. P	1, 330, 000	29, 925. 00	1, 151. 53	28, 773. 47		431. 60	Gabriel Ormachea P	28. 341. 87	38, 038. 00	
12-23-32	Banco Central de Bo-	7.65 ptd. smo. F. P	920, 000	20, 700. 00	796. 77	19, 903. 23		298. 55	Gabriel Ormachea P	19, 604. 68	26, 312. 00	
			2, 500, 000	56, 250. 00	2, 168. 72	54, 081. 28		811. 19		53, 270. 09	71, 500. 00	$18,229.91
4-26-34	Govt. Bolivia	38 Colt special stayn. lead.	120, 000	1, 536. 00	70. 16	1, 465. 84		72. 00	Gabriel Ormachea P	1, 393. 84	962. 65	431. 19

Winchester Repeating Arms Co.—Continued

BRAZIL

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
9-21-27	Colt Pat. F. A. Mfg. Co.	45 auto Colt	2,500	$75.58		$75.58	$1.51			$74.07		
		38 auto Colt	2,500	67.50		67.50	1.35			66.15		
		38 Colt spec	1,500	28.07		28.07	.56			27.51		
6-19-30	Comd'r J. C. Aguirre N. A. for Min. War Rio.	45 auto Colt	10,000	302.30		302.30				302.30		
9-29-32	Govt. Est. Minas Geraes (Mayrink Veiga St.).	7 m/m Braz. mauser Rd. F. P.	250,000	5,625.00	$174.93	5,450.07					$4,520.00	
10-6-32	Govt. Est. Minas Geraes (Mayrink Veiga St.).	7 m/m Braz. mauser Rd. F. P.	275,000	6,187.50	186.56	6,000.94					4,972.00	
10-13-32	Govt. Est. Minas Geraes (Mayrink Veiga St.).	7 m/m Braz. mauser Rd. F. P.	775,000	17,437.50	541.50	16,896.00					14,012.00	
10-25-32	Govt. Est. Minas Geraes (Mayrink Veiga St.).	7 m/m Braz. mauser Rd. F. P.	200,000	4,500.00	134.74	4,365.26					3,616.00	
	Total		1,500,000	33,750.00	1,037.73	32,712.27	345.00	$640.50	F. S. Jonas	31,726.77	27,120,00	$4,606.77
11-9-32	United Aircraft Co.	7 m/m ptd. tracer	50,000	2,000.00	37.95	1,962.05		60.00	F. S. Jonas	1,902.05	1,178.00	724.05

CHINA

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
10-5-28	Colt P. F. A. Mfg. Co.	32 auto Colt F. P	5,000	$90.70		$90.70	$4.54			$86.16		
	Macau	38 Colt N. P. stayn	20,000	313.80		313.80	15.69			298.11		
1-11-30	Un. Aircraft Co	30 Govt. 06 tin L	500,000	20,000.00		20,000.00				20,000.00		
2-7-30	Colt Pat. F. A. Mfg. Co	380 auto Colt	10,000	218.50		218.50	4.37			214.13		
11-13-30	Un. Aircraft Co	30 Govt. 06	20,000	665.00		665.00				665.00		
12-15-30	Un. Aircraft Co	30 Govt. 06	132,000	4,389.00		4,389.00	87.78			4,301.22		
7-17-31	Curtiss Wright	30 Govt. 06	500,000	14,336.96		14,336.96				14,336.96		
12-28-32	Curtiss Wright	30 Govt. 06, 150 Gr. F. P.	500	27.09		27.09				27.09	$16.10	
		38 S. & W. Spec. Stayn. F. P.	250	4.41		4.41				4.41	2.15	
		38 auto Colt stayn F. P.	250	5.90		5.90				5.90	2.78	
										37.40	21.03	$16.37

9-21-33	Hong Kong Sptg. Arms Store.	50 cal. service	1,200	300.00		300.00	6.00			294.00	171.37	122.63
		50 cal. armor piercing	1,500	412.50		412.50	8.25			404.25	214.22	190.03
9-21-33	Outdoor Spts. Equip. Co.	45 auto Colt ctgs. F. P	16,000	391.84		391.84				391.84	153.12	238.72
		38 Colt N. P. stayn	10,000	127.10		127.10				127.10	57.10	70.00
9-27-33	Hong Kong Sptg. Arms Store.	45 cal. tracer	250	68.75		68.75	1.38			67.37	62.50	4.87
12-18-33	Outdoor Spts. Equip. Co.	38 S. & W. stayn. lead	16,000	234.39		234.39		$11.72	Outdoor Sports Equip. Co.	227.67	103.42	124.25
12-27-33	Outdoor Spts. Equip. Co.	38 S. & W. stayn. lead	50,000	706.00		706.00		35.30	Outdoor Sports Equip. Co.	670.70	311.50	359.20
4-24-34	Hosken Trading Co., Inc., New York, N.Y.	38 Colt spec. stayn. 158 grs.	7,000	120.54								
		7.65 m/m mauser smo. F. P.	10,000	239.30								
		380 auto Colt stayn. F. P.	2,000	46.04								
		7.65 Luger stayn. F. P.	2,000	47.86								
		32 S. & W. long stayn. M. P.	2,000	26.96								
	Total			480.70	$8.95	471.75				471.75	316.62	155.13
COLOMBIA												
9-18-29	Min. of War	30 Govt. 06,150 gr. F. P	500									
		30 Govt. 06,220 gr. F. P	500	$40.00		$40.00		$2.00	A. H. Grob. Bogata, Col.	$38.00		
CUBA—SALES FOR GOVERNMENT												
7-23-30	Secty. of War	30 Govt. 06 boattail	203,000	$8,018.50	$151.60	$7,866.90		$507.50				
8-18-30	Secty. of War	30 Govt. 06 boattail	797,000	31,481.50	595.65	30,885.85		1,992.50				
	Total		1,000,000	39,500.00	747.25	38,752.75		2,500.00	F. Rodriguez	$36,252.75		
6-17-31	Mendez Capote to Ramon Lopez K—Wash.	30 Govt. 06	200	10.83		10.83		.81	A. V. Alvaredo, Jr	10.02		
6-16-31	Minister of War & Marine.	30 Govt. 06 boattail	500,000	19,750.00	383.25	19,366.75						
6-25-31	Minister of War & Marine.	30 Govt. 06 boattail	500,000	19,750.00	383.25	19,366.75						
	Total		1,000,000	39,500.00	766,50	38,733.50		600.00 3,000.00	E. E. Jonas F. Rodriguez	35,133.50		
9-3-31	Minister of War & Marine.	30 Govt. 06 boattail	100,000	3,950.00	165.05	3,784.95						
9-15-31	Minister of War & Marine.	30 Govt. 06 boattail	400,000	15,800.00	334.43	15,465.57						

Winchester Repeating Arms Co.—Continued

CUBA—SALES FOR GOVERNMENT—Continued

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
9-28-31	Minister of War & Marine.	30 Govt. 06 boattail	500,000	$19,750.00	$418, 05	$19,331.95						
	Total		1,000,000	39,500.00	917.53	38,582.47		$600.00 3,000.00	E. F. Jonas F. Rodriguez	$34,982.47		
8-31-32	Policia Nacional	32 S & W long stayn	2,000	27.06		27.06					$8.92	
		38 S & W stayn	3,000	47.07		47.07					15.15	
		38 S & W spec. stayn	10,000	187.10		187.10					63.20	
	Total			261, 23		261.23		49.63	F. Rodriguez	211.60	87.27	$124.33
12-12-33	Intl. Ord. & Inst. Co. (Dept. Materials & War).	45 auto colt F. P.	50,000	700.00		700.00				700.00	493.50	206.50
12-20-33	Intl. Ord. & Inst. Co	30 Govt. 06-150 gr. F. P.	300,000	7,560.00		7,560.00						
12-28-33	Intl. Ord. & Inst. Co	30 Govt. 06-150 gr. F. P.	200,000	5,040.00		5,040.00						
	Total		500,000	12,600.00		12,600.00				12,600.00	10,290.00	2,310.00

DOMINICA REP.

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
4-9-26	Pou Bros. & Co., N. Y. Domincan Govt.	30 Army smo. F. P. 220 gr.	25,000	$1,000.00								
4-22-26	Pou Bros. & Co., N. Y. Domincan Govt.	30 Army smo. F. P. 220 gr.	50,000	2,000.00								
4-29-26	Pou Bros. & Co., N. Y. Domincan Govt.	30 Army smo. F. P. 220 gr.	125,000	5,000.00								
	Total		200,000	8,000.00				$360.00	Luis Nicolas	$7,640.00		
6-2-27	Pou Bros. & Co., N. Y. Guardia Nat'l, N. Y	30 Govt. 06 F. P. ptd 150 gr. in clips	40,000	1,750.00								
6-16-27	Guardia Nat'l, N. Y	150 gr. in clips	120,000	5,250.00								
7-5-27	Guardia Nat'l, N. Y	150 gr. in clips	90,000	3,937.50								
	Total		250,000	10,937.50								
8-4-27	Yglesias & Co., N. Y. C.	38 S & W Spec. smo. lead	40,000	696.00			$13.92					

5-20-32	Lyman Gun Sight Corp.	Primers 30 Govt	4,200	7.88						7.88	$3.26	$4.62
		Bullets 30 Govt	3,000	42.00						42.00	11.91	30.09
				49.88						49.88	15.17	34.71
1-11-34	Dominican Govt	45 auto Colt stayn. F. P.	100,000	1,500.00								
		30 Govt. M/06 ptd. F. P.	100,000	2,800.00								
		150 grs		4,300.00	$112.41	$4,187.59		50.00	Cowdrey & Co., New York, N. Y.	4,137.59	3,612.10	525.49
7-10-34	National Army, Dominican Republic.	38 S & W spec. stayn. M. P.	6,000	105.72		105.72				105.72	52.96	52.76

GUATEMALA

7-7-27	Colt Pat. F. A. Mfg. Co.	38 S & W spec	4,000	$74.84		$74.84	$5.23			$69.61		
		38 Colt N. P.	2,000	31.28		31.38	2.20			29.19		
2-13-28	Van der Henst	38 S & W spec. smo	100,000	1,871.00		1,871.00	37.42					
		38 S & W smo. lead	30,000	470.70		470.70	9.41					
		38 L. Colt smo. lead	21,000	350.70		350.70	7.01					
		38 S & W long smo lead	20,000	270, 60		270.60	5.41					
		32 S & W smo. lead	20,000	241.80		241.80	4.84					
	Total			3,204.80		3,204.80	64.09	$320.48	Van de Henst & Cia	2,820.23		
7-5-28	Julius Leventhal	30 Army	10,000	547.00		547.00	51.14			495.86		
7-31-29	Govt. Guatemala A/C Van de Henst & Cia.	32 S & W long smo. lead	50,000	650.00		650.00	13.00					
		32 S & W smo. lead	5,000	58.00		58.00	1.16					
		32 auto Colt	5,000	85.50		85.50	1.71					
		38 long Colt smo	5,000	81.50		81.50	1.63					
		38 Auto Colt smo. F. P.	1,000	24.25		24.25	.49					
		38 S & W smo. lead	100,000	1,540.00		1,540.00	30.80					
		38 S & W spec. smo. lead	150,000	2,745.00		2,745.00	54.90					
		38 auto Colt	4,000	98.60		98.60	1.97					
	Total			5,282.85		5,282.85	105.66	528.29	Van der Henst & Cia	4,648.90		
6-19-30	Min. of War	45 auto Colt	10,000	1,500.00		1,500.00				1,500.00		
3-25-31	Min. of War	45 auto Colt	250,000	5,375.00		5,375.00	107.50			5,267.50		
7-29-31	Min. of War	38 S & W	225,000	1,887.75								
		38 S & W spec	225,000	2,286.75								
		32 S & W long	10,000	75.50								
		32 auto Colt	10,000	102.70								
		38 auto Colt	15,000	206.25								
	Total			4,558.20	$353.62	4,204.58				2,204.58		
5-13-32	Min. of War	44 S & W stayn. lead	400	No. chg.								
11-9-32	Min. of War	8 m/m	20	No. chg.								
		7 m/m Mauser	40									

Winchester Repeating Arms Co.—Continued

GUATEMALA—Continued

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
2-15-33	Western Ctg. Co. Min. of War Escuela Poletecnica	7 m/m tracer	2,000	$160.00		$160.00				$160.00	$71.10	$88.90
10-31-33	Min. of War	7 m/m pointed F.P. stayn.	50,000	1,200.00	$80.01	1,119.99		$60.00	Edward B. Coffey	1,059.99	982.00	77.99
8-1-33	Min. War	380 auto Colt stayn. F. P. 32 S & W long stayn	5,000 50,000	95.10 522.00				15.43 30.85	Vicente Guruceta Edward B. Coffey c	530.02	273.35	256.67
				617.10	40.80	576.30		46.28				

HONDURAS

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
11-20-30	H. & D. Folsom Arms Co.	32 S & W long	20,000	$241.80		$241.80	$4.84					
		38 S & W spec	70,000	1,169.00		1,169.00	23.38					
		38 S & W staynless	70,000	947.10		947.10	18.94					
	Total			2,357.90		2,357.90	4,716	$471.58	J. T. Wolfe, N. Y. C.	$1,839.16		
2-25-31	H. & D. Folsom Arms Co.	38 S & W spec	140,000	2,104.20		2,104.20	462.92			1,641.28		
		32 S & W long	40,000	435, 20		435.20	95.74			339.46		
		38 S & W staynless	140,000	1,705.20		1,705.20	375.14			1,330.06		

MEXICO

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
9-27-26	Secty. of War	Rifles 94-30 W.C.F Rifles 95-30 Army	24 2	$631.60		$631.60		$37.90	The General Comm. Co.	$593.70		
12-9-26	Aduana Fronteriza of Neuva Laredo c/o Standard Exp. & Supply, Laredo.	Rifles 95-30 Army	72	2,088.00		2,088.00	$41.76			2,046.24		
		30 Army ctgs. F.P	13,000	812.50		812.50	16.25			796.25		
3-16-27	Standard Expt. & Supply, Laredo.	Carbines 95-30 Army	137	3,973.00		3,973.00	178.78			3,794.22		
		30 Army ctgs	23,000	1,437.50		1,437.50	64.69			1,372.81		
6-18-28	Dalkowitz Bros	30 W.C.F	100,000	2,800.00		2,800.00	140.00			2,660.00		
7-16-28	Dalkowitz Bros	30 W.C.F	400,000	11,200.00		11,200.00	560.00			10,640.00		
7-17-28	Dalkowitz Bros	303 British	50,000	2,000.00		2,000.00	100.00			1,900.00		

3-8-29	Secty. of War	Carbines 94/30 W.C.F	1,910	37,722.50		37,722.50				37,722.50		
		Rifles Rd. 94/30 W.C.F	400	8,540.00		8,540.00				8,540.00		
		Rifles Oct. 94/30 W.C.F	300	6,915		6,915.00				6,915.00		
		Carbines 51/30 W.C.F	2,390	62,140.00		62,140.00				62,140.00		
		30 W.C.F ctgs	300,000	9,900.00		9,900.00				9,900.00		
3-22-29	Secty. of War	303 Brit. rd	35,000	1,400.00		1,400.00				1,400.00		
		303 Brit. ptd	15,000.00	720.00		720.00				720.00		
3-28-29	Secty. of War	303 Brit. rd	90,000	3,600.00		3,600.00				3,600.00		
		303 Brit. ptd	110,000	5,280.00		5,280.00				5,280.00		
4-6-29	Secty. of War	303 Brit. rd	125,000	5,000.00		5,000.00				5,000.00		
		303 Brit. ptd	125,000	6,000.00		6,000.00				6,000.00		
5-29-29	Secty. of War	7.62 Russian	500,000	21,225.00		21,225.00				21,225.00		
2-24-30	Hansen & Orth, N. Y. to Govt. State Yucatan.	Rifles 94/30 Oct	500	11,525.00		11,525.00	230.50			11,294.50		
		30 W.C.F. ctgs	150,000	4,500.00		4,500.00				4,500.00		
		45 auto colt	30,000	690.00		690.00				690.00		
		38 auto colt	25,000	500.00		500.09				500.00		

NICARAGUA—SALES FOR GOVT.

6-17-31	Guard National	38 S. & W. spec. stayn. lead.	25,000	$350.00								
	U.S.M.C., Phila	38 short Colt stayn. lead	5,000	60.00								
	Total			410.00	$6.42	$403.58	$8.20			$395.38		
9-18-31	U.S.M.C., Phila	30 Army—F.P	50,000	1,705.50		1,705.50						
9-25-31	U.S.M.C., Phila	30 Army—F.P	100,000	3,411.00		3,411.00						
10-5-31	U.S.M.C., Phila	30 Army—F.P	150,000	5,116.50		5,116.50						
10-8-31	U.S.M.C., Phila	30 Army—F.P	100,000	3,411.00		3,411.00						
10-19-31	U.S.M.C., Phila	30 Army—F.P	100,000	3,411.00		3,411.00						
	Total		500,000	17,055.00		17,055.00				17,055.00		
1-21-32	U.S.M.C., Phila	9 m/m Luger F.P	200	4.89		4.89	.10			4.79	$1.85	$2.94
6-24-32	U.S.M.C., Phila	32 Rem. auto S.P	200	2.94		2.94	.06			2.88	2.73	.15
1-9-33	U.S.M.C., Phila	45 auto Colt F.P	25,000	446.25							322.00	
		38 S. & W. spec. stayn. lead.	10,000	165.00							87.20	
		30 Army—F.P	50,000	1,525.00							174.00	
	Total			2,136.25	145.12	1,991.13		199.12	Rodolfo Sengelmann	1,792.01	1,583.20	208.81
3-7-33	Lawrence D. Seville, N.Y.	30 Army—F.P	76,000	2,318.00	98.93	2,219.07	608.00			1,611.07	1,624.12	13.05
3-13-33	Lawrence D. Seville, N.Y.	30 Army—F.P	424,000	12,932.00	573.88	12,358.12	3,392.00			8,966.12	9,060.88	94.76

Winchester Repeating Arms Co.—Continued

NICARAGUA—SALES FOR GOVT.—Continued

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net Inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
7-24-33	Lawrence D. Seville, N.Y.	9 m/m Luger stayn. F.P.	5,000	$110.20		$110.20	$5.51					
		7.65 Luger stayn. F.P.	5,000	106.15		106.15	5.31					
		45 auto Colt—F.P.	20,000	489.80		489.80	188.17					
		25 auto Colt—F.P.	2,000	27.06		27.06	1.35					
		38 S. & W. spec. blk.	60,000	771.00		771.00	38.55					
		38 S. & W. spec. blk.	10,000	77.60		77.60	3.83					
		32 S. & W. long blk.	10,000	98.00		98.00	4.90					
		38 long Colt blk.	2,000	23.80		23.80	1.19					
	Total			1,703.61		1,703.61	248.81	$4,192.00	Lawrence D. Seville	$1,412.88	$801.87	$611.01
7-24-33	Edwardo Vargas	Bullets 38 S. & W. spec.	60,000	216.00		216.00	10.80					
		Bullets 38 S. & W.	10,000	32.00		32.00	1.60					
		Bullets 32 S. & W. long	10,000	29.00		29.00	1.45					
		Bullets 38 long Colt	2,000	6.60		6.60	.33					
	Total			283.60		283.60	14.18	7.09	Lawrence D. Seville, N.Y.C.	262.33	141.80	120.53
8-10-33	Govt. Nic.	30 Army—F.P.	34,000	1,054.00	$48.23	1,005.77	189.77					
8-24-33	Govt. Nic.	30 Army—F.P.	366,000	11,346.00	512.39	10,833.61	2,049.61					
9-5-33	Govt. Nic.	30 Army—F.P.	100,000	3,100.00	140.50	2,959.50	559.50					
	Total		500,000	15,500.00	701.12	14,798.88	2,798.88		Lawrence D. Seville, N.Y.C.	12,000.00	8,302.00	3,698.00
10-18-33	Govt. Nic.	45 auto Colt F.P.	84,000	1,218.00								
		30 Govt. 06-150 F.P.	100,000	2,670.00								
		38 S. & W. spec. stayn. lead.	118,000	1,416.00								
	Total			5,304.00	287.00	5,017.00		125.43	Vicente Guruceta	4,891.56	3,649.16	1,242.41
10-31-33	Consul Gen'l, New York	9 m/m Luger—F.P.	200	No chg.								
		38 S. & W. spec. stayn.	200									
		38 S. & W.	200									
11-1-33	Govt. Nic.	38 S. & W. spec. stayn.	32,000	384.00								
		30 Govt. 06-150 gr. F.P.	900,000	24,030.00								
		45 auto Colt—F.P.	216,000	3,132.00								
	Total			27,546.00	1,372.22	26,173.78		654.35	Vicente Guruceta	25,519.43	20,816.96	4,702.47

12-12-33	G vt. Nic	30 Govt. 06-150 gr. F.P	500,000	13,350.00	634.22	12,715.78		317.89	Vicente Guruceta	12,397.89	10,290.00	2,107.89
4-17-34	Govt. Nic	38 auto Colt F.P	100,000	1,600.00	63.62	1,536.38				1,536.38	991.34	545.04
6-27-34	Guardia Nac de Nicaragua.	38 S. & W. stayn	1,000	1,412.00		1,412.00						
		351 Win. S. L. stayn. S.P	1,000	31.49		31.49						
		32 long Colt stayn	5,000	60.90		60.90						
		38 S. & W. stayn	4,000	56.48		56.48						
		380 auto Colt stayn. F.P	1,000	22.68		22.68						
		30 W.C.F. F.P	1,000	37.46		37.46						
		250/3000 Savage stayn. F.P.	1,000	41.47		41.47						
	Total			264.60		264.60		26.46	Vicente Guruceta	238.14	131.18	106.96

PANAMA

1-25-34	Export Consolidated Co.'s, New York, N.Y.	45 auto Colt stayn. F.P	25M	$400.00		$400.00	$8.00			$392.00	$302.19	$89.81

SALVADOR

3-6-30	Min. of Hacienda	38 S & W spec. smo	200,000	$3,916.00		$3,916.00						
		45 auto Colt	20,000	604.60		604.60		$1,399.29	J. Saul Garcia			
		32 S & W long smo	100,000	1,468.00		1,468.00		466.43	V. Guruceta			
		38 S & W smo	200,000	3,340.00		3,340.00						
	Total			9,328.60		9,328.60		1,865.72		$7,462.88		
6-2-30	Min. of Hacienda	38 S & W	100,000	1,353.00		1,353.00						
		32 Browning	10,000	181.40		181.40						
		32 Savage	10,000	181.40		181.40						
		38 Browning	10,000	262.00		262.00						
		38 Savage	10,000	262.00		262.00						
	Total			2,239.80		2,239.80		391.97	J. Saul Gacia	1,847.83		
6-28-30	Min. of Hacienda	38 S & W spec. stayn	200,000	3,742.00		3,742.00						
		32 S & W long stayn	50,000	676.50		676.50						
		38 S & W short stayn	200,000	3,138.00		3,138.00						
		32 S & W short stayn	30,000	362.70		362.70						
		32 auto Colt	15,000	272.10		272.10						
		32 auto Browning stayn	10,000	181.40		181.40						
		38 auto Browning stayn	10,000	262.00		262.00						
		38 Colt spec. stayn	50,000	935.50		935.50						
		38 short Colt stayn	75,000	1,176.75		1,176.75						
		32 long Colt stayn	50,000	676.50		676.50						
	Total			11,423.45		11,423.45		1,999.10	J. Saul Garcia	9,424.35		

Winchester Repeating Arms Co.—Continued

SALVADOR—Continued

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
7-10-30	Min. of War & Marine	380 Colt auto	2,000	$50.38		$50.38						
		38 Colt auto	3,000	78.60		78.60						
	Total			128.98		128.98		$25.80	J. Saul Garcia	$103.18		
7-16-30	Min. of War & Marine	32 Colt auto	3,000	54.42		54.42		10.88	J. Saul Garcia	43.54		
2-5-32	Min. of Hacienda	38 S & W stayn	100,000	1,569.00							$555.00	
		38 S & W spec. stayn	100,000	1,871.00							667.00	
		32 S & W long stayn	75,000	1,014.00							373.50	
		38 auto Colt F. P.	5,000	131.00							44.40	
		45 auto Colt F. P.	15,000	453.45							157.05	
		38 Colt spec.	150,000	2,806.50							1,012.50	
	Total			7,844.95	$394.91	7,450.04		1,490.01	J. Saul Garcia	5,960.03	2,809.45	$3,150.58
1-16-33	Min. of War	45 auto Colt F. P.	200,000	2,940.00	176.79	2,763.21		40.00	J. Saul Garcia	2,723.21	2,574.00	149.21
1-18-33	Min. of War	38 auto Colt F. P.	25,000	372.50	15.34	357.16		30.00	J. Saul Garcia	327.16	282.75	44.41
5-31-33	Min. Hacienda	38 S & W spec. stayn	109,000	1,248.05							740.11	
		38 S & W short stayn	107,500	1,015.88							625.65	
		45 auto Colt F. P. stayn	10,000	146.50							107.00	
		38 long Colt F. P. stayn	96,000	1,113.60							665.28	
	Total			3,524.03	190.55	3,333.48		59.03	J. Saul Gracia	3,274.45	2,138.04	1,136.41

SALVADOR

Date	Invoiced to	Caliber	Quantity	Inv. val.	Less cost del. on c. i. f. prices	Net inv. value f. o. b. N. Y.	Disc. allowed customer	Comm.	To whom paid	Net recd. by W. R. A.	Factory cost W. R. A.	Gross profit W. R. A.
11-13-33	Min. of Hacienda	45 auto Colt F. P. stayn	12,500	$250.00								
		38 S & W Colt F. P. stayn	75,000	953.25								
		32 S & W long F. P. stayn	37,500	411.00								
		38 S & W spec. F. P. stayn	100,000	1,516.00								
		38 Colt spec. F. P. stayn	150,000	2,274.00								
	Total			5,404.25	$239.20	$5,165.05		$810.64	J. Saul Garcia	$4,354.41	$2,384.01	$1,970.40
6-27-34	Ministerio de Hacienda	25 auto Colt F. P. stayn	2,500	37.58								
	Gobierno De El Salvador	32 auto Colt F. P. stayn	37,500	467.13								
		32 S & W long stayn	2,500	30.45								
		38 S & W spec. stayn	125,000	2,105.00								
		38 S & W	100,000	1,412.00								
	Total			4,052.16	164.00	3,888.16		583.22	J. Saul Garcia	3,304.94	2,089.50	1,215.44

EXHIBIT NO. 1306

NOVEMBER 28/1934.

AGENCY ARRANGEMENTS OF WINCHESTER REPEATING ARMS CO.

APPLY TO WESTERN BRAND AMMUNITION ONLY

Argentine.—Agent, Otto Eberson, Buenos Aires. Commission, commercial, 5% ammunition; government, no.

Australia, New South Wales.—Exclusive district, Noyes Bros. (Sydney) Ltd., Sydney. Discount, commercial, 5% ammunition, 2½% extra .22 cal.; government, no.

Australia, Victoria & Tasmania.—Exclusive district, Noyes Bros. (Melbourne) Ltd., Melbourne. Discount, commercial, 5% ammunition, 2½% extra .22 cal. rim fire cartridges; government, no.

Australia, So. Australia.—Exclusive district, Colton Palmer & Preston Ltd., Adelaide. Discount, commercial, 5% ammunition, 2½% extra .22 cal. r. f. cartridges; government, no.

Brazil, Manaos.—Agent, J. V. D. Oliveira, Manaos. Commission, commercial,, 7½% ammunition; government, no.

Brazil.—Agent, Casa & Mayrink, Veega St., Rio Janeiro. Exclusive agents government business. Generally quote a net price, but sometimes quote price with discount or commission of 5%.

British Honduras.—Agent, G. Ayuso & Son, Belize. Commission, commercial, 5% ammunition; government, no.

Costa Rica.—Exclusive dealer, Robert Hermanos, San Jose. Discount, commercial, 5% ammunition; government, no. Agent, International Agencies, San Jose. Commission, commercial, 5% ammunition sales to Robert Hnos; government, no arrangement.

Chile.—Agent, O. H. Mitchell, Santiago. Commission, commercial, 7½% ammunition; government, no arrangement.

Egypt.—Agent, E. Limongelli, Alexandria. Commission, commercial, 5% ammunition; government, no arrangement.

Finland.—Agent, August Winkelman, Copenhagen, through John H. Graham & Co., New York. Commission, commercial, 10% ammunition; government no.

French Indo China.—Exclusive distributor, Maison Didier, Saigou. Discount, commercial, 7½% ammunition; government, no.

Great Britain & Irish Free State.—Agent, J. G. Rollins & Son, New York. Commission, commercial, 10% ammunition; government, no.

France.—Wholesale distributor, Ch. Andre & Co., Paris. Commission, commercial, 5% ammunition; government, no.

Germany.—Wholesale distributor, Peters Arms Co., Hamburg. Commission, commercial, 5% ammunition; government, no.

Guatemala.—Agent, Edward B. Coffey, Guatemala City. Commission, commercial, 7½% ammunition; government, commission to be determined in each case.

Haiti.—Agent, J. B. Vital, Port-au-Prince. Commission, commercial, 7½%; government, no.

Hong Kong & Provinces Kwantung Hunau Kwangsi in So. China.—Agent, Hongkong Sporting Arms Store. Commission, commercial, 5% ammunition & extra 2½% on their own purchases of shot shells; government 5% when sold at regular prices. Large quantities special net prices.

India, Bombay only.—Agent, Goolamhussein Allebhoy & Sons, Bombay. Commission, commercial, 2½% ammunition; government, no.

Italy & Colonies, Bengasis, Tripoli & Albania.—Agent, A. Fusi & Co. Commission, commercial, 10% rim fire cartridges only; government, no.

Jamaica.—Agent, Robertson, Stott & Co., Ltd., Kingston. Commission, commercial, 10% on own purchases ammunition, 5% on other purchasers' ammunition; government, no.

Japanese Empire Inc., Korea, Formosa & So. Manchuria.—Agent, Frazar & Co., New York. Commission, commercial, 7½% ammunition; government, no.

Java.—Exclusive distributor, Tio Tek Hong, Batavia. Commission, commercial, 5%; government, no.

Kenya Colony & Uganda, British E. Africa.—Agent, Shaw & Hunter, Nairobi. Commission, commercial, 7½% ammunition; government, no.

New Zealand.—Exclusive distributor, Turner & LeBrun, Christchurch. Discount, commercial, 5% ammunition; government, no.

Norway.—Agent, O. Chr. Syvertson, Oslo. Commission, commercial, 10% ammunition; government, no.

Panama & Canal Zone.—Agent, Lando & Maduro, Panama. Commission, commercial, 7½% ammunition; government, no.

Porto Rico.—Agent, J. M. Pedreira & Sons, San Juan. Commission, commercial, 7½% ammunition; government, no arrangement.

Philippines.—Agent, Philippines Trading Co., Manila. Commission, commercial, 5% ammunition own purchases, 1% ammunition purchases of others; government, no.

Portugal.—Agent, Felix Kalinhoff, Lisbon. Commission, commercial 5% ammunition; government, no.

Salvador.—Agent, J. D. Mendez, San Salvador. Commission, commercial, 7½% ammunition; government subject to consideration each time. Last quotation 2½%.

Siam.—Agent, Frank D. Van Nostrand, New York. Commission, commercial, 2½% except orders for Seng Guam Triangle Stores, Station Fire Arms Co., Bhatana Fire Arms Co., Jawarad Co., C. H. Feck & International Engineering Co.; government, no.

Spain.—Agent, Djaugureu & Vidosa, Eibar. Commission, commercial, 10% ammunition; government, no.

Union of So. Africa.—Agent, Jno. H. Graham & Co., New York. Commission, commercial, 7½% ammunition or 10% if bills paid by Graham; government, no.

Venezuela.—Agent, Monch & Liebenschutz, Caracos. Commission, commercial, 5%; government, no.

Virgin Islands.—Agent, G. H. Seaman, St. Croix. Commission, commercial 5%; government, no.

EXHIBIT NO. 1307

Nov. 26/34.

AGENTS AND COMMISSION RATES WINCHESTER BRAND ARMS & AMMUNITION

Argentine.—Agent, Robert Roehrig, Buenos Aires, through John H. Graham & Co., New York. Commission, commercial, 5% arms and ammunition; Government, 5% arms and ammunition if sold at regular prices. Large orders at special prices not covered by our arrangement. Meeke & Co., New York, commission, commercial, 10% on center-fire cartridges shipped to Hasenclever, Buenos Aires, only.

Australasia.—Factory representative, Edgar Duncan, Sydney. Commercial business, salary and traveling expenses. No Government arrangements.

Austria.—Wholesale distributor, Peters Arms Company, Hamburg.

Barbados.—Agent, Frank B. Armstrong, Bridgetown. Commission, commercial, 7½% arms and ammunition; Government. No arrangement.

Belgian and Belgian Congo.—Agent, Raick Freres, Liege. Commission, commercial, 5% arms and ammunition; Government. No arrangement.

Bolivia.—Agent, Gabriel Ormachea P., LaPage. Commission, commercial, 7½% arms and center fire cartridges; commercial, 5% rim fire cartridges; Government. No definite rate, subject to consideration in each case, has varied from 1 to 5%.

Brazil.—General agent, John C. Long & Co., Rio de Janeiro. Commission, commercial, 2½% arms and ammunition, all Brazil; commercial 2½% arms and ammunition additional on shipments to Rio; Government. No arrangement, quote on request, net or including small commission.

States of Marauhao and Piauky: Agent, Besser & Company, Marauhao. Commission, commercial, 1% arms and ammunition; government, no arrangement.

State of Alagoas: Agent, Arthur Bulhoes, Maceio. Commission, commercial, 1% arms and ammunition; government, no arrangement.

State Rio Grande do Sul: Agent, J. A. Couto, Rio Grande. Commission, commercial, 2½% arms and ammunition; government, no arrangement.

State Aracaju: Agent, Dantas & Krauss, Aracaju. Commission, commercial, 2½% arms and ammunition; government, no arrangement.

State Florianopolis: Agent, Vasco Goudin, Floreanapolis. Commission, commercial, 2% arms and ammunition; government, no arrangement.

State Pernambuco: Agent, Just & Comp, Recife. Commission, commercial, 5% arms and ammunition; government, no arrangement.

State Rio Grande do Norte: Agent, Leandro & Cia, Natal. Commission, commercial, 2½% arms and ammunition; government, no arrangement.

State Para: Agent, Luis C. Martin & Cia, Para. Commission, commercial, 2% arms and ammunition; government, no arrangement.

State Porto Alegre: Agent, Martins & Cia, Porto Alegre. Commission, commercial, 5% arms and ammunition; government, no arrangement.

State Mauaos: Agent, Pascoa & Monteiro, Mauaos. Commission, commercial, 3% arms and ammunition; government, no arrangement.

State Paraua: Agent, Santos & Irmao, Curityba. Commission, commercial, 2% arms and ammunition; government, no arrangement.

State Victoria: Agent, Alberto Silva, Victoria. Commission, commercial, 2½% arms and ammunition; government, no arrangement.

States Sao Paulo, Santos & Campiua: Agent, Kendrick Van Pelt, Sao Paulo. Commission, commercial, 3% arms and ammunition; government, no arrangement.

State Ceara: Agent, Alvaro Weyne & Cia, Ceara. Commission, commercial, 1% arms and ammunition; government, no arrangement.

Bulgaria.—General agent, Frederick J. Peters. No local agent.

Canal Zone.—Agent, Kelso-Jordan Sales Co., Cristobal. Commission, commercial, 10% arms and ammunition; government, post exchange and commissary stores included in commercial sales.

Ceylon.—Agent, Brown & Company, Colombo. Commission, commercial, 5% arms and ammunition; government, no arrangement.

Chile.—Agent, Domingo Greg, Santiago. Commission, commercial, 7½% arms and ammunition; government, subject to consideration of business offers.

Colombia.—Agent, Ortiz & D'Este, Bogota. Commission, commercial, 5% arms and ammunition; government, small shipments at regular prices 5%. Large quantities subject to consideration in each case.

Costa Rica.—Agent International Agencies, San Jose. Commission, commercial, 5% arms and ammunition; government, 5% arms and ammunition provided they send in the order at regular prices, otherwise such other lesser commission if any as we may decide.

Cuba.—Agent, Riera Toro and Van Tuistern, Havana. Commission, commercial, 10% arms and ammunition their own purchases, 7½% arms and ammunition sales to others except Santiago; 5% arms and ammunition to Santiago; government, no regular arrangement. Have quoted on specific inquiries net prices, their commission to be added and on small quantities at export prices 10%.

Czechoslovakia.—Whosale distributor, Peters Arms & Company, Hamburg.

Denmark.—General agent, F. J. Peters, no local agent.

Dutch Guiana.—Agent, Park Beuziger & Co., New York. Commission, commercial, 5% arms and ammunition; Government, no arrangement.

Ecuador.—Agent, V. E. Heuriques, Guyaquil. Commission, commercial, 7½% arms and ammunition; Government, no arrangement.

England, Scotland, Wales, and North Ireland.—Sole distributors, London Armoury Co., Ltd., London. Discount, commercial, 20% arms and ammunition; Government, no arrangement.

Esthonia.—Wholesale distributor, commercial, Peters Arms Co., Hamburg. Wholesale distributor, Government, Suojeluskuntain Kauppa Osakeyhtio, Helsingfors, Finland. We quote net price they to add their profit, or they sell from their own stock.

Europe.—General agent, Frederick J. Peters, c/o London Armoury Co., London. He is also managing director London Armoury Company. Commission, commercial. He is credited with 5% on sales in Ireland and continental Europe (except territory of Peters Arms Company). Receives 2½% on sales to Peters Arms Co. Government, no set rate. Have offered 2% and 2½% on specific inquiries.

Finland.—Agent, Otto M. Johnson, Helsingfors. Commission, commercial, 5% arms and ammunition; Government, no arrangement. Wholesale distributor, Suojeluskuntain Kauppa, Osakeyhtio. Sell to civil guard .22 cal. rim-fire target rifles and .22 cal. rim-fire cartridges. Esthonia is included in their territory for same.

France.—Sole distributor, Ch. Andre & Cie Suero, Paris. Discount, commerical, 5% arms and ammunition: Government, no arrangement.

Germany, Austria, Czechoslovakia, Esthonia, Holland, Hungary, Latvia, Lithuania, Switzerland.—Sole distributor, Peters Arms Co., Hamburg. Commission, commercial, 10% arms and ammunition; Government, no arrangement, quoted 1% on inquiry for China.

Greece.—Agent, Michael G. Galanis, Athens. Commission, commercial, 10% arms and ammunition sold at regular export prices. If sold lower 5%. Government, no arrangement.

Guatemala.—Agent, Edward B. Coffey, Guatemala City. Commission, commercial, 7½% arms and ammunition; Government, 5% arms and ammunition.

Haiti.—Agent, Societe Haitieme D'Automobiles. Commission, commercial, 5% arms and ammunition; Government, 5% arms and ammunition if sold at regular export prices. If at lower prices commission to be determined in each case.

Holland.—Wholesale distributor, Peters Arms Co., Hamburg.

Hungary.—Wholesale distributor, Peters Arms Co., Hamburg.

Hong Kong.—Agent, Outdoor Sports Equipment Co., Hong Kong. Commission, commercial, 5% arms and ammunition; Government, no arrangement.

Iceland.—No agent.

India.—No agent.

Iraq.—Agent, John C. Halkais, Baghdad. Commission, commercial, 5% arms and ammunition; Government, no arrangement.

Ireland.—Agent, Thomas Henshaw & Co., Dublin. Commission, commercial, 5% arms and ammunition; Government, we quote net price, they add their profit.

Italy.—Agent, Victor Sigismonde, Turin. Commission, commercial, 10% arms and ammunition except city of Milan; Government, no arrangement.

Jamaica.—Agent, Hardware & Lumber, Ltd., Kingston, Jamaica. Commission, commercial, 5% arms and ammunition; Government, no arrangement.

Japan, Chosen and Manchukuo—Agent, Kawaguchuja Firearms Co., Tokyo. Commission, commercial, 7½% arms and ammunition.

Kenya Colony, British E. Africa.—Agent, J. Graham Dawson, Mombasa. Commission, commercial, 5% arms and ammunition; Government, no arrangement.

Latvia and Lithuania.—Wholesale distributor, Peters Arms Company, Hamburg.

Mexico.—Agent, General Commission Company, Mexico City. Commission, commercial, 7½% arms and ammunition; Government, no arrangement except offered 7½% on .22 cal. target rifles for training. Dealer, Mexico Hardware Company, El Paso, Texas. Commercial, discount 5% ammunition on orders shipped to Mexico.

Morocco.—Agent, Emile E. Ostrowski, Casablanca. Commission, commercial, 5% arms and ammunition; Government, no arrangement.

New Zealand.—Included in Australasia. General supervision, E. Duncan.

Nicaragua.—Agent, Vicente Guruceta, Managua. Commission, 10% sales arms and ammunition to Guardia Nacional when sold at regular export prices (some of this is resold by Guardia Nacional); Government, commission determined in each case, runs from 2% to 5%.

Norway.—Agent, O. Chr. Sgvertsen, Oslo. Commission, commercial, 7½% arms and ammunition except sales to Greswig; Government, no arrangement.

New York.—Agent, Cowdry & Co. Commission, no arrangement re either commercial or Government business but have paid 2½% or less on small orders they were instrumental in placing with us.

Palestine & Egypt.—Agent, M. B. Segal & Co., Tel Am Palestine. Commission, Commercial, 10% ammunition, 7½% guns; Government, no arrangement.

Panama.—Agent, Il Toledano Co., Inc., Colon. Commission, commercial, 5% arms and ammunition; Government, no arrangement. Agent, Fidanque Bros. & Sons. Commission, commercial, 5% arms and ammunition; Government, no arrangement.

Paraguay.—No agent.

Peru.—Agent, Harth & Company, Lima. Commission, commercial, 10% arms and ammunition; Government, no arrangement.

Philippines.—Wholesale distributor, C. Alkam Inc., Manila. Commission, commercial, 5% arms and ammunition, own purchases; Government, 10% ammunition own purchases for constabulary.

Poland and Danzig.—Agent, E. O. Kutzleb, Warsaw. Commission, commercial, 10% arms and ammunition; Government, 5% arms and ammunition if sold regular export prices.

Portugal.—Agent, Felix Kalinhoff, Lisbon. Commission, commercial, 10% arms and ammunition, Government, no arrangement.

Portuguese E. Africa.—Agent, Allex Wack & Shepherd, Ltd., Beira. Commission, commercial, 5% arms and ammunition; Government, will consider if business offers. None to date.

Puerto Rico.—Agent, J. M. Nieto, Anasco. Commission, commercial, 10% ammunition, 5% arms; Government, no arrangement.

Roumania.—Agent, L. Gerstendorfer, Bucharest. Commission, commercial, 10% arms and ammunition; Government, no arrangement.

Salvador.—Agent, J. Saul Garcia, San Salvador. Commission, commercial, 7½% arms and ammunition, except on sales to Casa Mugden on which he receives 2½%; Government, revolver pistol cartridges, 15%. Rim fire purchased for resale by Govt. 10% if sold at C.I.F. export prices. Military sizes, rate to be determined on each transaction.

Siam.—Sole distributor. International Eng. Co., Bangkok. Discount, commercial, 5% arms and ammunition; Government, no arrangement.

So. Africa.—Agent, Joseph Katzan, Johannesburg. Commission, commercial, 7½% arms and ammunition, Government, no arrangement.

Spanish Honduras.—Agent, Hammer Agencies, San Pedro Sula. Commission, commercial, 5% arms and ammunition, except on sales to Tegucigalpa; Government, no arrangement. Werner Rischbieth, Tegucigalpa. Commission, commercial, 5% arms and ammunition Tegucigalpa only. Government, no arrangement.

Sweden.—Agent, Ojaugureu y Vidosa, Eibar. Commission, commercial, 10% arms and ammunition; Government, no arrangement.

So. Rhodesia—Africa.—Agent, A. J. Butler & Co., Bulawayo. Commission, commercial, 7½% arms and ammunition; Government, no arrangement.

Switzerland.—Wholesale distributor, Peters Arms Co., Hamburg.

Trinidad, British West Indies.—Agent, Trinidad General Sales Co., Part of Spain; commission, commercial, 5% arms and ammunition; Government, no arrangement.

Turkey.—Agent, J. Nikititz Erben, Istanbul. Commission, commercial, 10% arms and ammunition; Government, no arrangement.

Uruguay.—Agent, Leng Roberts & Co., Montevideo. Commission, commercial, 7½% arms and ammunition, Government, 5% arms and ammunition if sold at regular prices.

Venezuela.—Agent, Monch & Liebenschutz, Caracos. Commission, commercial, 5% arms and ammunition; Government, 1 to 5% arms and ammunition to be decided in each case.

Virgin Islands.—Agent, G. T. Seaman, St. Croix. Commission, commercial, 5% arms and ammunition; Government, no arrangement.

Exhibit No. 1308

November 20, 1934.

WINCHESTER REPEATING ARMS COMPANY (MARYLAND) AND SUBSIDIARIES

Statement of salaries paid to officers and directors since Jan. 1, 1932 (Incorporated Dec. 14, 1931, and started business Dec. 22, 1931)

Name	Year 1932	Year 1933	Year 1934, 10 months
Edwin Pugsley, vice president	$12, 150. 00	$12, 712. 50	$11, 250. 00
Edgar W. Taft, assistant treasurer	8, 100. 00	8, 475. 00	8, 166. 66
Robert S. Swanton, assistant secretary	7, 200. 00	7, 533. 30	6, 666. 66

There have been no bonuses paid.

President, F. W. Olin, no salary; 1st vice president, J. M. Olin, no salary; secretary, S. T. Olin, no salary; treasurer, O. C. Gnerich, no salary.

Exhibit No. 1309

Traveling expense

Week ending	Hotel	Bkft.	Lunch	Dinner	R. R.	Pullman	Bus trolley	Taxi	Trans. ex. bag.
E. Pugsley:									
1932	$73.63	$20.45	$37.65	$27.45	$221.93	$66.82	$3.65	$9.05	$5.10
1933	127.71	40.20	44.85	56.60	541.04	83.03	1.90	26.75	37.63
Jan. to Nov. 17, 1934	115.66	44.85	71.75	72.45	600.56	85.58	11.12	60.00	12.92
R. C. Swanton:									
1932	4.50	.70	2.45	5.95	52.88	6.16	1.85	4.50	--------
1933	5.00	1.65	7.90	7.45	126.75	--------	3.20	6.65	.20
Jan. to Nov. 17, 1934	20.00	4.85	12.85	17.75	143.10	16.59	2.25	14.55	.30
E. W. Taft:									
1932	2.00	1.25	3.95	5.80	12.75	1.50	.50	--------	--------
1933	--------	.50	3.90	.80	13.05	--------	.10	--------	--------
Jan. to Nov. 17, 1934	8.00	2.20	7.20	6.50	54.98	8.18	1.55	1.70	.10

Week ending	Tel. & tel.	Post	Livery auto H.	Auto exp.	Entertain.	Tips & fees	Shoot. exp.	Miscl.	Total
E. Puglsey:									
1932	26.55	2.83	--------	32.25	54.35	11.30	.75	34.50	628.26
1933	41.44	1.00	8.25	28.86	22.35	24.40	--------	6.50	1,092.51
Jan. to Nov. 17, 1934	84.30	1.79	5.65	37.28	62.45	27.25	--------	37.43	1,331.04
R. C. Swanton:									
1932	1.90	--------	--------	--------	2.25	1.60	--------	.25	84.99
Jan 1933	.60	.50	.50	4.68	.95	1.35	--------	3.50	170.88
Jan. to Nov. 17, 1934	5.00	--------	--------	--------	5.95	3.75	--------	4.25	251.19
E. W. Taft:									
1932	--------	--------	--------	3.36	--------	2.55	--------	--------	33.66
1933	2.90	--------	--------	5.16	2.05	.70	--------	18.19	47.35
Jan. to Nov. 17, 1934	12.50	--------	--------	--------	.35	1.95	--------	--------	105.21

Exhibit No. 1310

List of stocks held by Winchester Repeating Arms Company, Nov. 23, 1934

Company	Number of shares	
	Common	Preferred
The Winchester Manufacturing Company	100,000	------------
The New Haven Transit Stores Company	100	------------
The Whirldry Corporation	2,000	------------
Walden Knife Company	1,000	------------
American Trapshooting Association	3	------------
A. Baldwin & Company, Ltd	8	16
Chas. H. Ingersoll Dollar Pen Co	------------	14
The Marsh Motor Car Company	51	51
The New Haven Gun Club	1	------------
Shartenberg's Inc	------------	30
Western Blower Company	------------	11

("Exhibit No. 1311" was marked for identification and is on file with the committee.)

EXHIBIT No. 1312 [1]

Export sales, grouped as to countries, excluding foreign government

Jan. to Sept. incl., 1934	Country	Jan. to May incl., 1934	1933	1932	1931	1930	1929	1928	1927	1926	1925
$11, 857. 05	Argentine	$6, 791. 45	$37, 575. 42	$24, 821. 29	$27, 308. 17	$97, 390. 29	$137, 737. 62	$231, 984. 65	$227, 028. 41	$213, 923. 74	$279, 675. 83
58, 017. 94	Australia	35, 095. 71	71, 570. 52	19, 962. 10	51, 808. 80	91, 509. 14	262, 956. 85	198, 510. 71	303, 917. 06	233, 499. 45	322, 251. 89
3, 398. 48	Belgium	2, 179. 09	2, 591. 04	3, 246. 76	3, 322. 42	4, 140. 36	3, 246. 91	3, 803. 02	2, 926. 48	2, 692. 14	4, 143. 19
50. 00	Bolivia	50. 00	386. 26	139. 03	711. 82	1, 913. 24	2, 115. 51	2, 206. 52	1, 975 14	5, 124. 85	4, 547. 34
174, 582. 74	Brazil	79, 555. 36	74, 534. 27	9, 662. 39	31, 161. 13	208. 32	191, 281. 57	306, 265. 06	332, 939. 99	237, 338. 84	310, 684. 67
104. 38	British and Dutch Guiana	59. 13	259. 67	54. 73	207. 73	620. 35	372. 99	307. 03	194. 65	302. 65	
1, 086. 37	British East Africa	968. 99	1, 412. 34	1, 314. 71	1, 824. 80	2, 163. 60	2, 152. 86	2, 836. 89	2, 946. 14	2, 527. 50	2, 935. 66
1, 499. 25	British West Indies	449. 16	807. 22	455. 84	2, 151. 89	2, 063. 64	3, 355. 81	4, 739. 64	3, 927. 28	9, 820. 25	4, 138. 68
1, 291. 76	Canal Zone	806. 68	2, 238. 48								
4. 75	Ceylon	4. 75			2, 388. 68	4, 525. 17	10, 472. 98	6, 622. 55	14, 106. 01	10, 203. 29	10, 297. 23
3, 266. 62	Chili	3, 035. 37	1, 217. 73	5, 390. 18	13, 375. 15	20, 662. 64	15, 322. 51	17, 300. 75	21, 008. 72	15, 264. 26	11, 492. 16
16, 950. 97	China	6, 516. 47	21, 142. 64	16, 542. 89	13, 400. 93	17, 912. 97	17, 239. 37	12, 390. 08	11, 856. 03	16, 942. 94	11, 687. 79
13, 895. 96	Columbia	7, 267. 23	18, 292. 59	13, 385. 01	30, 459. 33	49, 160. 87	42. 967. 24	45, 664. 68	74, 450. 39	243, 481. 27	148, 160. 20
7, 813. 61	Costa Rica	4, 024. 07	5, 632. 86	6, 444. 73	4, 566. 02	5, 568. 45	12, 196. 19	12, 216. 70	11, 708. 92	8, 834. 23	10, 103. 20
15, 870. 52	Cuba	11, 323. 83	7, 540. 54	3, 722. 09	3, 957. 47	30, 590. 86	42, 221. 43	43, 492. 77	62, 041. 60	67, 976. 96	104, 414. 65
547. 13	Denmark	547. 13	1, 117. 24		1, 330. 40	501. 00	822. 17	2, 223. 28	1, 619. 55	1, 948. 57	671. 09
1, 945. 49	Dominican Republic	1, 106. 61	3, 426. 67	3, 837. 03	1, 112. 79	6, 005. 72	12, 337. 13	12, 692. 66			16, 414. 84
647. 40	Dutch West Indies	135. 44	315. 79	267. 30	199. 48	1, 192. 48	1, 069. 88	1, 535. 90	951. 41	511. 69	452. 03
859. 58	Ecuador	446. 74	1, 563. 41	1, 767. 20	1, 466. 18	1, 892. 84	2, 981. 80	5, 967. 95	4, 036. 64	2, 777. 18	7, 654. 00
41. 01	Federated Malay States		6. 09	152. 44	414. 78	247. 87	240. 52				
11, 090. 52	Finland	3, 090. 32	1, 449. 15	2, 967. 43	7, 832. 76	11, 235. 96	7, 699. 87	6, 282. 87	5, 343. 68	706. 70	807. 47
2, 508. 41	France	1, 922. 52	2, 802. 39	2, 916. 75	3, 597. 59	2, 930. 59	1, 095. 83	520. 55	1, 026. 49	1, 531. 26	1, 283. 86
1, 335. 41	Germany	346. 87	2, 013. 72	824. 95	9, 746. 70	90. 65	447. 00	543. 72	2, 959. 56	41. 30	5. 57
79, 261. 63	Great Britain	42, 122. 23	55, 828. 85	42, 135. 54	119, 312. 03	105, 959. 03	90, 617. 67	134, 645. 97	71, 539. 29	148, 265. 66	134, 798. 41
1, 566. 09	Greece	764. 42	538. 54	147. 20	8, 501. 69	10, 943. 87	32, 898. 80	16, 830. 81	35, 398. 66	13, 100. 77	42, 535. 70
[1] 1, 557. 46	Guatemala	475. 65	817. 07	4, 615. 11	5, 129. 52	5, 002. 79	15, 096. 50	4, 941. 39	3, 539. 64	2, 888. 23	6, 714. 51
100. 35	Haiti	97. 50	106. 65	238. 86	187. 32	192. 43	1, 770. 26	1, 437. 06	1, 488. 53	2, 039. 84	2, 921. 18
270. 46	Honduras British	236. 03	914. 84	1, 402. 12	9, 402. 79	10, 813. 40	22, 732. 25	2, 175. 38	5, 578. 27	2, 319. 91	1, 266. 72
260. 92	Honduras Spanish										
	Iceland		304. 50	341. 72	902. 08	765. 40	1, 011. 67	1, 058. 52	2, 059. 54	3, 513. 40	2, 099. 86
9, 680. 13	India	5, 793. 35	4, 531. 50	3, 181. 39	22, 609. 62	24, 128. 43	39, 334. 51	31, 120. 59	50, 416. 29	39, 073. 72	56, 428. 11
1, 147. 39	Italy	895. 14	1, 316. 19	1, 082. 24	2, 667. 66	4, 199. 98	2, 594. 46	2, 594. 40	2, 521. 25	1, 934. 07	3, 656. 11
251. 93	Jamaica	20. 28	163. 90	328. 60	1, 857. 72	1, 457. 70	1, 938. 58	1, 958. 84	1, 266. 44	934. 04	1, 419. 90
2, 828. 54	Japan	1, 291. 58	2, 507. 00	1, 891. 25	5, 694. 00	3, 540. 45	8, 328. 70	8, 264. 38	8, 290. 41	7, 925. 17	4, 252. 35
3. 00	Java	3. 00	64. 06	318. 31	195. 77	134. 10	709. 05		198. 49		
79, 720. 45	Mexico	33, 562. 08	94, 519. 14	42, 746. 63	99, 080. 67	106, 289. 19	75, 942. 18	64, 578. 74	19, 550. 75	55, 761. 06	96, 258. 26
4, 829. 45	Newfoundland	1, 166. 17	7, 034. 99	6, 104. 08	11, 320. 94	13, 835. 73	14, 419. 27	10, 207. 32	14, 232. 44	16, 450. 56	7, 825. 15
16, 768. 82	New Zealand	10, 248. 02	6, 626. 10	356. 23	8, 729. 34	19, 911. 31	30, 269. 14	23, 825. 16	27, 486. 40	31, 285. 19	55, 834. 47

[1] Sales for 1934, Guatemala and Salvador were submitted later, making a change in total for 1934, from original exhibit.

Export sales, grouped as to countries, excluding foreign government—Continued

Jan. to Sept. incl., 1934	Country	Jan. to May incl., 1934	1933	1932	1931	1930	1929	1928	1927	1926	1925
	Nicaragua		$61.62	$27.03	$15.05	$595.07	$1,354.48	$318.84	$1,135.57	$9,483.69	$25,169.18
$2,061.15	Norway	$708.74	1,319.43	811.14	1,627.75	4,216.94	3,240.19	5,443.24	4,654.23	3,055.16	(1,277.84)
17,003.17	Panama	10,811.43	13,915.81	8,989.63	15,166.43	17,992.44	20,330.62	19,044.59	15,227.04	16,318.37	16,571.05
1,201.29	Paraguay	1,201.29	595.80	1,196.85	9,744.51	21,428.99	35,809.51	34,750.97	25,681.95	22,613.80	30,791.47
2,042.87	Peru	457.53	1,898.46	997.44	3,448.55	2,609.03	3,719.59	3,970.72	6,643.00	1,939.65	2,882.32
51,531.45	Philippines	31,281.69	61,214.43	44,863.25	53,703.18	85,064.97	101,732.23	84,578.16	80,745.22	99,962.24	64,109.29
6,293.95	Porto Rico	3,015.48	8,870.65	9,656.88	6,845.80	7,568.29	8,754.45	15,993.57	14,110.52	13,598.25	12,790.07
754.63	Portugal	461.23	1.69		841.29	835.69	1,624.15	688.65		491.83	679.98
617.63	Poland	508.83									
165.60	Russia	17.05			690.25	30.21	12,918.71	751.54	32.83	206.50	
[1] 2,139.47	Salvador	1,092.51	1,533.36	2,452.42	5,533.64	2,089.52	24,708.25	24,289.91	10,690.47	18,456.71	38,904.20
	Siberia		201.74	1,036.47		29,227.76		30,932.86	2,868.81		
23,240.96	South Africa	12,265.45	20,169.73	11,487.76	18,336.81	20,999.77	30,328.43	23,090.52	25,045.40	20,737.31	20,701.20
1,796.32	Spain	262.57	2,658.13	3,596.77	3,107.25	3,230.91	6,315.36	4,297.43	9,768.87	12,931.77	17,975.30
16.65	Straits Settlements	16.65	37.45	205.10	755.43	1,798.68	2,280.06	1,770.18	1,607.83	2,635.49	2,149.94
184.48	Sweden			110.47	198.83	122.59	1,799.52	1,422.18	859.82	465.58	
18.90	Syria	18.90	196.55			225.30					
5,012.34	Trinidad	2,378.99	3,876.68	1,480.27	6,584.32	9,620.83	7,535.32	6,538.95	6,944.49	3,299.33	6,327.50
6,068.75	Uruguay	6,073.15	6,400.61	2,456.49	3,274.71	9,041.98	11,922.56	11,057.61	14,522.88	12,043.63	25,537.27
412.64	Venezuela	126.64	193.40	736.76	2,131.72	7,050.60	11,275.34	12,787.97	8,166.55	15,280.72	8,561.71
2.48	Virgin Islands	2.48			40.80	59.38	123.91	115.91		33.25	
	Canary Islands					5.80					
	San Domingo								19,195.35	20,588.48	
	French Indo-China								690.61		
	Austro-Hungary									8.58	
	Holland									8.99	
	Labrador									1,059.84	
	Manchuria									325.90	
	Portuguese East Africa									87.43	
6,258.77	Miscellaneous countries	3,564.57	7,172.80	9,174.51	20,836.09	13,914.33	14,192.87	15,544.13	19,293.33	43,570.13	30,276.18
653,735.47	Total	336,663.55	563,487.71	322,043.37	660,818.58	897,429.90	1,407,962.63	1,519,134.47	1,598,415.32	1,720,143.32	1,969,980.90

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[1] Sales for 1934, Guatemala and Salvador were submitted later, making a change in total for 1934, from original exhibit.

EXHIBIT NO. 1313

Foreign government export sales

ARGENTINE

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934:				
7/10/25	Argentine Naval Comm	50,000 7.65 M/M Mauser MC	$1,950.00	
			1,950.00	
5/28/31	do	50,000 45 Colt Auto. MC 100,000 38 Colt Spec	2,265.00	
5/2/31	do	50,000 45 Colt. Auto. MC	875.00	
			3,140.00	
8/15/33	Ministerio De Marina	10,000 Primers #2½	18.70	Paid Palmer & Company commission $0.94.
			18.70	
5/16/34	do	100,000 7.65 Mauser MC	2,800.00	Paid Palmer & Company commission $50.
			2,800.00	
Total			7,908.70	
June to September, inc., 1934:				
8/28/34	Ministerio De Marina	22,000 45 Webley 3,000 45 Webley 30,000 38 Long Colt	830.00	Paid Palmer & Company commission $39.80.
Total			8,738.70	

Foreign government export sales—Continued

BOLIVIA

Date	Customer	Quantity and description	Amount of invoice		
Years 1925 to May 31, 1934:					
9/6/33	Republic of Bolivia	100,000 9 M/M Luger MC	$1,300.00	$26.00	Commission paid to Webster & Ashton.
9/19/33	do	100,000 9 M/M Luger MC	1,300.00	26.00	
11/16/33	do	200,000 9 M/M Luger MC	2,350.00	44.33	
11/23/33	do	200,000 9 M/M Luger MC	2,350.00	44.37	
12/7/33	do	500,000 9 M/M LugerM C	5,870.00	108.73	
12/7/33	do	500,000 7/65 M/M Mauser Ptd	10,500.00	191.87	
12/14/33	do	1,000,000 9 M/M Luger MC	11,750.00	217.46	
12/14/33	do	500,000 7.65 M/M Mauser Ptd	10,500.00	191.87	
12/21/33	do	500,000 9 M/M Luger MC	5,875.00	108.73	
12/21/33	do	500,000 7/65 Mauser Ptd	10,500.00	191.87	
12/26/33	do	500,000 9 M/M Luger MC	5,875.00	108.73	
			68,170.00	1,259.96	
1/5/34	do	200,000 7/65 M/M Mauser Ptd	4,200.00	78.75	
1/5/34	do	500,000 9 M/M Luger MC	5,875.00	111.23	
1/11/34	do	1,500,000 9 M/M Luger MC	17,625.00	333.69	
1/11/34	do	800,000 7.65 Mauser Ptd	16,800.00	314.98	
1/18/34	do	1,000,000 9 M/M Luger MC	11,750.00	222.46	
1/25/34	do	1,000,000 9 M/M Luger MC	11,750.00	222.86	
3/8/34	do	300,000 7/65 M/M Mauser Ptd	6,300.00	118.18	
2/1/34	do	1,100,000 9 M/M Luger MC	12,925.00	244.70	
3/16/34	do	500,000 7.65 M/M Mauser Ptd	10,500.00	196.97	
3/23/34	do	300,000 7.65 M/M Mauser Ptd	6,300.00	118.18	
3/29/34	do	700,000 7.65 M/M Mauser Ptd	14,700.00	275.75	
4/5/34	do	1,000,000 7.65 M/M Mauser Ptd	21,000.00	393.94	
4/12/34	do	300,000 7.65 M/M Mauser Ptd	6,500.00	122.14	
4/20/34	do	1,400,000 7.65 M/M Mauser Ptd	32,200.00	606.94	
4/26/34	do	200,000 7.65 M/M Mauser Ptd	4,600.00	78.47	
4/26/34	do	500,000 7.65 M/M Mauser Ptd	11,500.00	225.00	
5/2/34	do	1,000,000 7.65 M/M Mauser Ptd	23,000.00	433.53	
5/10/34	do	1,000,000 7.65 M/M Mauser Ptd	23,000.00	433.53	
5/17/34	do	1,100,000 7.65 M/M Mauser Ptd	25,300.00	476.88	
5/25/34	do	1,200,000 7.65 M/M Mauser Ptd	27,600.00	520.24	
			293,425.00	5,528.42	
Total			361,595.00	6,788.38	
June to September, inc., 1934:					
8/1/34	Republic De Bolivia	500,000 7/65 M/M Mauser Ptd	11,500.00	Commission paid to Webster and Ashton, $221.27.	
Total			373,095.00		

BRAZIL

Years 1925 to May 31, 1934:				
12/31/30	J. C. Aguirre, Commander Brazilian Navy.	200,000 303 British VII MC	$5,930.00	Commission, $680 paid to Tropenas Corporation.
			5,930.00	
10/26/32	Casa Mayrink Veiga S/A	10,000 50 cal. Service	2,000.00	
12/2/32	do	10,000 50 cal. Service	5,750.00	
12/2/32	do	10,000 50 cal. Armour Piercing		
12/2/32	do	5,000 50 cal. Tracer		
10/8/32	do	5,000 50 cal. Service	5,990.00	
10/8/32	do	14,960 50 cal. Armour piercing		
10/8/32	do	5,000 50 cal. Tracer		
			13,740.00	
1/12/33	do	5,000 50 cal. Service	6,000.00	
1/12/33	do	15,000 50 cal. Armour Piercing		
1/12/33	do	5,000 50 cal. Tracer		
1/19/33	do	5,000 50 cal. Service	6,010.00	
1/19/33	do	15,000 50 cal. Armour Piercing		
1/19/33	do	5,000 50 cal. Tracer		
1/19/33	do	040 50 cal. Armour Piercing		
2/9/33	do	5,000 50 cal. Service	6,000.00	
2/9/33	do	15,000 50 cal. Armour Piercing		
2/9/33	do	5,000 50 cal. Tracer		
2/16/33	do	5,000 50 cal. Service	6,000.00	
2/16/33	do	10,000 50 cal. Armour Piercing		
2/16/33	do	10,000 50 cal. Tracer		
2/23/33	do	5,000 50 cal. Service	4,750.00	
2/23/33	do	10,000 50 cal. Armour Piercing		
2/23/33	do	5,000 50 cal. Tracer		
3/2/33	do	10,000 50 cal. Armour Piercing	5,000.00	
3/2/33	do	10,000 50 cal. Tracer		
			33,760.11	
Total			53,430.00	

Foreign government export sales—Continued

CHILE

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934:				
3/23/27	Republic of Chile	10,200 .50 cal. armour piercing	$3, 525. 50	Commission of $216.28 paid to Spencer & Waters, Ltd.
			3, 525. 50	
6/1/28	do	500,000 .38 colt spec	7, 946. 16	Commission of $397.31 paid to Spencer & Waters, Ltd.
			7, 946. 16	
Total			11, 471. 66	
June to September, Inc., 1934:				
7/2/34	do	5,000 .38 colt special	90. 00	Commission of $12.50 paid to Spencer & Waters, Ltd.
Total			11, 561. 66	

CHINA

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934:				
6/2/30	United Aircraft Exports, Inc	250,000 30/06 Springfield 150 MC	$8, 750. 00	
6/16/30	do	225,000 30/06 Springfield 150 MC	7, 875. 00	
			16, 625. 00	
4/20/33	Curtis Wright Export Corp	300,000 30/06 Springfield 172 MC	11, 580. 00	Commission of $336.90 credited F. S. Jonas.
4/20/23	do	50,000 30/06 Springfield Tracer (Jonas)		
12/5/33	Intercontinent Aviation, Inc	10,000 .50 cal. Tracer	11, 800. 00	
12/5/33	do	50,000 .50 cal. service		
			23, 380. 00	
1/30/34	do	250,000 30/06 Springfield 150 MC	14, 625. 00	
1/30/34	do	50,000 .50 cal. service		
2/28/34	do	750,000 30/06 Springfield 172 MC	26, 375. 00	Commission of $500.00 credited Intercontinent Aviation Inc.
2/28/34	do	50,000 .50 cal. service (Intercontinent)		
			41, 000. 00	
Total			81, 005. 00	

COLOMBIA

Years 1925 to May 31, 1934:				
8/15/27	Republica De Colombia	2,500,000 primers #8½	$3, 600. 00	
9/29/32	do	100,000 7 M/M Mauser MC 139 Gr	2, 800. 00	Commission of $100.00 paid to F. S. Jonas. Commission of $668.00 paid to Curtiss-Wright Export Corp.
10/7/32	do	201,000 7 M/M Mauser MC 139 Gr	4, 522. 50	Commission of $371.10 paid to H. Restrepo.
10/13/32	do	300,000 7 M/M Mauser MC 139 Gr	6, 750. 00	Commission of $480.00 paid to H. Restrepo.
10/20/32	do	400,000 7 M/M Mauser MC 139 Gr	9, 011. 25	Commission of $640,80 paid to H. Restrepo.
10/27/32	do	400,000 7 M/M Mauser MC 139 Gr	9, 011. 25	Commission of $640.80 paid to H. Restrepo.
11/3/32	do	400, 000 7 M/M Mauser MC 139 Gr	9, 011. 25	Commission of $640.50 paid to H. Restrepo.
11/3/32	do	30,000 7 M/M Mauser MC 139 Gr	1, 035. 00	
11/10/32	do	400,000 7 M/M Mauser MC 139 Gr	9, 011. 25	Commission of $640.80 paid to H. Restrepo.
11/17/32	do	400,000 7 M/M Mauser MC 139 Gr	9, 011. 25	Commission of $640.80 paid to H. Restrepo.
11/23/32	do	496,500 7 M/M Mauser MC 139 Gr	11, 171. 25	Commission of $794.40 paid to H. Restrepo.
11/23/32	do	10,000 7 M/M Mauser MC Tracer	630. 00	
12/20/32	do	10,000 7 M/M Mauser MC 139 Gr	408. 00	
12/20/32	do	1,000 7 M/M Mauser MC Tracer		
12/23/32	do	500 10 ga. new club blanks	10. 59	
12/27/32	do	10,000 7 M/M Mauser MC 139 Gr	399. 42	
12/27/32	do	2,000 45 colt auto MC		
			72, 783. 01	
1/25/33	do	60,000 7 M/M Mauser MC 139 Gr	2, 070. 00	Commission of $94.99 paid to Urueta & Samper.
2/23/33	do	20,000 7 M/M Mauser Tracer	1, 260. 00	Commissiou of $60.17 paid to Urueta & Samper.
2/16/33	do	15,000 7 M/M Mauser Tracer	945. 00	Commission of $45.13 paid to Urueta & Samper.
2/8/33	do	20,000 7 M/M Mauser Tracer	1, 260. 00	Commission of $60.17 paid to Urueta & Samper.
2/1/33	do	10,000 7 M/M Mauser Tracer	630. 00	Commission of $30.09 paid to Urueta & Samper.
3/2/33	do	25,000 7 M/M Mauser Tracer	1, 575. 00	Commission of $75.21 paid to Urueta & Samper.
4/10/33	do	205 Dz. R3843 Knives	3, 075. 00	Commission of $230.63 paid to H. Restrepo.
			10, 815. 00	
1/24/34	do	13,000 32 S. & W. long	343. 50	Commission of $16.46 paid to Urueta & Samper.
1/24/34	do	5,000 38 S. & W. spec		
1/24/34	do	7,000 38 S. & W		
2/2/34	do	1,250,000 #8½ primers	3, 875. 00	Commission of $192.50 paid to Urueta & Samper.
2/2/34	do	1,250,000 #8½ primers spec		
			4, 218. 50	
Total			91, 416. 51	
June to September, Inc., 1934:				
9/20/34	Republica De Colombia	3,000,000 #8½ primers	4, 500. 00	Commission of $224.25 paid to Urueta & Samper.
Total			95, 916. 51	

Foreign government export sales—Continued

COSTA RICA

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934:				
6/12/33	Republica of Costa Rica	20, 000 38 short Colt	$379. 00	Commission of $24.79 paid to L. G. Fernandez.
		10, 000 38 long Colt		
		3, 000 32 long Colt		
		1, 000 32 short Colt		
		CUBA		
Years 1925 to May 31, 1934:				
5/26/26	Republic of Cuba	10,000 45 Colt Auto Rim	$291. 50	
3/23/26	do	1,000 Friction Primers #4 and #5	176. 25	
			467. 75	
1/24/27	do	1,000 Friction Primers #4 and #5	176. 25	
Do	do	250,000 45 Colt USA	6, 037. 50	
			6, 213. 75	
12/31/28	Gonzalez & Marina y Cia	200,000 45 Colt USA	4, 830. 00	Commission, $362.25 paid to A. Texidor.
10/21/29	Republic of Cuba	2,000 Friction Primers #2	352. 50	
9/10/29	Gonzalez & Marina y Cia	500,000 45 Colt USA	12, 075. 00	
			12, 427. 50	
2/11/30	Republic De Cuba	10,000 30/06 Springfield 180 Gr	1, 000. 00	
10/24/30	do	200,000 30/40 Krag MC	6, 420. 00	Commission, $1, 624 paid to Gonzalez Marina y Ca.
10/17/30	do	200,000 30/40 Krag MC	6, 420. 00	
10/ 9/30	do	200, 000 30/40 Krag MC	6, 420. 00	
10/ 3/30	do	200,000 30/40 Krag MC	6, 420. 00	
9/25/30	do	200,000 30/40 Krag MC	6, 420. 00	
7/11/30	Gonzalez Marina y Cia	400,000 45 Colt USA	9, 660. 00	Commission, $116. 55 paid to Gonzalez Marina y Ca.
7/22/30	do	100,000 45 Colt USA	2, 415. 00	Commission, $200. 00 paid to F. A. Larcada.
			45, 175. 00	
10/ 9/31	Republic De Cuba	500 Friction Primers #2	80. 00	

10/27/32	do	20,000 50 Cal. Service	8, 350. 00	Commission, $412.00 paid to F. A. Larcada.
		5,000 50 Cal. Tracer		
		10,000 30/06 Springfield Tracer		
3/16/33	do	200,000 30/06 Springfield 172 Gr	6, 400. 00	Commission, $900,00 paid to F. S. Jonas. Commission, $4,000.00 paid to Fausto Rodriguez.
3/23/33	do	200,000 30/06 Springfield 172 Gr	6, 400. 00	
3/30/33	do	200,000 30/06 Springfield 172 Gr	6, 400. 00	
4/ 6/33	do	200,000 30/06 Springfield 172 Gr	6, 400. 00	
4/12/33	do	200,000 30/06 Springfield 172 Gr	6, 400. 00	
3/ 7/33	Gonzalez Marina y Cia	5,000 Friction Primers #2	875. 00	Commission, $39.38 paid to F. S. Jonas.
6/15/33	Republic De Cuba	10,000 Primers #2½	28. 05	
		5,000 Primers #1½		
12/ 6/33	do	80,000 50 Cal. Service	20, 000. 00	Commission, $500.29 paid to Fausto Rodriquez.
		16,000 50 Cal. Service		
12/20/33	do	4,000 50 Cal. Tracer	1, 000. 00	
3/29/33	do	4,000 30/06 Springfield Primed Shells	106. 02	
		20,000 #8½ Primers		
		2,000 22 Long Rifle		
			54, 009. 07	
4/26/34	do	10,000 30/06 Springfield Tracer	550. 00	Commission, $1,300.00 paid to Nestre Machado & Co.
5/ 4/34	do	10, 000 30/06 Springfield Tracer	550. 00	
5/10/34	do	30,000 30/06 Springfield Tracer	1, 650. 00	
5/17/34	do	15,000 30/06 Springfield Tracer	825. 00	
5/24/34	do	25,000 30/06 Springfield Tracer	1, 375. 00	
5/31/34	do	10,000 30/06 Springfield Tracer	550. 00	
			5, 500. 00	
Total			137, 053. 07	
12/ 8/33	Gonzalez Marina y Cia	1,000,000 Primers #2½	1, 809. 50	Commission, $87.37 paid to F. A. Larcada.
		100,000 Primers #1½		
Total			138, 862. 57	
June to September, inc., 1934:				
5/ 3/34	Republic De Cuba	10,000 30/06 Springfield Tracer	550. 00	
5/31/34	do	10,000 30/06 Springfield Tracer	550. 00	
			1, 100. 00	
Total			139, 962. 57	

Foreign government export sales—Continued

DOMINICAN REPUBLIC

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934:				
11/17/27	Gobierno Dominicana	300,000 30/40 Krag MC	$25, 275. 00	Commission of $789.37 paid to L. E. Nicolas.
		300,000 30/06 Springfield 172 Gr		
6/29/27	do	150 gallons of Rem Oil	264. 00	Commission of $85. 18 paid to L. E. Nicolas.
5/24/27	do	100,000 30/40 Krag MC	3, 825. 00	
4/28/27	do	100,000 45 Colt Auto MC	2, 600. 00	Commission of $405.66 paid to L. E. Nicolas.
1/27/27	do	20,000 38 S & W Spec	342. 40	
		150,000 45 Colt Auto MC	3, 900. 00	
4/24/27	Dominican Government (L. E. Nicolas)	500 38 Colt Spec	278. 94	
		1,500 22 Long Rifle		
		500 22 Long Rifle HP		
		13 Colt Pistols		
5/6/27	Pou Bros. and Company	50,000 30/06 Springfield MC	2, 280. 00	
			38, 765. 34	
4/2/28	Republic Dominicana	4,000 Battery Primers 1-3/10	300. 00	Commission of $83.00 paid to L. E. Nicolas.
		3,000 38 S & W Spec. Smo	172. 05	Commission of $46.05 paid to L. E. Nicolas.
		2,000 38 S & W Spec.		
		5,000 38 S & W Smo		
			472. 05	
7/8/29	Dominican Government	5,000 Game Loaded Shells	146. 57	Commission of $14.01 paid to L. E. Nicolas.
		10,000 38 S & W		
		10,000 38 S & W Spec		
		5,000 38 S & W Spec	463. 45	Commission of $23.17 paid to L. E. Nicolas.
4/10/29	do	10,000 44 S & W Spec	408. 90	Commission of $20.45 paid to L. E. Nicolas.
		10,000 38 S & W Spec		
6/4/29	do	5,000 32 Long Colt	135. 30	Commission of $6.77 paid to L. E. Nicolas.
		5,000 32 S & W Long		
			1, 154. 22	
12/5/30	Gonzales and Marina	10,000 38 S & W Spec	187. 20	
		250,000 7 M/M Mauser MC	8, 250. 00	
12/19/30	do	15,000 45 Colt USA	371. 40	
			8, 808. 60	
11/30/31	Republica Dominicana	2,000 Battery Primers 1-3/10	150. 00	Commission of $31.50 paid to L. E. Nicolas.
			150. 00	

3/14/32	Intendente General (Dom. Rep.)	1,000 30/30/Win. SP	833. 34	Commission of $41.67 paid to L. E. Nicolas.
		1,000 44 Win. SP		
		10,000 44 S & W Spec		
		10,000 44 S & W Russian		
		20,000 38 S & W Spec		
		1,000 38 S & W		
		1,000 32 S & W Long		
		4,000 32 Auto MC		
		1,000 30 Luger MC		
		300 25 Colt Auto MC		
3/18/32	do	20,000 50 Cal. Service	4, 920. 00	Commission of $200.00 paid to L. E. Nicolas.
3/18/32	do	20,000 50 Cal. Service	4, 920. 00	Commission of $1,000.00 paid to F. S. Jonas.
8/5/32	do	Correction	(254. 76)	Debit correction of $12.74 to L. E. Nicolas.
			10, 418. 58	
7/25/33	Republica Dominicana	13,000 30/06 Springfield 172 Gr	689. 00	Commission of $33.00 paid to F. S. Jonas.
		4,000 30/06 Springfield Tracer		
3/17/33	do	100,000 30/06 Springfield 150 Gr. MC	3, 050. 00	Commission of $90.00 paid to F. S. Jonas. Commission of $937.64 paid to L. E. Nicolas.
9/28/33	Krajewski Pesant Mfg. Corp	150,000 30/06 Springfield 172 MC	4, 350. 00	Commission of $112.50 paid to F. S. Jonas.
12/4/33	Intendente General (Dom. Rep.)	2,000 Battery Primers 1-3/10	174. 00	Commission of $8.49 paid to L. E. Nicolas.
			8, 263. 00	
3/1/34	Republica De Santo Domingo	10,000 38 S & W Spec	369. 49	Commission of $18.47 paid to L. E. Nicolas.
		2,000 38 S & W		
		1,000 32 S & W		
		1,000 32 S & W Long		
		1,000 44 S & W Spec		
		2,000 44 S & W		
		2,000 44 S & W Russian		
		2,000 45 Colt USA		
Total			68, 401. 28	

DUTCH EAST INDIES

Years 1925 to May 31, 1934:			
7/16/30	Curtiss-Wright Export Corp	5,000 50 Cal. Armour Piercing	$1, 625. 00
7/29/30	do	5,000 50 Cal. Armour Piercing	1, 625. 00
Total			3, 250. 00

Foreign government export sales—Continued

ECUADOR

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934:				
5/10/29	L. T. Brooks	500 8 M/MLebel Bronze Pt 2 8 M/M Lebel Rifles	$45.00	
			45.00	
3/14/34	Republica De Equador	5,000 30/30 Win. MC	145.00	Commission—$6.49 paid to F. Sefzic.
			145.00	
Total			190.00	

GERMANY

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934:				
1/28/30	Gustav Genchow & Company	6,000 50 Cal. Armour Piercing	$1,830.00	
Total			1,830.00	

GUATEMALA

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934:				
4/29/31	Gobierno De Guatemala	24 only Mod. 12 Rifles 5,000 22 Long Rifle Palma 5,000 22 Long Rifle H.S.Silv	$350.95	Commission of $ 24.57 paid to L. G. Fernandez. Commission of $187.50 paid to L. G. Fernandez Commission of $ 93.75 paid to G. Koenigsberger.
4/30/31	do	125,000 303 British VII MC 300,000 Primers for 7 M/M Ctges. 2 only Re & De Cappers #2.	4,846.60	Commission of $ 29.02 paid to L. G. Fernandez.
			5,197.55	
2/8/32	Gobierno De Guatemala	20,000 22 Short Hi Speed. 1,000 7 M/M Mauser MC. 36 Mod. 2A Rifles. 22 Cal.	571.84	Commission of $ 40.02 paid to L. G. Fernandez.

2/16/32	do	100,000 22 Short	2,739.48	Commission of $175.06 paid to L. G. Fernandez.
		200,000 22 Long		
		100,000 22 Long Rifle Palma		
		5,000 22 Win. Auto		
		10,000 32 S.&W. Smo		
		25,000 32 S.&W. Long Smo		
		30,000 32 Win. Smo		
		25,000 38 Long Colt Smo		
		5,000 38 Win. Smo. S.P		
			3,311.32	
11/8/33	Republic De Guatemala	130,000 #8½ Primers	368.30	
		60,000 #1½ Primers		
			368.30	
Total			8,877.17	
		HAITI		
Years 1925 to September, inc., 1934:				
8/29/34	Republic of Haiti	250,000 30/06 Springfield	$6,937.50	
9/24/34	do	2,000 2 Friction Primers	150.00	
Total			7,087.50	
		HONDURAS		
Years 1925 to May 31, 1934:				
11/21/25	Republic of Honduras	200,000 7.62 M/M Russian MC	$7,800.00	
10/29/25	do	50,000 7 M/M Mauser MC	1,922.50	
8/26/25	do	200,000 7/62 M/M Russian MC	7,800.00	
6/25/25	do	40,000 7/62 M/M Russian MC	1,560.00	
4/24/25	do	50,000 7/62 M/M Russian MC	3,872.50	
		50,000 7 M/M Mauser MC		
3/26/25	do	100,000 7/62 M/M Russian MC	3,900.00	
			26,855.00	
6/18/26	do	50,000 7 M/M Mauser MC	1,922.50	
6/2/26	do	7,000 11 M/M Mannlicher	390.00	
		3,000 43 Spanish		
6/2/26	do	100,000 43 Spanish	3,900.00	
4/30/26	do	100,000 11 M/M Mannlicher	3,900.00	
2/24/26	do	2,000 7/62 M/M Russian MC	78.00	
2/24/26	do	220,000 7/62 M/M Russian MC	8,580.00	

Foreign government export sales—Continued

HONDURAS—Continued

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934—Continued.				
1/23/26	Republic of Honduras	50,000 11 M/M Mannlicher	$1,950.00	
1/22/26	do	50,000 7 M/M Mauser MC	1,922.50	
1/7/26	do	200,000 7/62 Russian MC	7,800.00	
			30,443.00	
3/8/28	do	50,000 7 M/M Mauser MC	1,710.00	
9/14/28	do	200,000 43 Spanish	6,440.00	
9/12/28	do	10,000 30/30 Win. MC	385.00	
			8,535.00	
4/30/31	do	100,000 45 Colt Auto. MC 50,000 30/30 Win. MC 50,000 30/06 Springfield 172 MC	5,407.50	Commission, $395.00 paid to L. G. Fernandez.
5/14/31	do	49,880 7/62 Russian MC	1,833.09	Commission, 134.10 paid to L. G. Fernandez.
5/27/31	do	200,000 7 M/M Mauser MC	7,560.00	Commission, 555.07 paid to L. G. Fernandez.
			14,800.59	1,084.17
1/11/34	do	250 000 7 M/M Mauser MC 250,000 43 Spanish	14,250.00	Commission, 651.01 paid to C. W. Rich.
Total			94,883.59	1,735.18
June to September, inc., 1934:				
8/30/34	Republic of Honduras	50 only Thompson Machine Guns	7,000.00	
8/30/34	do	200,000 7 M/M Mauser 139 gr	7,800.00	
8/30/34	do	200,000 45 Colt Auto		
8/30/34	do	200,000 7 M/M Mauser 139 gr	5,100.00	
8/30/34	do	50,000 Clips for 7 M/M		
9/12/34	do	200,000 7 M/M Mauser 139 gr	4,600.00	
		200,000 7 M/M Mauser 139 gr	4,600.00	
		200,000 7 M/M Mauser 139 gr	4,600.00	
Total			33,700.00	
Total			128,583.59	

JAPAN

Years 1925 to May 31, 1934:				
7/7/30	Curtiss Wright Export Corp	10,000 30/06 Springfield 150 MC	$3,670.00	
		10,000 50 Cal. Armour Piercing		
4/18/32	Imperial Japanese Navy	1,000 50 Cal. Service	1,100.00	Commission of $150.00 paid to F. S. Jonas.
		1,000 50 Cal. Armour Piercing		
		1,000 50 Cal. Tracer		
Total			4,770.00	

MEXICO

Years 1925 to May 31, 1934:				
3/18/29	B. H. Dyas & Company	200,000 30/06 Springfield 172 Gr	$7,900.00	
3/22/29	do	20,000 clips for 30/06	240.00	
4/12/29	do	15,000 30/06 Springfield 172 Gr	1,975.00	
		35,000 30/06 Springfield 150 MC		
5/8/29	do	8,000 303 British VI MC	304.00	
4/25/29	do	7,000 303 British VI MC	266.00	
5/22/29	do	5,000 303 British VI MC	190.00	
3/21/29	F. N. Thayer	100,000 7 M/M Mauser 175 Gr. MC	3,450.00	
3/21/29	do	71,000 7 M/M Mauser 175 Gr. MC	2,449.50	
3/25/29	do	20,000 45 Colt auto MC	400.00	
3/28/29	do	14,000 30/30 Win. MC	406.00	
3/11/29	Walker Craig Company	173,000 30/30 Win. MC	5,757.00	
		20,000 7 M/M Mauser MC		
Total			23,337.50	

NICARAGUA

Years 1925 to May 31, 1934:				
1/4/27	W. R. Copeland	950,000 30/06 Springfield MC	$13,250.00	
1/24/27	do	50,000 30/40 Krag MC	1,750.00	
Total			15,000.00	

PANAMA

Years 1925 to May 31, 1934:				
11/10/31	Curtiss Wright Export Corp	10,000 7 M/M Mauser MC	$346.00	
Total			346.00	

Foreign government export sales—Continued

PERU

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934:				
11/24/26	Republica Del Peru	200,000 7.65 M/M Mauser MC	$10, 738. 08	
		59,000 38 S.&W. Spec		
		1,000 38 S.&W		
		29,000 32 Win		
		1,000 32 S & W		
10/4/26	do	30,000 7.65 M/M Mauser MC	1, 260. 00	Commission $716. 47 paid to F. Froletz.
6/15/26	do	3 Machine Rests—7.65 M/M Bolivian Rifle	375. 00	
			12, 373. 08	
2/25/27	do	Gun Stocks and Parts for 7 M/M Mauser Rifles	12, 570. 00	
11/3/27	do	8,000 30/06 Springfield MC		Commission $917.10 paid to J. Froletz P.
11/3/27	do	1,000 45 Colt Auto MC	358. 23	
			12, 928. 23	
Total			25, 301. 31	

PHILIPPINE ISLANDS

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to May 31, 1934:				
7/27/25	Government of Philippine Islands	120,000 32 Short Colt	$1, 581. 60	Commission $39.54 paid to Alston Gerry.

SALVADOR

Date	Customer	Quantity and description	Amount of invoice	
Years 1925 to Sept. 30, 1934:				
12/13/26	Republic of Salvador	2,000 32 S.&W	$14, 328. 35	
		40,000 32 S.&W. Long		
		178,000 38 S.&W		
		178,000 38 S.&W. Spec		
		75,000 32 Long Colt		
		40,000 38 Short Colt		
		177,000 38 Long Colt		
		40,000 32 Win. S.P		
		2,000 380 Short Colt		
		20,000 22 Short		
		40,000 22 Long		

7/27/26	do	20,000 32 S.&W. Smo	13,563.65	
		35,000 32 S.&W. Long Smo		
		170,000 38 S.&W. Smo		
		170,000 38 S.&W. Spec. Smo		
		70,000 32 Long Colt Smo		
		36,000 38 Short Colt Smo		
		168,000 38 Long Colt Smo		
		2,000 38 Long Colt Smo		
		2,000 38 Auto MC		
		36,000 32 Win. S.P		
		20,000 22 Short		
		40,000 22 Long		
1926 total			27,892.00	
12/27/28	Gobierno De El Salvador	75,000 32 S.&W. Long Smo	9,983.25	Commission of $499.16 paid to L. G. Fernandez.
		200,000 38 S.&W. Smo		
		200,000 38 S.&W. Spec. Smo		
		100,000 38 Colt Spec. Smo		
		5,000 25 Auto Pistol MC		
		3,000 38 Auto MC		
		2,000 38 Auto MC		
1928 total			9,983.25	
8/31/29	Government of Salvador	200,000 38 Colt Spec. Smo	17,528.42	
		74,000 38 Short Colt Smo		
		1,000 38 Short Colt Smo		
		50,000 32 Long Colt Smo		
		20,000 32 Short Colt Smo		
		200,000 38 S.&W. Spec. Smo		
		200,000 38 S.&W. Smo		
		50,000 32 S.&W. Long Smo		
		50,000 32 S.&W. Smo		
		50,000 32 Win. S.P		
		25,000 25 Auto MC		
		25,000 32 Auto MC		
		24,000 38 Auto MC		
		1,000 38 Auto MC		
		5,000 32/40 Win. H.P.MC		
		5 000 38/55 Min. H.P.MC		
		10,000 22 Short		
		50,000 22 Long		
		10,000 380 Auto MC		
		2,000 9 M/M Browning Auto MC		
		1,600 9 M/M Browning Auto MC		
1929 total			17,528.42	
5/14/31	Republic of Salvador	20 only M/6 Rifles 22 Cal	72.00	Commission of $5.04 paid to L. G. Fernandez.
		150,000 22 Short	318.00	Commission of $22.26 paid to L. G. Fernandez.

Foreign government export sales—Continued

SALVADOR—Continued

Date	Customer	Quantity and description	Amount of invoice	
6/18/31	Gobierno De El Salvador	10,000 38 Long Colt 75,000 38 Colt Spec 5,000 45 Auto Colt MC	$1,722.15	Commission of $120.55 paid to L. G. Fernandez.
1931 total			2.112.15	
2/14/32	Republic De El Salvador	100,000 7 M/M Mauser MC 200,000 7 M/M Mauser MC	10,380.00	Commission of $645.00 paid to L. G. Fernandez.
2/18/32		300,000 7 M/M Mauser MC	10,380.00	Commission of $645.00 paid to L. G. Fernandez.
3/17/32		400,000 7 M/M Mauser MC	13,840.00	Commission of $860.00 paid to L. G. Fernandez.
6/7/32	Gobierno De El Salvador	150,000 38 S.&W. Spec 150,000 38 S.&W 100,000 32 S.&W. Long	4,168.00	Commission of $208.40 paid to Armando Frenkel. Commission of $208.40 paid to L. G. Fernandez.
6/16/32	do	16,000 45 Auto MC	416.00	Commission of $19.31 paid to Armando Frenkel. Commission of $19.31 paid to L. G. Fernandez.
6/16/32	do	5,000 45 Auto MC	130.00	Commission of $6.50 paid to Armando Frenkel. Commission of $6.50 paid to L. G. Fernandez.
8/12/32	do	112,500 45 Auto MC	2,756.25	Commission of $130.08 paid to Armando Frenkel. Commission of $130.08 paid to L. G. Fernandez.
9/6/32	Republic De El Salvador	20,000 45 Auto MC	520.00	Commission of $23.57 paid to Armando Frenkel. Commission of $23.57 paid to L. G. Fernandez.
8/26/32	Gobierno De El Salvador	Correction	(31.50)	Debit correction $1.58, A. Frenkel.
8/10/32	do	500 7 M/M Mauser S.P 2,500 22 Short 2,500 22 Long Rifle 1 only Mod. 12A Rifle 22 Cal	50.55	Commission of $3.53 paid to L. C. Fernandez.
1932 total			42 609.30	
5/11/33	Gobierno De El Salvador	107,500 38 S.&W 109,000 38 S.&W. Spec 96,000 38 Long Colt 7,500 32 Win 10,000 45 Colt Auto MC 7,500 22 Win. Auto 16,000 22 Long Rifle	3,550.00	Commission of $97.50 paid to L. C. Fernandez. Commission of $152.43 paid to Armando Frenkel.
10/31/33	do	150,000 38 Colt Spec 12,500 45 Auto MC 75,000 38 S.&W 100,000 38 S.&W. Spec 37,500 32 S.&W. Long 12,500 32 Win 50,000 22 Long 25,000 22 Short 7,500 22 Win. Auto	4,993.65	Commission of $881.23 paid to Armando Frenkel.

6/20/33	Republica Del Salvador	1,000 22 Long Hi-Speed Silv 2,000 22 Long Hi-Speed Lubr 3 only Mod. 12A Rifle 22 Cal	53. 25	Commission of $2.25 paid to Armando Frenkel.
1933 total			8, 596. 90	
6/15/34	Gobierno De El Salvador	100,000 38 S.&W 122,000 38 S.&W. Spec 3,000 38 S.&W. Spec 35,000 32 S.&W. Long 2,500 32 S.&W. Long 1,500 32 Win 36,000 32 Win 2,500 25 Auto MC 2,500 32 Auto MC	4, 698. 29	Commission of $664.79 paid to Armando Frenkel.
1934 total			4, 698. 29	
Grand total			113, 420. 31	

SIAM

Years 1925 to May 31, 1934:				
1/22/32	Colt Patent Firearms Mfg. Co	200 50 Cal. Tracer Ctges	$48.00	
Total			48.00	

VENEZUELA

Years 1925 to May 31, 1934:				
8/3/28	Gobierno De Venezuela	25,000 38 S. & W. Spec	$417. 50	Commission of $20.88 paid to De Tomas Reyna Hijo.
		Additional charge	50. 50	Commission of $2.53 paid to De Tomas Reyna Hijo.
			468. 00	
6/18/30	P. R. Rincones Jr. Co. Inc	5,000 50 Cal. armour piercing	1, 625. 00	
12/26/33	Republic De Venezuela	7,000 Primers 42 Gr 3,000 Primers 17 Gr	770. 00	Commission of $38.35 paid to C. W. Rich.
Total			2, 863. 00	

EXHIBIT NO. 1314

U. S. Government, sales and net profit

	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933
Sales to U. S. Government	$3, 013. 49	$10, 041. 77	$11, 383. 79	$6, 390. 32	$12, 714. 04	$63, 328. 39	$424, 488. 46	$42, 671. 90	$188, 402. 06	$150, 004. 53	$95, 980. 87	$361, 635. 63
Factory cost	2, 305. 32	7, 189. 91	8, 640. 30	4, 978. 06	8, 861. 69	45, 406. 46	286, 105. 22	30, 467. 74	122, 838. 14	112, 353. 39	78, 704. 31	272, 781. 76
Shipping and delivery, selling and administrative cost	403. 81	1, 466. 10	1, 889. 71	977. 72	1, 843. 53	9, 689. 24	58, 154. 92	5, 931. 39	33, 347. 16	32, 100. 97	23, 035. 41	72, 652. 59
Interest, taxes and miscellaneous expenses, less miscellaneous income	87. 39	220. 92	(11. 38)	38. 34	12. 71	31. 66	19, 101. 98	1, 152. 14	4, 710. 05	7, 500. 23	1, 439. 71	831. 76
Bond interest	78. 35	421. 75	865. 17	504. 84	928. 12	3, 926. 36	13, 583. 63	1, 237. 49	6, 782. 47	6, 600. 20	575. 89	11, 933. 98
Inventory adjustments	33. 15	(50. 21)	11. 38			31. 66	848. 98			10, 200. 30	1, 919. 62	36, 055. 07
Total cost	2, 908. 02	9, 248. 47	11, 395. 18	6, 498. 96	11, 646. 05	59, 085. 38	377, 794. 73	38, 788. 76	167, 677. 82	168, 755. 09	105, 674. 94	394, 255. 16
Net profit (or loss)	105. 47	793. 30	(11. 39)	(108. 64)	1, 067. 99	4, 243. 01	46, 693. 73	3, 883. 14	20, 724. 24	(18, 750. 56)	(9, 694. 07)	(32, 619. 53)

( ) Denotes red figures.

The above figures show the sales to the United States Government and were compiled from records which we believe to be correct. The costs applied against these sales to arrive at net profit or loss from this volume of business is the percentage that the various cost figures bear to the total volume of business carried on by the present Remington Arms Company, Inc.

Exhibit No. 1315

May 10, 1934.

REMINGTON ARMS COMPANY'S AGENTS IN THE FOREIGN FIELD

	Cable address
Agurto & Calvo, Apartado 700, Guayaquil, Ecuador	Sagurto.
Ch. Andre & Cie., 56 Rue de Paradis, Paris, France c/o S. S. du-Pont do Brasil, Rua dos Ourives 92	Armandre.
A. M. Barata, Rua Laranjeiras 486, Rio de Janeiro, Brazil	Remacio.
Subagents:	
Ernesto Pflueger, Caixa Postal 20–A, Manaos, Brazil	Wotan.
Fausto Sant'Anna, Caixa Postal 327, Porto Alegre, Brazil	Fauna.
M. D. Besso, P. O. Box 237, Iquitos, Peru	Besso.
Troels Branner, Amagertory 29, Copenhagen, Denmark	Throbranner.
D. D. Bryant, G. P. O. Box 686–E, Melbourne, Vic., Australia	Remarumco.
Victor L. Bryant & Co. Ltd., P. O. Box 164, Belize, British Honduras	Tocino.
William Campbell, P. O. Box 1814, Johannesburg, South Africa	Accelerate.
J. D. Capriles & Co., 30 Prinsenstraat, Curaco, D. W. I.	
S. J. David & Co., P. O. Box 388, Shanghai, China	Psalmist.
David House, Hong Kong	Psalmist.
Ernesto De Rossi, Apartado 1079, Lima, Peru	Edero.
Th. de Schryver Ltd.:	
P. O. Box 326, Auckland, New Zealand	Deschryver.
Maritime Bldgs., Wellington, New Zealand	Deschryver.
Express Co. Ltd. Bldg., Dunedin, New Zealand	Deschryver.
78 Lichfield St., Christchurch, New Zealand	Deschryver.
Martial Dupont, Via Spiga 7, Milan, Italy	Dupont.
D. Epstein & Co., P. O. Box 176, Nairobi, Kenya Colony, Br. E. Africa	Epstein.
C. Eynard, Beyrouth, Syria	
Fidanque Bros. & Sons, 8–10 Bridge S., New York City (Panama Canal Zone)	
Armando Frenkel, Apartado 63, San Salvador, El Salvador	Archahendra.
G. Heitor Ferreira, Rua Souza Martins 20, Lisbon, Portugal	
Getz Bros. & Co., P. O. Box 234, Singapore, Straits Settlements	Getz.
Pencil Note—Sales representatives reporting to director of export sale.	
T. S. R. Gillett Limited, P. O. Box 769, Bombay, India	Strantham.
P O. Box 509, Calcutta, India	Strantham.
Dunolly Road, Karachi, India	Strantham.
17–A Armenian Street, Madras, India	Strantham.
81–83 Chatham St., Colombo, Ceylon	Strantham.
105 Tseekai Maung Tauley St., Rangoon, Burma	Strantham.
Heedles & Breidsprecher, Apartado 505, Mexico D. F., Mexico (Street Address: Calle Netzahualcoyoti 120)	
Geo. S. Huggins, P. O. Box 267, Port of Spain, Trinidad, B. W. I.	Drumar.
Oscar C. M. Knudsen, Oslo Havnelager, Oslo, Norway	Reliance.
F. A. Larcada, Apartado 1994, Habana, Cuba	Larcada.
M. P. Mandry, P. O. Box 109, San Juan, Puerto Rico	Mimandry.
Felipe S. Mendez, Alvarez de Abreu 14, Santa Cruz de la Palma, Canary Islands	
M. J. Miller, Casilla 67, La Paz, Bolivia	Miller.
A.–B. Gustav Mohr, Birger Jarlsgaten 33, Stockholm, Sweden	Mohr.
J. W. Morris, P. O. Box 823, St. John's, Newfoundland	
Luis B. Nicolas, Calle Colon 38, Santo Domingo, Dominican Republic	Nicolas.
Joh. Olafsson & Co., P. O. Box 838, Reykjavik, Iceland	Juwel.
Palmer & Company:	
Moreno 574, Buenos Aires, Argentina	Donnell.
Rio Branco 1390, Montevideo, Uruguay	Donnell.
Hernan, Restrepo, Apartado 1565, Bogota, Colombia	Leor.
Alberto Reyna, Apartado 287, Caracas, Venezuela	Reytom.
J. M. Sapyras, 21 Colocotroni, Athens, Greece	Sapyrap.
Shima Trading Co. Ltd., 9 & 10 Koraibashi 4-chome, Osaka, Japan	Shimaco.
Spencer & Waters Ltd., Casilla 627, Santiago, Chile	Spenwaters.

REMINGTON ARMS COMPANY'S AGENTS IN THE FOREIGN FIELD—continued

	Cable address
B. E. Sydow, Skrytka Pocztowa 669, Warsaw, Poland	Arauco.
Union Espanola de Explosivos, Villanueva 11, Madrid, Spain	Explosivos.
PENCIL NOTE—Remington Arms Union Metallic Cartridge Co., Ltd., Brimsdown, Enfield, Middlessex, England. Mr. Alfred Lagden, managing director.	
Casa Mayrink Veiga S/A, 17 Rua Mayrink Veiga 21, Rio de Janeiro, Brazil—on .50 caliber ammunition only	Mayrink.
Francisco Sefzic:	
Pension Borja, Quito, Ecuador	Sefzic.
Box 368, Guayaquil, Ecuador	Sefzic.
Urueta & Samper H. (Sucs.), Apartado Aereo 3600, Bogota, Colombia	Ursam.
Apartado Postal 536, Bogota, Colombia	Ursam.
Webster & Ashton, Casilla 144, La Paz, Bolivia	Activos.
PENCIL NOTE.—S. F. S. Jonas, N. Y. C.	

EXHIBIT NO. 1316

Remington Arms Company, Inc.—Holders of 3,000 or more shares common stock, par $1.00, as of August 29, 1934

	No. shares
American Trust Co., pledgee for Baker Estate Co., under pledge agreement dated September 17, 1927, 464 California Street, San Francisco, Calif	3, 300
Benjamin & Ferguson, 61 Broadway, New York City	4, 333
James G. Biddle, Wallingford, Pa	3, 600
George Bingham, 1060 Hillside Avenue, Plainfield, N. J	15, 400
George Bingham, trustee, under deed of trust dated June 3, 1932, 25 Broadway, New York City	400, 000
Hartley Dodge Bingham, 1060 Millside Avenue, Plainfield, N. J	3, 020
John E. Brennan, 52 John Street, Ilion, N. Y	4, 225
Chauncey I. Clark, 27 William Street, New York City	4, 300
William Crawford, 7 East 42nd Street, New York City	5, 000
Leander C. Claflin, 1606 Chestnut Street, Philadelphia, Pa	3, 600
Geraldine R. Dodge, Madison, N. J	84, 324
M. Hartley Dodge, 350 Fifth Avenue, New York City	300, 877
Dominick & Dominick, 115 Broadway, New York City	4, 442
E. I. du Pont de Nemours & Co., Wilmington, Del	1, 896, 882
Eddy & Co., 16 Wall Street, New York City	52, 899
Fahnestock & Co., 1 Wall Street, New York City	3, 000
Miss Florentine M. Fuld, 28 West 128th Street, New York City	4, 700
Leonard Felix Fuld, 28 West 128th Street, New York City	4, 700
Chauncey B. Garver, 55 Wall Street, New York City	3, 000
Frederic N. Gilbert, 55 Wall Street, New York City	9, 400
Gilligan, Goldberg & Co., 42 Broadway, New York City	17, 875
Egbert C. Hadley, Harbor Road, Southport, Conn	3, 600
Bessie Ward Hinkson, 224 Chester Pike, Ridley Park, Pa	4, 250
Kane & Co., c/o Chase National Bank, personal trust department, 11 Broad Street, New York City	25, 000
Laird, Bissell & Meeds, 120 Broadway, New York City	11, 385
Henry F. Lippitt, c/o Rhode Island Hospital Trust Co., executors, Providence, R. I	3, 000
Lloyds, New York, 70 Pine Street, New York City	3, 000
Lober Brothers & Co., 37 Wall Street, New York City	8, 600
Thomas C. McCahan, c/o Florence M. McCahan & William J. McCahan, 3rd, executors, c/o Fidelity Philadelphia Trust Co., agent, Philadelphia, Pa	3, 000
Frank Mauran, Sr., 2020 Walnut Street, Philadelphia, Pa	10, 200
Henrietta C. Moody, 377 Clinton Avenue, Brooklyn, N. Y	3, 525
William H. Nolan, 133 Benson Place, Westfield, N. J	5, 000
William C. Pollock, Jr., 123 S. Broad Street, room 807, Philadelphia, Pa	3, 000
Permelia Pryor Reed, c/o S. F. Pryor, 25 Broadway, New York City	7, 000

Remington Arms Company, Inc.—Holders of 3,000 or more shares common stock, par $1.00, as of August 29, 1934—Continued

	No. shares
Reynolds, Fish & Co., 120 Broadway, New York City	4, 035
Martin E. Roache, 234 Roseville Avenue, Newark, N. J	3, 000
P. A. Rockefeller, 25 Broadway, New York City	43, 340
Schmidt & Co., c/o Guaranty Trust Co. of N. Y., 140 Broadway, New York City	3, 825
Samuel Stern, c/o Bankers Trust Co., 16 Wall Street, New York City	17, 000
H. J. Strugnell, 939 Barnum Avenue, Bridgeport, Conn	5, 100
Eugene J. Sweeney, 2728 Spuyten Duyvil Parkway, Bronx, New York City	4, 200
Charles H. Toy, 25 Broadway, New York City	9, 851
Wertheim & Co., 120 Broadway, New York City	6, 125
Total	3, 015, 913

Note.—From the foregoing list the following actual owners of 3,000 shares or more shares of Remington Arms Co. should be noted;

	Shares
Eddy & Company: For George W. Sumers Trust No. 1, care of Bankers Trust Co., N. Y	51, 399
Gilligan, Goldberg & Company:	
For Loretta A. Sumers, Douglaston, L. I	4, 175
For Henry Goldberg, 2 Rector Street, N. Y. C	5, 000
For M. L. Weiss, 2 Rector Street, N. Y. C	5, 000
Kane & Company, care of Chase National Bank, N. Y.: For Chase National Bank as cotrustees with Ruby J. Pryor, under agreement, 8/3/33 with Ruby J. Pryor	25, 000
Schmidt & Company: For Guaranty Trust Company, 32 Lombard Street, London, England	3, 000

Exhibit No. 1317

REMINGTON ARMS COMPANY, INC.

The corporate structure is made up of the parent company and the following subsidiary companies:

The Remington Cutlery Works, Inc. (in process of liquidation and dissolution).

Union Metallic Cartridge Company (inactive).

Remington Cash Register Company, Inc. (inactive in process of liquidation and dissolution).

Remington Arms Union Metallic Cartridge Company, Ltd. (England).

Peters Cartridge Company.

Exhibit No. 1318

Remington Arms Company, Inc.

INVESTMENT SECURITIES HELD OTHER THAN THOSE OF SUBSIDIARY COMPANIES

10 shares preferred A. Baldwin & Co 8–245/10000 script preferred A. Baldwin & Co 5 shares common A. Baldwin & Co	$330. 00
Consolidated Automatic Merchandising Corporation (voting trust) 100,000 shares	12, 500. 00
48,000 shares Hofgaard-Remington Corporation	1. 00
35 shares Allen-Wales Adding Machine Corporation $6.00 now, cumulative preferred, no par	3, 500. 00
37.95 shares participating preference stock $100 par, Curtiss Candy Co	1. 00

("Exhibit No. 1319" was marked for identification and is on file with the committee.)

EXHIBIT NO. 1320

BRIDGEPORT OFFICE, *June 29, 1934.*

[1] ~~43.1532 B~~
40.35

Subject: Remington Patent and information exchange, commitments.

Mr. C. K. DAVIS,
President, Bridgeport Office.

Please refer to Mr. Jenney's letter of June 25th, and Mr. Abrams letter of June 22nd, both returned herewith.

Our letter of June 18th summarized all of Remington's commitments, both domestic and foreign, in the matter of patent licenses and the exchange of patents and technical information.

A somewhat more precise description of these commitments, than the one drafted by Mr. Abrams, might be as follows:

Date	Parties	Subject
Nov. 14, 1929	Remington—R. W. S.	Remington agrees to grant D. A. G. United States rights in new uses for Tetrazene and new processes for Tetrazene manufacture; and to grant D. A. G. German rights on new Tetrazene priming mixtures.
Jan. 1, 1934	Remington—D. A. G. (modification of R. W. S. agreement).	
Mar. 8, 1933	Remington—D. A. G.	Remington agrees to disclose to D. A. G. the subject of such U. S. applications as it sees fit, and to grant D. A. G. German rights in the subject of such applications.
Aug. 22, 1929	Remington—C. I. L.	Remington agrees to certain limitations in its Canadian sales and advertising, in exchange for a license under Canadian's Tetrazene patents.

I do not think that the German situation can be satisfactorily settled by simply excluding Germany from the territory in which Remington agrees to grant licenses to I. C. I. The arrangement with D. A. G. is not satisfactory. We have never disclosed to them our more important U. S. applications, and these applications have at times been of such a nature that it would be undesirable to do so. Moreover, we are entirely satisfied that they have not disclosed to us all of their pending German applications. It is undesirable to enter into an agreement with I. C. I. affecting Germany without the knowledge and consent of D. A. G., but advising D. A. G., that we proposed to enter such an agreement might well be the means of securing a more definite and satisfactory arrangement with them.

A. J. GREENE,
Patent Attorney.

AJG/m

EXHIBIT NO. 1321

Statement of cash payments made to R. W. S., D. A. G., and I. C. I. for years 1929–1934 (1931, 1932, 1933, and first 6 months of 1934)

Company	Schedule no.	Total	1929	1930	1931	1932	1933	First 6 months 1934
Rheinisch Westfalische Sprengstoff	1	$55, 170. 66	$25, 000			$11, 781. 14	$18, 389. 52	
Dynamit, Actien Gesellschaft	2	16, 523. 50						$16, 523. 50
Imperial Chemical Industries	3	472. 44				138. 73	111. 35	222. 36
Total		72, 166. 60	25, 000			11, 919. 87	18, 500. 87	16, 745. 86

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[1] Pencil notes.

Schedule I, Remington Arms Company, Inc.

Schedule of cash payments made to Rheinisch Westfalische Sprengstoff, as at November 7, 1934, in accordance with contract dated November 14, 1929

Year				Amount	Tota
1929.	Initial payment toward purchase of patent			$12,500.00	
	Advanced payment, being credit against future earned royalty			12,500.00	
	Total cash payment, year 1929				$25,000.00
1930.	Earned royalty applied to advance royalty payment		$847.10		
1931.	Earned royalty applied to advance royalty payment		10,152.59		
1932.	Part of 1932 earned royalty applied to advance payment	$1,639.04			
	Less royalty paid to Imperial Chemical Industries	138.73			
			1,500.31		
	Total royalty earned and applied against advance payment		12,500.00		
1932.	Earned royalty paid (less amount applied to advance payment)				11,781.14
1933.	Earned royalty paid			18,500.87	
	Less royalty paid to Imperial Chemical Industries			111.35	
	Total cash payment, year 1933				18,389.52
	Total, all cash paid				55,170.66

Schedule 2, Remington Arms Company, Inc.

Schedule of cash payments made to Dynamit, Actien Gesellschaft as at November 7, 1934, in accordance with contract in effect January 1, 1934

	Amount
First 6 months of 1934, earned royalty	$16,745.86
Less royalty paid Imperial Chemical Industries	222.36
Total cash paid, year 1934	16,523.50

Schedule 3, Remington Arms Company, Inc.

Schedule of cash payments made to Imperial Chemical Industries as at November 7, 1934, in accordance with agreement of June 24, 1931

Year:	Amount paid
1932, earned royalty	$138.73
1933, earned royalty	111.35
1934, earned royalty	222.36
Total	472.44

Exhibit No. 1322

Remington Arms Union Metallic Cartridge Co., Inc.—Compensation of executive officers and directors

Name	Position	Salary	
1917			
Henry S. Kimball	President and director	$40,000.00	
H. H. Pinney	Vice president and director	100,000.00	
C. C. Tyler	do	10,500.00	
C. L. Reierson	do	22,083.33	
I. S. Betts	do	16,000.00	
George Bingham	Vice president and secretary	10,000.00	
Cornell S. Hawley	Treasurer and director	18,000.00	
M. Hartley Dodge			No compensation other than amount shown was paid to any director, with the exception of the $20 fee for attendance at each board meeting.
Edward R. Duer			
Edwin A. Potter, Jr			
Edward W. Harden			
Wilson S. Kinnear			
F. A. Haughton		20,916.66	
1918			
Henry S. Kimball	President and director	40,000.00	
C. L. Reierson	Vice president and director	25,000.00	
C. C. Tyler	do	30,000.00	
Cornell S. Hawley	do	4,500.00	
George Bingham	Secretary	10,000.00	
I. S. Betts		16,000.00	No compensation other than amounts shown were paid to any director, with the exception of the $20 fee for attendance at each board meeting.
M. H. Dodge			
E. R. Duer			
E. W. Harden			
F. A. Haughton		25,000.00	
W. S. Kinnear			
E. A. Potter			
H. H. Pinney		41,666.66	
1919			
Henry S. Kimball	President and director	40,000.00	
C. L. Reierson	Vice president and director	25,000.00	
I. S. Betts	do	20,833.35	
F. A. Haughton	do	25,000.00	
C. C. Tyler	do	20,000.00	
W. F. Lawrence	do	15,000.00	
Chas. W. Many	Treasurer	7,500.00	
George Bingham	Secretary	10,000.00	
M. Hartley Dodge			No compensation was paid to these directors, with the exception of $20 for attendance at each board meeting.
Edward R. Duer			
Edward W. Harden			
Wilson S. Kinnear			
Carroll Stevenson			
Edwin A. Potter, Jr			

Remington Arms Co.—Compensation of executive officers and directors

Name	Position	Salary	Payment on stock allotted for services	
1920				
Charles L. Reirson	President & director	$30,000.00	$22,500.00	
C. C. Tyler	Vice president & director (4)	10,000.00		
I. S. Betts	Vice president & director (1)	22,000.00	15,000.00	
W. F. Lawrence	Vice president & director (2)	15,000.00		
George Bingham	Secretary & director (5)	11,250.00	12,000.00	
Charles W. Many	Treasurer & asst. sec	7,500.00	3,000.00	

Remington Arms Co.—Compensation of executive officers and directors—Continued

Name	Position	Salary	Payment on stock allotted for services	
1920				
Chauncey B. Garver	Resigned 8/10/20			No compensation other than amounts shown were paid to any director with the exception of the $20.00 fee for attendance at each board meeting.
Frederick W. Jackson	Resigned 7/14/20			
Walter K. Earle	Resigned 7/14/20			
James McNalley	Resigned 7/14/20			
Wieberforce Sully, Jr	Resigned 7/14/20			
Chester B. McLaughlin, Jr.	Resigned 7/14/20			
Francis N. Bangs	Resigned 6/14/20			
M. Hartley Dodge	Chairman of board (11) (3)			
Edward R. Duer	Resigned 8/10/20 (6)			
Jarvis William, Jr	(7)	$20,000.00	$9,000.00	
Charles E. Mitchell	(8)			
Edwin A. Potter	(9)			
Henry S. Kimball	(10)	20,000.00		
James A. Stillman	(12)			
P. A. Rockefeller	(13)			
Samuel F. Pryor	(14)	25,000.00		
Charles H. Sabin	(15)	[1] 14,583.34		
W. E. S. Griswold	(16)	[1] 14,583.34		
1-10 elected director 7/14/20.				
11 elected chairman 7/14/20.				
12-16 elected director 8/10/20.				
1921				
M. Hartley Dodge	Chairman of board & directors			
S. F. Pryor	Chairman exec. comm. & director.	25,000.00		
Charles L. Rierson	President & director	30,000.00		
Charles W. Many	Treasurer	7,500.00		
George Bingham	Secretary & director	12,500.00		
I. S. Betts	Vice president & director	25,000.00		
C. C. Tyler	do	10,000.00		
Jarvis Williams	do	20,000.00		
Henry S. Kimball	Director			No compensation to these directors other than $20.00 for attendance at each board meeting.
Frederick B. Adams	do			
James A. Stillman	do			
Charles H. Sabin	do			
W. E. S. Griswold	do			
Charles E. Mitchell	do			
Edwin A. Potter, Jr	do			
P. A. Rockefeller	do			
1922				
M. Hartley Dodge	Chairman of board & director			
S. F. Pryor	Chairman executive comm. & director.	25,000.00		
C. L. Reirson	President & director	30,000.00	4,500.00	
Charles W. Many	Treasurer	7,500.00	600.00	
George Bingham	Secretary & director	12,500.00	2,400.00	
I. S. Betts	Vice president & director	25,000.00	3,000.00	
C. C. Tyler	do	10,000.00		
Jarvis Williams	do	20,000.00	1,800.00	
Henry S. Kimball	Director			No compensation to these directors, other than $20.00 for attendance at each board meeting.
Frederick B. Adams	do			
James A. Stillman	do			
Charles H. Sabin	do			
W. E. S. Griswold	do			
Charles E. Mitchell	do			
Edwin A. Potter, Jr	do			
P. A. Rockefeller	do			
1923				
Samuel F. Pryor	Chairman exec. com. & director.	25,000.00		
C. L. Reirson	President & director	35,000.00	10,500.00	
I. S. Betts	Vice president & director	25,000.00	7,000.00	
Jarvis Williams, Jr	do	20,000.00	4,200.00	
C. C. Tyler	do	10,000.00		
George Bingham	Secretary & director	12,500.00	5,600.00	

[1] Compensation to Messrs. Sabin and Griswold as members of the manging committee, covered the period from Jan. 1, to July 30, 1920. Upon election to board, the payments were discontinued.

Remington Arms Co.—Compensation of executive officers and directors—Continued

Name	Position	Salary	Payment on stock allotted for services	
1923				
Charles W. Many	Treasurer	$7,500.00	$1,400.00	
J. G. Heath	Vice president	8,000.00	700.00	
M. Hartley Dodge	Chairman of board			No compensation to these directors other than $20.00 for attendance at each board meeting.
Frederick B. Adams	Director			
Frederic W. Allen	do			
W. E. S. Griswold	do			
Charles E. Mitchell	do			
E. A. Potter, Jr	do			
P. A. Rockefeller	do			
Charles H. Sabin	do			
J. A. Stillman	do			
1924				
Samuel F. Pryor	Chairman exec. com. & dir.	25,000.00		
C. L. Reirson	President & director	35,000.00		
I. S. Betts	Vice president & director	25,000.00		
J. B. Heath	Vice president	10,000.00		
Jarvis Williams, Jr	Vice president & director	20,000.00		
C. C. Tyler	do	10,000.00		
George Bingham	Secretary & director	12,500.00		
C. W. Many	Treasurer & asst. sec'y	9,000.00		
M. Hartley Dodge	Chairman of board			No compensation paid to these directors, other than $20.00 for attendance at each meeting of the board.
Frederick B. Adams	Director			
Frederic W. Allen	do			
W. E. S. Griswold	do			
Charles E. Mitchell	do			
E. A. Potter, Jr	do			
P. A. Rockefeller	do			
J. A. Stillman	do			
Charles H. Sabin	do			
1925				
Samuel F. Pryor	Chairman exec. comm. & director.	25,000.00		
C. L. Reirson	President & director	35,000.00		
I. S. Betts	Vice president & director	25,000.00		
J. B. Heath	do	15,000.00		
George Bingham	Secretary & Director	12,500.00		
C. W. Many	Treas. & ass't. sec'y	9,000.00		
C. C. Tyler	Vice pres. & director	10,000.00		
Jarvis William, Jr	do	20,000.00		
M. Hartley Dodge	Chairman of board			No compensation paid to these directors, other than $20.00 for attendance at each board meeting.
Frederic W. Allen	Director			
Frederick B. Adams	do			
Charles E. Mitchell	do			
E. A. Potter, Jr	do			
P. A. Rockefeller	do			
W. E. S. Griswold	do			
Charles H. Sabin	do			
James A. Stillman	do			
1926				
Samuel F. Pryor	Chairman exec. com. & dir	25,000.00		
J. B. Smiley	President & director	25,312.50		Elected president Dec. 6, 1926.
C. L. Reirson	do	35,000.00	18,750.00	Resigned, Nov. 29/26.
J. G. Heath	Vice president & director	17,500.00	1,250.00	
George Bingham	Vice president sec'y. & director	12,500.00	10,000.00	
C. W. Many	Treasurer & asst. sec'y	8,250.00	2,500.00	Died Nov. 18, 1926.
L. K. Larson	Asst. treas. & asst. sec'y	3,041.60		Elected Dec. 6/26.
C. C. Tyler	Vice pres. & director	4,166.66		Resigned, Apr. 19/26.
Jarvis Williams Jr	do	14,166.66		Resigned, May 13/26.
I. S. Betts	do	14,583.34		Resigned, July 31/26.
M. Hartley Dodge	Chairman of board			No compensation to these directors other than $20.00 for attendance at each board meeting.
Frederic W. Allen	Director			
Chas. E. Mitchell	do			
W. H. Woodin	do			
Frederick B. Adams	do			
Matthew C. Brush	do			
John A. Garver	do			
E. A. Potter, Jr	do			
P. A. Rockefeller	do			
W. E. S. Griswold	do			
James A. Stillman	do			

Remington Arms Co., Bridgeport, Conn.—Compensation of executive officers and directors

Name	Position	Salary	Cash bonus	Payment on stock allotted for services	
1927					
Samuel F. Pryor	Chairman exec. com. & director.	$25,000.00			
Saunders Norvell	President & director	16,111.08			Elected Sept. 6, 1927.
C. L. Reierson	Ex President	17,500.00		$18,750	
George Bingham	Vice pres. secy. & director	12,500.00			
J. G. Heath	Vice pres	20,000.00			
J. E. Brennan	do	20,000.00			
L. K. Larson	Treas. & asst. secy	4,600.00			
J. B. Smiley	Pres. & director	61,639.75		75,000	Resigned Sept. 6, 1927.
M. Hartley Dodge	Chairman of board				No compensation to these directors other than $20 for attendance at each board meeting.
Frederic W. Allen	Director				
Charles E. Mitchell	do				
W. H. Woodin	do				
Frederick B. Adams	do				
Matthew C. Brush	do				
John A. Garver	do				
E. A. Potter, Jr	do				
P. A. Rockefeller	do				
W. E. S. Griswold	do				
Horace Havemeyer	do				
1928					
Samuel F. Pryor	Chairman exec. com. & director.	25,000.00			
Saunders Norvell	President and director	50,000.00			
George Bingham	Vice pres. secy. & director	12,500.00			
J. E. Brennan	Vice pres	20,000.00			
H. J. Strugnell	do	12,000.00			
J. G. Heath	do	18,749.94			
A. A. Dicke	do	12,000.00			
L. K. Larson	Treas. asst. secy. & director.	5,000.00			
M. Hartley Dodge	Chairman of board				No compensation to these directors other than $20 for attendance at each board meeting.
Frederic W. Allen	Director				
W. H. Woodin	do				
Frederick B. Adams	do				
Matthew C. Brush	do				
John A. Garver	do				
E. A. Potter, Jr	do				
P. A. Rockefeller	do				
W. E. S. Griswold	do				
Horace Havemeyer	do				
1929					
Samuel F. Pryor	Chairman exec. com. & director.	$25,000.00			
Saunders Norvell	President & director	50,000.00	$25,000		
George Bingham	Vice pres., secy. & director	12,500.00	5,000	10,000	
J. E. Brennan	Vice president	20,000.00	5,000	5,000	
H. J. Strugnell	Vice pres	15,000.00	5,000	1,250	
J. G. Heath	do	15,000.00		1,250	
A. A. Dicke	do	15,000.00	5,000	1,000	
W. E. Chollar	do	12,000.00	5,000	750	
L. K. Larson	Treas., asst. secy. & director.	6,000.00	1,000		
M. Hartley Dodge	Chairman of board				No compensation to these directors other than $20 for attendance at each board meeting.
Frederick B. Adams	Director				
Frederic W. Allen	do				
Matthew C. Brush	do				
Chas. E. Doyle	do				
John A. Garver	do				
W. E. S. Griswold	do				
Horace Havemeyer	do				
E. A. Potter, Jr	do				
P. A. Rockefeller	do				
W. H. Woodin	do				

Remington Arms Co., Bridgeport, Conn.—Compensation of executive officers and directors—Continued

Name	Position	Salary	Cash bonus	Payment on stock allotted for services	
1930					
Samuel F. Pryor	Chairman exec. com. & director.	$25,000.00			
Saunders Norvell	President & director	50,000.00	$25,000		
George Bingham	Vice pres., secy. & director	15,000.00	7,500		
J. E. Brennan	Vice pres	20,000.00	2,500		
H. J. Strugnell	do	18,000.00	5,000		
J. G. Heath	do	15,000.00			
A. A. Dicke	do	15,000.00			
W. E. Chollar	do	14,651.81	5,000		
L. K. Larson	Treas., asst. secy. & director.	6,500.00	1,000		
M. Hartley Dodge	Chairman of board				No compensation to these directors other than $20 for attendance at each board meeting.
Frederick B. Adams	Director				
Frederic W. Allen	do				
Matthew C. Brush	do				
Charles E. Doyle	do				
John A. Garver	do				
W. E. S. Griswold	do				
Horace Havemeyer	do				
E. A. Potter, Jr	do				
P. A. Rockefeller	do				
W. H. Woodin	do				
1931					
M. Hartley Dodge	Chairman of board	16,650.00	5,000		
Samuel F. Pryor	Chairman exec. com. & director.	23,124.99			
Saunders Norvell	Pres. & director	46,249.98	35,000		
George Bingham	Vice pres., secy., & director	13,875.00	5,000		
J. E. Brennan	Vice pres	18,499.98			
W. E. Chollar	do	16,312.47	25,000		
A. A. Dicke	do	13,375.00			
J. G. Heath	do	13,875.00			
H. J. Strugnell	do	18,000.00			
L. K. Larson	Treas., asst. secy., & director.	6,012.48	5,000		
Frederick B. Adams	Director				No compensation to these directors other than $20 for attendance at each board meeting.
Frederic W. Allen	do				
Matthew C. Brush	do				
Charles E. Doyle	do				
John A. Garver	do				
W. E. S. Griswold	do				
E. A. Potter, Jr	do				
P. A. Rockefeller	do				
W. H. Woodin	do				
1932					
M. Hartley Dodge	Chairman of board	12,449.97			
Samuel F. Pryor	Chairman exec. com. & director.	19,166.64			
Saunders Norvell	President & director	41,666.64	10,000		
W. A. Tobler	Vice pres. & director	30,000.00			
J. G. Heath	Vice pres	12,333.31			
H. J. Strugnell	do	16,000.00			
George Bingham	Vice pres., secy., & director	11,166.64	5,000		
L. K. Larson	Treas., asst. secy., & director.	6,499.92			
Frederick B. Adams	Director				No compensation to these directors other than $20 for attendance at each board meeting.
Frederic W. Allen	do				
Matthew C. Brush	do				
William Crawford	do				
Charles E. Doyle	do				
John A. Garver	do				
W. E. S. Griswold	do				
E. A. Potter, Jr	do				
P. A. Rockefeller	do				

Remington Arms Co., Bridgeport, Conn.—Compensation of executive officers and directors—Continued

Name	Position	Salary	Cash bonus	Payment on stock allotted for services	
1933					
M. Hartley Dodge	Chairman of board	$7,000.00			
C. K. Davis	Pres. & director	18,916.67			
E. E. Handy	Vice pres	10,650.00			
George Bingham	do	11,766.65			
W. U. Reisinger	Treasurer & secy	8,323.34			
L. K. Larson	Asst. treas. & asst. secy	6,404.52			
J. Thompson Brown	Director				No compensation to these directors other than $20 for attendance at each board meeting.
J. B. Eliason	do				
Saunders Norvell [1]	do				
Samuel F. Pryor [2]	do				
Fin Sparre	do				
William Crawford	do				
F. W. Pickard	do				

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[1] Paid salary of $32,499.96.
[2] Paid salary of $7,291.65.

EXHIBIT No. 1323

Remington Arms Company, Inc., and domestic subsidiaries consolidated statement of profit and loss, from Jan. 1, to June 30, 1934

Gross sales	$6,032,319.35
Discounts and allowances	660,157.94
Gross receipts	5,372,161.41
Mill cost of sales	3,935,950.69
Gross margin (factory profit)	1,436,210.72
Freight and delivery	105,854.12
Selling expense	664,896.04
Administrative	273,896.25
Total expenses	1,044,646.41
Operative income from sales	391,564.31
Interest on cash in banks	
Income from marketable securities	1,873.26
Miscellaneous income	29,695.46
Miscellaneous operative income	31,568.72
Total operative income	423,133.03
Miscellaneous interest and discount	4,250.00
Interest on pension reserve	31,159.00
Exchange adjustment	509.87
Undistributed expense	60,286.97
Charges against operative income	96,205.84
Net operative income	326,927.19
Loss on securities and fixed assets	[1] 90.35
Interest and discount on bonds	133,364.64
Loss on bonds retired	1,783.86
Total capital losses and charges	135,058.15
Net profits	191,869.04

[1] Denotes contra items.

Remington Arms Company, Inc., and domestic subsidiaries consolidated statement of assets and liabilities June 30, 1934

Assets:	
Cash	$1, 126, 749. 07
Accounts receivable, commercial	1, 638, 412. 96
Bills receivable, commercial	25, 942. 31
Accounts receivable, all other	96, 742. 15
Bills receivable, all other	7, 049. 96
Inventories	4, 571, 988. 75
Deferred charges	155, 235. 96
Total current assets	7, 622, 121. 16
Accounts and bills receivable, due beyond 1 year	166, 921. 92
Plants and equipment	16, 483, 735. 08
Furniture and fixtures	86, 924. 53
Transportation equipment	55, 908. 89
Plant real estate	1, 600, 354. 68
Construction	78, 996. 40
Patents, trade marks, etc	208, 878. 67
Treasury bonds and sinking-fund balances	124, 721. 39
Investment securities	16, 332. 00
Investment in and advances to foreign subsidiary	149, 702. 27
Investment in domestic subsidiary	2, 250, 000. 00
Deferred discount and expense on funded and floating debt	123, 600. 12
Bank deposit in escrow	6, 500. 00
Total assets	28, 974, 697. 11
Liabilities:	
Accounts payable, commercial	280, 143. 27
Accounts payable, all other	1, 041, 051. 43
Bills payable, bank loans	2, 000, 000. 00
Accrued interest on funded and floating debt	37, 810. 00
Deferred liabilities & credit items	112, 474. 02
Total current liabilities	3, 471, 478. 72
Agreements, due beyond 1 year	171, 586. 86
First-mortgage 6% sinking-fund, gold bonds	3, 781, 000. 00
Reserves for—	
Depreciation of plants and equipment	8, 427, 043. 84
Depreciation of furniture & fixtures	64, 483. 44
Depreciation of transportation equipment	27, 010. 14
Bad debts	196, 038. 09
Pensions	1, 277, 245. 46
Second preferred stock	32, 570. 00
Miscellaneous	170, 522. 01
Total reserves	10, 194, 912. 98
Capital stock:	
First preferred (38,141 shares)	3, 814, 100. 00
Common (issued 3,384,394 shs., in Treasury 1,210 shs.)	3, 383, 184. 00
Surplus	4, 158, 434. 55
Total liabilities	28, 974, 697. 11

EXHIBIT NO. 1324

Remington Arms Company, Inc., balance sheet, December 31, 1920

ASSETS

Current:			
Cash in banks and on hand		$907,722.34	
Accounts receivable:			
Commercial	$1,373,328.12		
Less reserve for doubtful accounts	10,000.00		
	1,363,328.12		
U. S. Government	280,576.47		
Miscellaneous	171,526.34		
		1,815,430.93	
Notes receivable		100,000.00	
Inventories		12,309,026.18	
Loans and mortgages receivable		11,569.52	
Due from U. S. Government on cost-plus contracts		2,228,842.79	
Due from affiliated companies		441,878.92	
Total current assets			$17,814,470.68
Cash in bank, War Labor Board award, contra			159,487.73
Special cash fund, Swanton liability claim			6,500.00
Republic of France, French rifle contract claim		$4,775,833.23	
Less sale to U. S. Government		583,693.62	
			4,192,139.61
Investments in subsidiary and other companies			136,731.00
Fixed assets:			
Land, plant and equipment		$12,943,970.94	
Less, reserves for depreciation and obsolescence		7,728,412.84	
			5,215,558.10
Deferred charges			374,848.43
Organization expense			40,800.34
Good-will, going value, and contracts			10,000,000.00
Total assets			37,940,541.89

LIABILITIES

Current, other than demand notes payable:		
Accounts payable	$1,983,210.37	
Pay rolls payable	36,139.72	
Unclaimed wages, general	31,739.46	
Cooperative-store pledges, returnable to employees	13,995.00	
Dividends payable	175,000.00	
Notes payable, U. S. Government	138,750.00	
Accrued liabilities	105,229.61	
Total current liabilities		$2,484,064.16
Notes payable, demand notes—M. H. Dodge		1,200,000.00
Unclaimed wages, War Labor Board award, contra		159,487.73
Deferred credits and reserves:		
Liquidation of Russian rifle contract		225,794.22
Liquidation of French rifle contract, contra		4,183,714.62
Reserves for miscellaneous contingencies		643,146.52
Deferred credits		23,006.12

Remington Arms Company, Inc., balance sheet, December 31, 1920—Continued

LIABILITIES—continued

Capital stock:			
Preferred, issued and outstanding		$10,000,000.00	
Common, issued and outstanding		18,000,000.00	
Common, reserved for employees' participation	$1,800,000.00		
Less unearned equity therein	1,646,250.00		
Employees' equity in capital stock reserved		153,750.00	
			$28,153,750.00
Capital surplus, adjusted			2,307,844.14
Deficit:			
From operations		[1]$1,090,265.62	
Dividends declared		[1] 350,000.00	
			[1] 1,440,265.62
Contingent liability, foreign drafts discounted, $413,803.95.			
Total liabilities			37,940,541.89

Remington Arms Company, Inc., balance sheet, December 31, 1921

ASSETS

Current:			
Cash in banks and on hand	$417,346.33		
Loans on call	250,000.00		
Loans due on 30 days' call	760,000.00		
		$1,417,346.53	
Accounts receivable:			
Trade debtors, less reserves	$1,094,357.10		
United States Government	285,241.54		
Miscellaneous	80,923.03		
		1,460,521.67	
Notes receivable		100,410.93	
Inventories		9,184,145.06	
Loans and mortgages receivable		8,920.10	
Claimed from United States Government on cost-plus contracts		1,805,597.94	
Due from affiliated companies		398,490.04	
Claim against Stamford Rolling Mills Company		107,880.03	
Total current assets			$14,483,312.30
Special cash fund, Swanton liability claim			6,500.00
Investments in subsidiary and other companies			111,738.00
Fixed assets:			
Land, plant, and equipment		$13,854,487.20	
Less reserve for depreciation and obsolescence		7,977,055.82	
			5,877,431.38
Deferred charges			320,187.05
Deferred, preliminary, engineering, and development expenses			964,256.62
Organization expenses			58,412.66
Goodwill, going value, and contracts			10,000,000.00
Total assets			31,821,838.01

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[1] Denotes red figures.

Remington Arms Company, Inc., balance sheet, December 31, 1921—Continued

LIABILITIES AND CAPITAL

Current other than demand notes payable:			
Accounts payable		$436,974.08	
Pay rolls		34,152.74	
Dividends payable		350,000.00	
Notes payable, United States Government		92,500.00	
Accrued liabilities		50,284.09	
Finished goods charged but not shipped		5,250.00	
Total current liabilities			$969,160.91
Notes payable, demand notes—M. H. Dodge			1,200,000.00
Reserves and deferred credit:			
Additional assessment, Federal income and excess profits taxes, 1917, 1918, 1919		460,000.00	
Miscellaneous contingencies		305,000.00	
Deferred credits, miscellaneous		1,469.01	
			766,469.01
Capital stock:			
Preferred, issued and outstanding		10,000,000.00	
Common, issued and outstanding		18,000,000.00	
Common reserved for employees:			
Participation	$1,800,000.00		
Less unearned equities therein	1,648,950.00		
Employees' equities in capital stock reserved		151,050.00	
			28,151,050.00
Capital surplus			2,803,361.58
Deficit from operations:			
Adjusted balance, December 31, 1920		[1] $1,514,142.59	
Profits for year ended December 31, 1921		145,939.10	
		[1] 1,368,203.49	
Dividends (7%) on preferred stock		[1] 700,000.00	
			[1] 2,068,203.49
Total liabilities and capital			31,821,838.01

Contingent liability, foreign drafts discounted $57,968.92.

No provision has been made for Federal income taxes for 1921, estimated to be about $14,000.00.

Remington Arms Company, Inc., and subsidiaries consolidated balance sheet, December 31, 1922

ASSETS

Current:			
Cash in banks and on hand		$1,910,314.56	
Accounts and notes receivable		1,727,671.96	
Inventories:			
Finished product	$2,669,851.76		
Work in process	3,471,455.15		
Raw materials and supplies	3,419,767.74		
		9,561,074.65	
Loans and mortgages receivable		6,658.28	
Advances to subsidiary companies not consolidated		320,156.93	
Due from United States Government		757,967.80	
Claim for conversion of consigned goods		107,880.03	
Advances to sales agents		171,823.90	
Total current assets			$14,563,548.11

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[1] Denotes red figures.

Remington Arms Company, Inc., and subsidiaries consolidated balance sheet, December 31, 1922—Continued

ASSETS—continued

Current—Continued.		
Fixed:		
Land	$1, 518, 603. 68	
Buildings	5, 489, 041. 49	
Machinery, tools, equipment, etc	11, 890, 897. 01	
	18, 898, 542. 18	
Less, reserves for depreciation	5, 935, 647. 48	
		$12, 962, 894. 70
Investments in subsidiary companies not consolidated		108, 826. 00
Other investments		3, 312. 00
Prepaid expenses and deferred charges		1, 067, 867. 65
Deferred preliminary engineering and development of new products		1, 552, 662. 39
Organization expenses		70, 616. 42
Patents, trademarks, formulas, etc		495, 420. 02
Goodwill		10, 000, 000. 00
Total assets		40, 825, 147. 29

LIABILITIES AND CAPITAL

Current:			
Accounts payable		$1, 080, 821. 76	
Notes payable		46, 250. 00	
Accrued liabilities		13, 954. 25	
Accrued interest on first-mortgage bonds		85, 000. 00	
Dividends payable on preferred stock		350, 000. 00	
Advances from customers		29, 388. 05	
Total current liabilities			$1, 605, 414. 06
First-mortgage 6% sinking-fund gold bonds, series A, due May 1, 1937			8, 500, 000. 00
Reserves for income taxes			205, 000. 00
Deferred credits			11, 784. 77
Minority interest in capital stock and surplus of subsidiary corporation			360, 828. 78
Capital stock and surplus:			
Preferred, authorized 100,000 shares par value $100.00 each, all issued and outstanding		$10,000,000.00	
Common, authorized 1,000,000 shares without par value, issued and outstanding 600,000 shares, stated value $30.00 each		18, 000, 000. 00	
Common reserved for employees, 60,000 shares at $10.00 each	$600, 000. 00		
Less unearned equities therein	418, 830. 00		
		181, 170. 00	
Total capital stock		28, 181, 170. 00	
Surplus beginning of year, adjusted	$1, 570, 300. 73		
Profit for year ended December 31, 1922, after estimated Federal taxes	1, 123, 168. 95		
	2, 693, 469. 68		

Remington Arms Company, Inc., and subsidiaries consolidated balance sheet, December 31, 1922—Continued

LIABILITIES AND CAPITAL—continued

Capital stock and surplus—Continued			
Less:			
Dividends on preferred stock	$700, 000. 00		
Employees' participation bonus	32, 520. 00		
	732, 520. 00		
Surplus, December 31, 1922		$1, 960, 949. 68	
Net worth			$30, 142, 119. 68
Total liabilities and capital			40, 825, 147. 29

EXHIBIT NO. 1325

Remington Arms Company, Inc., and domestic subsidiaries

Year	First preferred		Second preferred		Common stock	
	Number of shares issued	Amount	Number of shares issued	Amount	Number of shares issued	Amount
1920 [1]	100, 000	$10, 000, 000			600, 000	$18, 000, 000
1921	100, 000	10, 000, 000			600, 000	18, 000, 000
1922	100, 000	10, 000, 000			600, 000	18, 000, 000
1923	50, 000	5, 000, 000	50, 000	$5, 000, 000	600, 000	18, 000, 000
1924	50, 000	5, 000, 000	50, 000	5, 000, 000	600, 000	6, 000, 000
1925	49, 015	4, 901, 500	50, 000	5, 000, 000	600, 800	6, 008, 000
1926	46, 798	4, 679, 800	50, 000	5, 000, 000	611, 960	6, 119, 600
1927	44, 801	4, 480, 100	50, 000	5, 000, 000	621, 035	6, 210, 350
1928	43, 215	4, 321, 500	50, 000	5, 000, 000	621, 185	6, 211, 850
1929	41, 631	4, 163, 100	50, 000	5, 000, 000	642, 385	6, 423, 850
1930	39, 997	3, 999. 700	50, 000	5, 000, 000	642, 385	6, 423, 850
1931	38, 141	3, 814, 100			1, 063, 932	5, 319, 660
1932	38, 141	3, 814, 100			1, 132, 197	5, 660, 985
1933	38, 141	3, 814, 100			3, 383, 284	3, 383, 284

Year	Employee's equity in common stock reserved for participation	Profit or loss from operations for the year	Adjustments to prior year's operations	Net profit or loss to surplus account
1920 [1]	$153, 750	($1, 090, 265. 62)	($1, 278, 130. 90)	($2, 368, 396. 52)
1921	151, 050	145, 939. 10	414, 810. 57	560, 749. 67
1922	181, 170	1, 123, 168. 95	(1, 805, 085. 55)	(681, 916. 60)
1923	239, 050	1, 638, 718. 76	(67, 711. 71)	1, 571, 007. 05
1924	232, 550	(1, 161, 925. 92)	1, 578. 77	(1, 160, 347. 15)
1925	222, 550	(1, 562, 035. 95)	(107, 881. 03)	(1, 669, 916. 98)
1926	280, 750	2, 321, 656. 13	(477, 549. 20)	1, 844, 106. 93
1927	159, 400	640, 441. 95	(510, 892. 23)	129, 549. 72
1928	207, 000	2, 587, 264. 77	(703, 274. 62)	1, 883, 990. 15
1929		1, 585, 571. 02	(928, 407. 94)	657, 163. 08
1930		1, 169, 879. 22	(92, 992. 40)	1, 076, 886. 82
1931		(6, 479, 338. 05)	(21, 065. 87)	(6, 500, 403. 92)
1932		(794, 241. 90)	1, 698. 59	(792, 543. 31)
1933		(1, 492, 629. 54)	(1, 328, 955. 04)	(2, 821, 584. 58)

[1] From May 1, 1920.

Remington Arms Company, Inc., and domestic subsidiaries—Continued

Year	Surplus beginning of year	Dividends	Capital adjustments	Surplus end of year
1920 [1]	[2] $3,692,866.28	($350,000.00)	($106,891.24)	$867,578.52
1921	867,578.52	(700,000.00)	6,829.90	735,158.09
1922	735,158.09	(700,000.00)	2,607,708.19	1,960,949.68
1923	1,960,949.68	(712,500.00)	30,326.07	2,849,782.80
1924	2,849,782.80	(550,000.00)		1,139,435.65
1925	1,139,435.65	(348,237.75)	(2,912.00)	(881,631.08)
1926	(881,631.08)	(331,912.00)		630,563.85
1927	630,563.85	(320,055.75)		440,057.82
1928	440,057.82	(307,979.00)	32,672.76	2,048,741.73
1929	2,048,741.73	(297,048.50)		2,408,856.31
1930	2,408,856.31	(285,673.50)		3,200,069.63
1931	3,200,069.63	[3] (2,523,836.50)	[4] 7,961,925.00	2,137,754.21
1932	2,137,754.21	(66,746.75)		1,278,464.15
1933	1,278,464.15		[5] 5,509,685.94	3,966,565.51

[1] From May 1, 1920.

[2] As of May 1, 1920.

[3] Includes $2,250,000 stock dividends paid in common stock to second preferred stockholders on exercise of option to receive same in lieu of cash dividends.

[4] Credit to surplus of $7,961,925.00 resulting from reduction of stated value of common capital to the equivalent of $5.00 per share.

[5] Includes credit to surplus of $4,529,364.00
(Resulting from reduction of stated value of 1,132,341 shares of common stock from $5.00 to $1.00 per share.)
Includes credit to surplus of 2,111,190.00
(Resulting from sale of 1,688,952 shares common stock at $2.25 or $1.25 per share above par value of $1.00 per share.)
6,640,554.00

All other capital adjustments represent revaluation of assets resulting from appraisals.

Parentheses denote red figures.

Certificate of incorporation, filed May 24, 1920, called for 1,100,000 shares composed of 100,000 shares preferred with $100 par value per share and 1,000,000 shares of common without par value. Common stock was set upon the book at stated value of $30.00 a share.

Charter was amended September 25, 1923, authorizing stock as follows: 100,000 shares first preferred series A, par value $100.00 a share, 7% cumulative; 100,000 shares first preferred series B, par value $100.00 a share, 7% cumulative; 50,000, shares second preferred, par value $100.00 a share, 8% cumulative; 700,000 shares common without par value. For each share of the old preferred there was given in exchange ½ share of the first preferred series A and ½ share of the second preferred.

December 1924 the stated value of the common stock was reduced to $10.00 a share by charging against capital, goodwill of $10,000,000 and provision for preliminary engineering and development expenses of cash register of $2,000,000.

September 25, 1931, the charter was amended, authorizing stock as follows: 100,000 shares first preferred series A, par value $100.00 a share; 100,000 shares first preferred series B, par value $100.00 a share; 1,700,000 shares common without par value. Common stock was exchanged for second preferred share for share and nine shares of common stock were offered for the accumulated dividends. Stated value of common stock was reduced from $10.00 to $5.00 a share.

May 31, 1933, warrants issued to common-stock holders giving right to subscribe to additional common stock at rate of one share for each two shares held at $1.00 per share. Stated value of common stock was reduced from $5.00 to $1.00 a share.

Charter was amended July 7, 1933, authorizing stock as follows: 100,000 shares first preferred series A, par value $100.00, 7% cumulative; 100,000 shares first preferred series B, par value $100.00, 7% cumulative; 3,400,000 shared common, par value $1.00. Warrants were issued to common stockholders giving right to subscribe for one share of new common for each share of common held, as well as exchange share for share old common for new. Subscription price for this stock was $2.25 per share. Stock was set up on the books at $1.00.

EXHIBIT No. 1326

The Remington Arms Union Metallic Cartridge Co.

Year	Preferred		Common		Profit or loss from operations for the year
	No. of shares	Amount	No. of shares	Amount	
1914					$1, 694, 847. 03
1915					4, 117, 564. 84
1916 [1]	400, 000	$20, 000, 000	600, 000	$30, 000, 000	(6, 771, 280. 35)
1917	400, 000	20, 000, 000	600, 000	30, 000, 000	2, 674, 754. 04
1918	400, 000	20, 000, 000	600, 000	30, 000, 000	(809, 146. 19)
1919	400, 000	20, 000, 000	600, 000	30, 000, 000	(12, 013, 204. 47)
1920 [2]	400, 000	20, 000, 000	600, 000	30, 000, 000	792, 209. 53

Year	Adjustments to prior year's operations	Net profit or loss to surplus account	Surplus beginning of year	Surplus end of year	Sales for the years 1914 to 1920
1914		$1, 694, 847. 03			$13, 033, 493. 16
1915		4, 117, 564. 84			22, 488, 313. 98
1916 [1]		(6, 771, 280. 35)		($6, 771, 280. 35)	37, 636, 881. 71
1917	$5, 591, 332. 85	8, 266, 086. 89	($6, 771, 280. 35)	1, 494, 806. 54	45, 313, 978. 67
1918	(271, 060. 32)	(1, 080, 206. 51)	1, 494, 806. 54	414, 600. 03	117, 051, 153. 41
1919	203, 445. 67	(11, 809, 758. 80)	414, 600. 03	(11, 395, 158. 77)	32, 531, 945. 65
1920 [2]	1, 104, 250. 37	1, 896, 459. 90	(11, 395, 158. 77)	[3] (9, 498, 698. 87)	23, 532, 446. 73

[1] The Remington Arms Union Metallic Cartridge Company was incorporated January 17, 1916, with $60,000,000 authorized capital consisting of 400,000 shares of 7% preferred with par value of $50.00 a share and 800,000 shares of common with par value of $50.00 a share.

[2] To April 30, 1920. As of May 1st, 1920, The Remington Arms Company, Inc., was organized.

[3] April 30, 1920.

( ) Parentheses denote red figures.

EXHIBIT No. 1327

Remington Arms Co., Inc., statement of contributions and donations for years 1920 to 1933, inclusive, and first 8 months of 1934

Donated from—	Schedule	Total	1920	1921	1922	1923	1924
General office	A	$40, 277. 12	$857. 75	$1, 382. 61	$700. 00	$621. 15	$477. 50
Bridgeport plant	B	59, 424. 48	2, 158. 06	1, 908. 78	1, 641. 55	2, 309. 86	1, 848. 63
Ilion plant	C	4, 348. 61	397. 07	79. 05	339. 25	141. 59	323. 60
Total		104, 050. 21	3, 412. 88	3, 370. 44	2, 680. 80	3, 072. 60	2, 649. 73

Donated from—	Schedule	1925	1926	1927	1928	1929
General office	A	$698. 80	$20. 00	$6, 536. 50	$1, 108. 00	$1, 231. 87
Bridgeport plant	B	1, 644. 10	2, 675. 00	6, 200. 00	10, 650. 00	10, 660. 00
Ilion plant	C	429. 42	95. 56	186. 90	320. 00	666. 40
Total		2, 772. 32	2, 790. 56	12, 923. 40	12, 078. 00	12, 558. 27

Donated from—	Schedule	1930	1931	1932	1933	First 8 months 1934
General office	A	$4, 592. 15	$2, 826. 95	$6, 649. 27	$9, 183. 10	$3, 391. 47
Bridgeport plant	B	5, 575. 00	5, 600. 00	6, 520. 00	10. 00	23. 50
Ilion plant	C	199. 98	521. 74	271. 15	126. 90	250. 00
Total		10, 367. 13	8, 948. 69	13, 440. 42	9, 320. 00	3, 664. 97

Remington Arms Company, Inc., analysis of general office contributions and donations, from 1920 to 1933, inclusive

Recipient	Total	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	First 8 months 1934
Hardware and implement dealers	$10.00									$10.00						
Gifts to employees, San Francisco office	180.00									28.00	$22.50	$80.00	$37.50	$12.00		
Beekman Street Hospital, N.Y.C	200.00									50.00	50.00	50.00	50.00			
Remington Arms Club	150.00									150.00						
Flowers for funerals for former employees and jobbers	1,066.69		$21.00						$80.00	81.50	171.25	326.15	201.45	76.77	$58.10	$50.47
Ticket N.Y. police and firemen benefit	9.00									1.00	5.00			3.00		
Ticket police and fireman ball	2.00									2.00						
Yard masters' benevolent assoc	2.00									2.00						
Foreman outing	20.00									20.00						
Tickets, American Legion Hospital, Malone, N.Y	2.00									2.00						
Broad Street Hospital	250.00									50.00	50.00	50.00	50.00	50.00		
Amer. Cutlery Assoc	132.62									100.00	32.62					
Major Leo Rossieur, Camp No. 4	2.00									2.00						
Fanny Crosby Memorial, Bpt	10.00									10.00						
N. Y. Guild, Jewish Blind	2.00									2.00						
Xmas Gifts, postman, foreman and asst. Foreman of N. E. S. S. S. S. Co. and West Shore R. R.	25.00									25.00						
Gold Piece Mr. Austin, Brazilian Consul	10.00									10.00						
Xmas gifts, Cunard Bldg. and Remington employees	4,476.00		225.00	$234.00		$257.50	$285.00		974.50	487.50	607.50	650.00	755.00			
Xmas gifts, Chase Bank employees	25.00									25.00						
Misc., details not available	60.00									50.00		10.00				
Xmas gifts, Dallas employees	17.50										5.00	3.00	7.00	2.50		
Masonic orphans' charity ball game	5.00										5.00					
Dallas fireman and policeman pension fund and bond	8.00										3.00	5.00				
N. Y. Federation of P. O. Clerks	25.00										25.00					
G. A. R. Benefit Concert, Dallas	2.00										2.00					
Remington Rifle Club, Bpt	150.00										150.00					
Wedding gift to Mr. and Mrs. J. Orgill, Jr	100.00										100.00					
Red Cross and Community Chest, Dallas	5.00										3.00			2.00		
United Confederate Veterans Camp, Dallas	3.00											3.00				
Disabled Veterans' Relief Fund	100.00											100.00				
I'lon, N. Y., Chamber of Commerce, substaining account	1,075.00					200.00	375.00			250.00		250.00				
Disabled Amer. Veterans' Relief Fund	251.00											250.00		1.00		
General A. Morales Campaign, San Domingo	100.00											100.00				
Santo Domingo relief	1,000.00											1,000.00				
Campaign Fund Thomas A. Tully, Treas	200.00											200.00				
Isaac Walton Conservation Fund	2,000.00											1,000.00	1,000.00			

New Year's gift, Miss E. Austin, Brazilian consulate	10.00											10.00				
Game conservation program	5,750.00											500.00	250.00		5,000.00	
N. Y. Tub. and Health Assoc	5.00											5.00				
National Foreign Trade Council	100.00												100.00			
Welfare Council of N. Y. City	100.00												100.00			
Old Soldiers' Home, Dallas	2.50												2.50			
Xmas gift to postman and expressman, 29 Warren St	29.00		4.00										25.00			
San Francisco Tub. Assoc	1.00												1.00			
Charity donation, Dallas	2.00													2.00		
Relief for Remington employees	9,836.00													6,500.00	2,000.00	1,336.00
Bpt. Community Chest	3,500.00														1,500.00	2,000.00
Chamber of Commerce, Bpt	500.00														500.00	
R. E. Smithson	100.00														100.00	
Convalescent Relief Fund, Saratoga, N.Y	25.00														25.00	
Rotary Club	10.00		10.00													
Wm. Banker, injured employee	500.00		500.00													
National Rifle Assoc	100.00		100.00													
Wedding gift to employee	22.61		22.61													
Gifts made by president	1,380.00		500.00	400.00	$480.00											
Misc. donations, N.Y. office	66.00			66.00												
Committee for devastated France	5.00				5.00											
Roosevelt Memorial	126.15				126.15											
Xmas seals	40.00				10.00	10.00	10.00	$10.00								
N. E. S. S. Employees' Benefit Fund	10.00					10.00										
Ilion H. S. scholarship prize	40.00						10.00	10.00	20.00							
Ilion Fish & Game Club	10.00						10.00									
United Spanish War Veterans Aux. No. 49	58.80						8.80		50.00							
American Red Cross	5,010.00								5,010.00							
Various hospitals, N.Y.C	152.00								152.00							
Status of waterfowl	5.00															5.00
Miscellaneous	857.75	$857.75														
Total	40,277.12	[1] 857.75	1,382.61	700.00	621.15	477.50	698.80	20.00	6,536.50	1,108.00	1,231.87	4,592.15	2,826.95	6,649.27	9,183.10	3,391.47

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[1] No details available.

Remington Arms Company, Inc., analysis of Bridgeport plant contributions and donations from 1920 to 1933, inclusive

Recipient	Total	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
Employees Tub. Relief Assoc.	$474. 31		$27. 18	$75. 64	$80. 43	$93. 91	$72. 12	$25. 00	$25. 00	$25. 00	$25. 00	$25. 00				
Remington Arms Club	264. 60		264. 60													
Bpt. Hospital	15, 100. 00		100. 00							3, 000. 00	3, 000. 00	3, 000. 00	$3, 000. 00	$3,000.00		
Community Chest	24, 640. 27		1, 500. 00	1, 505. 82	2, 126. 78	1, 504. 69	1, 502. 98	2, 500. 00	1, 000. 00	2, 000. 00	2, 500. 00	2, 500. 00	2, 500. 00	3, 500. 00		
Police Sick Benefit Assoc. and bond fund	60. 00		10. 00							50. 00						
Brotherhood of Railroad Clerks	7. 00		7. 00													
U. M. C. Xmas Fund	43. 09			43. 09												
Benefit Shop	3. 29			3. 29												
American Legion	263. 71			13. 71		200. 60			50. 00							
Visiting Nurse Assoc.	420. 00				100. 00	50. 00	50. 00	50. 00		50. 00		50. 00	50. 00	10. 00		$10. 00
Japanese Relief	2. 65				2. 65											
Every Man's Bible Class	4. 94						4. 94									
Remington Sic, Benefit Assoc.	14. 06						14. 06									
National Guard Publicity Fund	200. 00							100. 00	100. 00							
Gaylord's Farm Sanitorium	25. 00								25. 00							
Y.M.C.A.	15, 000. 00								5, 000. 00	5, 000. 00	5, 000. 00					
American Railway Exp. employees	35. 00									25. 00					$10. 00	
Railroad-Steamship freight handlers	25. 00									25. 00						
Chamber of Commerce	350. 00									350. 00						
Manufacturers Assoc.	100. 00									100. 00						
Bpt. Post Office Clerks	25. 00									25. 00						
National Guard Bulletin	100. 00										50. 00		50. 00			
Fanny Crosby Memorial Home	10. 00										10. 00					
National Assoc. of P.O. Clerks	25. 00										25. 00					
Xmas Seals	50. 00										50. 00					
Wreath for Mrs Jaggers	10. 00													10. 00		
Foremen's Outing	8. 00															8. 00
Baseball tickets	5. 50															5. 50
Miscellaneous	2, 158. 06	$2, 158. 06														
Total	59, 424. 48	[1] 2, 158. 06	1, 908. 78	1, 641. 55	2, 309. 86	1, 848. 63	1, 644. 10	2, 675. 00	6, 200. 00	10, 650. 00	10, 660. 00	5, 575. 00	5, 600. 00	6, 520. 00	10. 00	23. 50

[1] No details available.

Remington Arms Company, Inc., analysis of Ilion plant contributions and donations, from 1920 to 1933, inclusive

Recipient	Total	1920	1921	1922	1923	1924	1925	1926
Chamber of Commerce	$2,246.43			$255.00		$250.00	$383.82	$55.11
Candy and cigars, ticket agents, N.Y.C.R R.	183.93					22.00	25.60	22.90
Spanish War Veterans Auxiliary	6.60					6.60		
Ilion H. S. scholarship prize	134.00		$12.00		$10.00	10.00		
Donation for curios	25.00		25.00					
Auto Club	4.00							
Fish and Game Club	275.00					25.00		
Herkimer City Tub. Committee Amer. Red Cross	105.00		10.00	10.00	10.00	10.00	10.00	5.00
Boy Scouts	125.00							
N.Y. State Labor Leader, publicity	10.00			10.00				
Herkimer City Economic Council	100.00							
Foreman's Association	28.56		10.10	11.91				6.55
Flowers for funerals and fruit for sick emp	171.14			10.00				
Y.M.C.A	25.00							
Fire Dept	126.34		10.00	16.34				
U.S. Army Team competing at Milan, Italy	1.00			1.00				
Centennial Celebration	100.00				100.00			
Associated Industries, N.Y. State	210.00							
Engineers' Club	41.00			25.00			10.00	6.00
Miscellaneous	430.61	$397.07	11.95		21.59			
Total	4,348.61	[1] 397.07	79.05	339.25	141.59	323.60	429.42	95.56

Recipient	1927	1928	1929	1930	1931	1932	1933	First 8 months 1934
Chamber of Commerce	$125.00	$250.00	$252.50		$500.00	$125.00	$50.00	
Candy and cigars, ticket agents, N.Y.C.R.R.	21.90		22.90	$47.48		21.15		
Ilion H. S. scholarship prizes	10.00	10.00	27.00	5.00	10.00		10.00	$30.00
Auto Club			4.00					
Fish and Game Club			250.00					
Herkimer City Tub. Committee Amer. Red Cross			10.00	5.00	10.00	10.00	10.00	
Boy Scouts	5.00		50.00	50.00			25.00	
Herkimer-City Economic Council						100.00		
Flowers for funerals and fruit for sick emp	25.00	10.00		92.50	1.74	15.00	6.90	10.00
Y.M.C.A							25.00	
Fire Dept		50.00	50.00					
Associated Industries, N.Y. State								210.00
Total	186.90	320.00	666.40	199.98	521.74	271.15	126.90	250.00

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[1] No details available.

Exhibit No. 1328

Remington Arms Company, Inc.

SUBSCRIPTION TO SPORTING ARMS & AMMUNITION MANUFACTURING INSTITUTE

9/1/34.

1928	$25,000.04
1929	28,155.54
1930	30,949.52
1931	25,984.24
1932	18,749.96
1933	$14,130.48
1934	27,404.70
	170,374.48

Exhibit No. 1329

Remington Arms Company, Inc., and domestic subsidiaries consolidated balance sheets

	June 30, 1934	December 31, 1933	December 31, 1932	December 31, 1931	December 31, 1930
ASSETS					
Cash	$1,126,749.07	$1,179,985.88	$1,361,733.45	$673,549.72	$1,253,074.28
Short-term investment notes	------------	996,789.93	------------	------------	------------
Accounts receivable, notes receivable	1,935,069.30	1,232,389.34	837,948.60	2,024,631.35	2,375,165.35
Inventories at lower of cost or market	4,571,988.75	3,734,269.17	4,527,424.89	6,479,221.39	8,184,805.68
Total current assets	7,633,807.12	7,143,434.32	6,727,106.94	9,177,402.46	11,813,045.31
Investment in domestic subsidiary	2,250,000.00	------------	------------	------------	------------
Investment in and advances to foreign subsidiary	149,702.27	123,949.98	155,554.65	164,604.62	335,072.64
Investments, restricted deposits and claims	147,553.39	122,991.48	188,946.17	1,131,331.00	180,985.72
Sinking fund	------------	------------	------------	1,000,372.41	1,122.90
Plants and properties	18,305,919.58	18,197,564.75	19,305,971.29	19,292,430.00	21,076,263.14
Less depreciation and obsolescence	8,518,537.42	8,268,467.93	7,651,146.98	7,518,701.86	7,654,091.16
	9,787,382.16	9,929,096.82	11,654,824.31	11,773,728.14	13,422,171.98
Patents and trade marks, etc	208,878.67	217,482.78	337,039.50	352,093.27	3,005,657.07
Deferred debit items	278,836.08	178,438.07	265,489.54	497,851.80	781,682.77
Total assets	20,456,159.69	17,715,393.45	19,328,961.11	24,097,383.70	29,539,738.39
LIABILITIES					
Accounts payable and accruals	1,321,194.70	1,132,319.19	556,237.77	838,410.90	1,142,761.18
Notes payable bank loans	2,000,000.00	------------	1,250,000.00	1,544,475.80	------------
Three yr. 5½ gold notes due 3/1/33	------------	------------	1,750,000.00	3,000,000.00	3,000,000.00
Accrued int., bond & gold notes	37,810.00	38,450.00	75,758.33	116,640.00	120,370.00
Deferred credit items	112,474.02	695.00	19,387.50	(1)	50,000.00
Total current liabilities	3,471,478.72	1,171,464.19	3,651,383.60	5,499,526.70	4,313,131.18
Contract obligations, payable subsequent to one year	171,586.86	184,086.84	479,086.80	540,086.76	------------
1st mtge 6% S. F. gold bonds series A due 5/1/37					
Authorized & issued	8,500,000.00	8,500,000.00	8,500,000.00	8,500,000.00	8,500,000.00
Less retired thru operation of sinking fund	4,719,000.00	4,599,500.00	4,067,500.00	2,336,000.00	1,963,000.00
In treasury	------------	55,500.00	65,000.00	------------	------------
	------------	4,655,000.00	4,132,500.00	2,336,000.00	1,963,000.00
Outstanding	3,781,000.00	3,845,000.00	4,367,500.00	6,164,000.00	6,537,000.00
Reserves for pensions, contingencies, etc	1,676,375.56	1,350,892.91	77,441.56	229,991.03	3,139.66
7% cum. pref. stock authorized	10,000,000.00	10,000,000.00	10,000,000.00	10,000,000.00	------------
Issued	5,000,000.00	5,000,000.00	5,000,000.00	5,000,000.00	------------
Less retired thru S. F.	1,185,900.00	1,185,900.00	1,185,900.00	1,185,900.00	------------
Outstanding	3,814,100.00	3,814,100.00	3,814,100.00	3,814,100.00	[2] 8,999,700.00
Common stock [3]	------------	3,384,394.00	------------	------------	------------
Less in Treasury	3,383,184.00	1,100.00	------------	------------	------------
	3,383,184.00	3,383,284.00	5,660,985.00	5,711,925.00	6,423,850.00
Minority int. in cap. stk	------------	------------	------------	------------	------------
Surplus of subsidiary	------------	------------	------------	------------	62,847.92
Surplus	4,158,434.55	3,966,565.51	1,278,464.15	2,137,754.21	3,200,069.63
Total liabilities, reserves and capital	20,456,159.69	17,715,393.45	19,328,961.11	24,097,383.70	29,539,738.39

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[1] Reserve for inc. taxes.

[2] Of this figure the second preferred stock was prorated in common stock in the year 1931.

[3] Par value of common stock on 1933–1934, $1.00 per share; in 1932, 1,700,000 shares, no par value 1,132,197 shares, stated value, $5.00.

Exhibit No. 1330

Comparative statement of consolidated income account Remington Arms Co., Inc., and domestic subsidiaries, years 1930–31–32–33, June 30, 1934

	June 30, 1934		Dec. 31, 1933		Dec. 31, 1932		Dec. 31, 1931		Dec. 31, 1930	
Net sales	$5,372,161.41		$9,055,126.19		$7,887,267.63		$10,216,321.43		$16,819,387.37	
Cost of sales, including selling and administrative expenses	4,980,597.10		8,406,903.21		8,030,053.98		9,666,609.04		14,893,572.66	
	391,564.31		648,222.98		*142,786.35*		549,712.39		1,925,814.71	
Other income (interest royalties, etc.)	31,569.72		----		133,173.88		102,850.17			
Deduction from income (cash discounts, retirements, persons, idle plant, etc.)	*96,205.84*		*294,617.27*		*397,887.62*		*442,867.08*			
Net profit or loss before interest and extraordinary charges		$326,927.19		$353,605.71		*$407,500.09*		$209,686.48		$1,925,814.71
Interest on funded debt bank loans, etc	*133,364.64*				*496,713.81*		*572,958.58*		*579,480.11*	
Amortization of discounts, etc., less profit on bonds and gold notes retired during year	*1,693.51*	*135,058.15*		*299,032.30*	332,842.47	*163,871.34*	*101,639.22*	*674,597.80*	*126,465.38*	*705,935.49*
Net income after interest but before extraordinary charges		191,869.04		54,573.41		*571,371.43*		*464,911.32*		1,219,879.22
Inventory written off, obsolete equipment miscellaneous charges	----	----	*1,576,974.87*		*210,909.72*		*626,416.92*			
Adjustment of foreign subsidiary accounts to current exchange rates	----	----	29,771.92	*1,547,202.95*	*11,960.75*	*222,870.47*	*81,716.48*	*708,133.40*		
Net loss on cash register assets excluding loss from operations during the year	----	----	----	----	----	----		*5,245,278.61*	----	----
Write-off of unamortized balance of development expenses	----	----	----	----	----	----		*61,014.72*	----	----
Reserve for estimated income taxes	----	----	----	----	----	----	----	----	*50,000.00*	
First preferred dividends	----	----	----	----	----	----	----	----	*285,673.50*	*335,673.50*
Total profit or loss carried to surplus account		191,869.04		*1,492,629.54*		*794,241.90*		*6,479,338.05*		884,205.72

Surplus account, Dec. 31, 1933

Surplus at January 1, per prior year's report		$1,278,464.15
Surplus resulting from reduction on stated value of 1,132,341 shares of no par value common stock from $5.00 a share to $1.00 a share	$4,529,364.00	
Premium from sale of 1,688,952 shares of $1.00 par value common stock at $2.25 share	2,111,190.00	
		6,640,554.00
Deductions:		7,919,018.15
Net loss from profit and loss account for year 1933	1,492,629.54	
Appropriation for adjustment of plants to utility value	1,130,868.06	
Appropriation for pension reserve	1,229,175.04	
Appropriation for reserve for nonoperative adjustments	99,780.00	
		3,952,452.64
Surplus at Dec. 31, 1933, per balance sheet		3,966,565.51

Represents net capital surplus after $5,960,128.19 net losses from operations since organization May 1, 1920, and after $5,213,989.75 cash dividends on preferred stocks since that date.

("Exhibit No. 1331" is on file with the committee)

("Exhibit No. 1332" is on file with the committee)

("Exhibit No. 1333" is on file with the committee)

("Exhibit No. 1334" is on file with the committee)

EXHIBIT No. 1335

Operative income from sales of powder sold to U.S. Government for years 1924 to 1933, inclusive

[Covers sales by years of various military powders, (Pyro cannon powder, FNH cannon powder, and military rifle powder) sold to the U.S. Government showing profit and loss over the ten-year period]

Sales	Pounds sold	Gross sales	Per unit lb.	Total mill cost	Per unit lb.	Freight and delivery	Per unit lb.
1924	24,577	$22,065	$0.8978	$40,895	$1.6640	$679	$0.0276
1925	352,044	240,875	.6842	309,388	.8788	10,228	.0290
1926	625,046	480,992	.7695	479,563	.7672	22,025	.0352
1927	884,082	724,493	.8195	585,058	.6618	12,329	.0139
1928	2,180,965	1,590,047	.7291	1,104,871	.5066	24,442	.0112
1929	1,651,551	1,241,594	.7518	938,150	.5680	24,206	.0147
1930	1,730,984	1,316,141	.7603	814,953	.4708	32,068	.0185
1931	3,383,748	2,390,279	.7064	1,292,521	.3820	23,839	.0070
1932	2,488,211	1,682,127	.6760	928,905	.3733	14,131	.0057
1933	2,229,842	1,462,127	.6557	779,172	.3494	7,600	.0034
Total	15,551,050	11,150,740	.7170	7,273,476	.4677	171,547	.0111

Sales	Selling expense	Per unit lb.	Administrative	Per unit lb.	Net profit	Per unit lb.
1924	$6,742	$0.2743	$1,481	$0.0603	[1] $27,732	[1] $1.1284
1925	42,993	.1221	8,575	.0244	[1] 130,309	[1] .3701
1926	47,540	.0761	7,296	.0117	[1] 75,432	[1] .1207
1927	77,862	.0881	19,112	.0216	30,132	.0341
1928	67,800	.0312	26,918	.0123	366,016	.1678
1929	86,560	.0524	21,716	.0132	170,962	.1035
1930	96,871	.0560	38,860	.0224	333,389	.1926
1931	105,929	.0313	34,514	.0102	933,476	.2759
1932	83,624	.0336	69,858	.0281	585,609	.2353
1933	110,844	.0497	52,049	.0234	512,462	.2298
Total	726,765	.0467	280,379	.0180	2,698,573	.1735

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[1] Loss.

EXHIBIT No. 1336

Army procurement personnel (principal officials)

[Source: Official War Department records.]

Name	Governmental position	Industrial connections	Sources of income during war years
Col. Charles N. Black	Procurement Division, Ordnance Dept., Jan. 17, 1918, to Oct. 27, 1918; assistant to Chief Ordnance Officer, A. E. F. Nov.-Dec. 1918; honorably discharged Jan. 4, 1919; awarded meritorious services citation certificate.	Prior to 1917, various street railway companies; member Ford, Bacon & Davis; export dept. J. P. Morgan & Co.; munitions buyer for Allies; stockholder in General Electric Co. and Union Carbide & Carbon Co.	1917—Salary, Ford, Bacon & Davis, profit from sale of real estate to American International Corp., dividends through Ford, Bacon & Davis. 1918—Income from partnership, Ford, Bacon & Davis, profits on copper stock, dividends from corporations unknown. 1919—Destroyed.
Lt. Col. Chester C. Bolton	Chairman, Clearance Committee, War Industries Board from August 1, 1917, to May 3, 1918. External Relations Branch of Purchase, Storage & Traffic Division from September 1918 until after Armistice.	Secretary Bourne-Fuller Company, Cleveland, Ohio; director, Cleveland Trust Company.	1917—Salary asst. treas. Bourne-Fuller Co. & U.S. Govt. directors fees from Cleveland Trust Co. and Standard Parts Co.; dividends from Bourne-Fuller Co. LaBelle Iron Works Co.; Steel Products Co.; Standard Parts Co.; U.S. Steel Corp.; Cleveland Cliffs Iron Co.; Cleveland Finance Co.; Empire Rolling Mill; Lackawanna Steel Co. 1918—Salary from Army Lt. Col.; dividends from stocks; names of corporations unknown. 1919—Directors fees from Cleveland Trust Co. and Standard Tool Co.; dividends from corporations, names unknown.
Benedict Crowell	Asst. Secretary of War, Nov. 1917; Director of Munitions, 1918; president, Claims Board, 1919; resigned 1920.	Director Cleveland Trust Co., 1917; Pres. Crowell-Lundoff-Little Co., 1917.	1917—Income-tax returns destroyed by Internal Revenue. 1918—Income-tax returns destroyed by Internal Revenue. 1919—Income-tax returns destroyed by Internal Revenue.
Gen. Wm. Crozier	Chief of Ordnance, from outbreak of war to July 13, 1918, but did not actually perform the duties of the office after December 20, 1917.	Stockholder Inspiration Consolidated Copper Co.	1917—Salary from Army; dividends, Inspiration Consolidated Copper Co.; dividends and bond interest from unnamed corporations. 1918—Returns destroyed by Internal Revenue Bureau. 1919—Destroyed.

Army procurement personnel (principal officials)—Continued

Name	Governmental position	Industrial connections	Sources of income during war years
Col. E. A. Deeds	Signal Corps, U.S. Army and Supply Section, Division of Military Aeronautics, Aug. 27, 1917, to June 20, 1919, when he was honorably discharged.	Prior to 1917, executive, National Cash Register Co., Delco Co., Domestic Engineering Co., Dayton Research Laboratories Co.; subsequent to discharge in 1919, chairman, executive comm., United Aircraft & Transport Corp.; chairman of board, National Cash Register Co. and Niles-Bement-Pond Co.	1917—Salary, Dayton Engineering Lab., Dayton Metal Products, Colonel, U. S. Army; dividends from Nash Motors, Dayton Engineering Lab., Dayton Metal Products, National Cash Register Co., et al. 1918—Salary, Domestic Engineering Co., U.S. Army; profit from stock sales through ;H. E. Talbott, H. E. Talbott, Jr., and C. F. Kettering; dividends from corporations unknown. 1919—Salary, Domestic Engineering Co.; profit from stock sales through H. E. Talbott, H. E. Talbott, Jr., and C. F. Kettering; stock dividends, corporations unknown.
Lt. Col. Edw. A. Hamilton	Chief of Legal Section, Ordnance Dept., Gun Division, June 15, 1917, to Jan. 21, 1918; prepared contracts for $1,500,000,000 ordnance matériel; became Chief, Contract Section, Procuremen Division, Jan. 21, 1918; later member of Board of Appraisers and War Dept. Board of Contract Adjustment; honorably discharged Nov. 4, 1919.	Prior to 1917, law practice and general business; subsequent to discharge from Army in 1919, he became assistant chairman of board, Fidelity & Deposit Co. of Baltimore, Md.	1917—No Record. 1918—No record. 1919—No record.
Lt. Col. Richard H. Hawkins.	Ordnance Dept. Feb. 6, 1918, to Sept. 29, 1921; head of Contract Section, Procurement Division; Contracting Officer & Chief Contract Section Adm. Division; member Ordnance Claims Board.	Member of firm Dalzell, Fisher and Hawkins, 1917; stockholder in Standard Electric & Mfg. Co., Westinghouse Electric & Mfg. Co., Galenena Signal Oil Co., Westinghouse Air Brake Co., National Transit Co., Pennsylvania Railroad Co., Lehigh Valley Railroad Co., Dayton Supply Co., San Toy Mining Co., West Laurel Hill Cemetery Co., Wood Lawn Cemetery Co., Pittsburg Brewing Co., First National Bank, of Pittsburg; bondholder in city of New Castle (Pa.) Water Co., Ellwood Water Co., Hudson & Manhattan R.R. Co.	1917—Salary, professor, Pittsburgh Law School; income, member of firm, Dalzell, Fisher & Hawkins, Pittsburgh, Pa.; dividends from stock of domestic corporations. 1918—Destroyed. 1919—Destroyed.
Col. Jay E. Hoffer	Chief of Gun Division, Ordnance Dept.; was responsible officer in charge of preparation of powder and ammunition estimates, 1917–1918.	Returns to Supply Bulletin No. 17 disclaim any interest in any corporation holding contracts with the War Dept.	1917—Salary from U. S. Army, dividends on stock; source unknown. 1918—No record (income-tax returns). 1919—No record (income-tax returns).
Col. Odus C. Horney	Ordnance Dept. June 20, 1917; office of Asst. Sec. of War Mar.–May 1918; Ordnance May to Mar. 1919; in command of Old Hickory Powder plant after the armistice.	Prior to June 20, 1917, with Aetna Explosives Co.	1917—Not in file. 1918—No record. 1919—No record.
Maj. John Herbert Hunter	Chief of Explosives and Loading Section, Ordnance Dept.; Chief of Explosives Section and Inspection Dept., Picatinny Arsenal, 1901–1933; chemist at Indianhead, 1909–1910;B ureau of Mines, 1910–1915.	Chemist, DuPont Powder Co., 1903–1906; Emporium Powder Co., 1906–1907; Western Cartridge Co., 1915–1917.	1917—Salary, Western Cartridge Co. 1918—No record. 1918—Destroyed.

Daniel C. Jackling	Director of Explosives by appointment of Secretary of War Baker; negotiated final Old Hickory contract. App. Dec. 15, 1917.	Director Chase National Bank, Butte & Superior Mining Co., Chino Copper, Ray Consolidated, Utah Copper, Nevada Copper, Utah Power & Light, Ray & Gila Valley R. R.; Alaska Gold Mines.	1917—Dividends from stock in domestic corporations; names unknown 1918—Salaries from various mining companies, director's fees from Chase National Bank. 1919—Dividends from Chase National Bank.
Col. Robert P. Lamont	Chief, Procurement Division, Ordnance Dept., Jan. 15, 1918, to Oct. 14, 1918; member of Contract Claims Board; Secretary of Commerce; honorably discharged from Army, Jan. 30, 1919; awarded Distinguished Service Medal.	President and largest stockholder, American Steel Foundries, Chicago, Ill.	1917—Salary as president of American Steel Foundries; director's fees 1st National Trust & Savings Bank, National Safe Deposit Company, Wahl Company; dividends from stock in other domestic corporations; profit from dealing in American Steel Foundries & Crucible Steel Stock. 1918—Salary American Steel Foundries: dividends from stocks; sources unknown. 1919—Salary American Steel Foundries & First National Bank; dividends from stocks; source unknown.
Maj. Wm. M. MacCleary	Procurement Division, Ordnance Dept., Sept. 28, 1917, to Feb. 1, 1919, when he was honorably discharged.	Prior to 1917, Wheeling Corrugating Co., Portsmouth Steel Co., Whitaker-Glessner Co.; sales work, drawing of contracts, including those with Allied Governments.	1917—Salary, Whitaker Glessner Co., seven months; salary, U. S. Government, five months. 1918—No record. 1919—No record.
Col. Samuel McRoberts	Chief of Procurement Division, Ordnance Dept.; asst. chief ordnance officer, A.E.F.; honorably discharged Jan. 15, 1919; awarded Distinguished Service Medal; member War Credits Board; contracting officer for Ordnance Dept. [NOTE.—McRoberts signed Old Hickory Contract as contracting officer for War Dept.]	Vice pres. National City Bank; chairman of board National City Co.; chairman of board Allied Machinery Co. of America; American Sugar Refining Co.; Armour & Co.; Baldwin Locomotive Works; Bank of Haiti; Chicago Elevated Railways; Chicago, Milwaukee & St. Paul Ry. Co.; Cumberland & Pa. R.R.; German-American Insurance Co.; International Banking Corp.; Kansas City, Clay County & St. Joseph Ry.; Kansas City Southern Ry.; Mahoning & Shenango Ry. & Light Co.; National Surety Co.; Northwestern Elevated R.R.; Piedmont & Northern Ry.; Rail Joint Co.; Republic Ry. & Light Co.; Rossia Insurance Co.; Virginian Ry.; Remington Arms Union Metallic Cartridge Co.; stockholder in General Petroleum Corp. and various other corporations (signed war-time contract with General Petroleum Corp. as contracting officer for War Dept., No. P-5390758-E for Toluol). Subsequently to his discharge from the Army in 1919, was president of Metropolitan Trust Co.; chairman Chatham-Phenix Nat'l. Bank & Trust Co.; director Chatham-Phenix Allied Corp.; member New York Ordnance Advisory Board.	1917—Salary, Nat'l. City Bank; fees, Remington Arms Union Metallic Cartridge Co.; bonds, Remington Arms and Gen. Petroleum Corp. 1918—Army salary, fees, and dividends. 1919—Army salary; Nat'l City Bank, salary, fees, and dividends.

Army procurement personnel (principal officials)—Continued

Name	Governmental position	Industrial connections	Sources of income during war years
Col. Seeley W. Mudd	Engineer Corps., War Dept.; asst. director construction and operation of smokeless powder and other explosive plants, Jan. 11, 1918, to Jan. 20, 1919, when he was honorably discharged.	Prior to 1917, consulting engineer, New Jersey Zinc Co., Guggenheim Exploration Co., American Smelting & Refining Co., Ray Consolidated Copper Co., and various other mining companies.	1917—Not in file. 1918—No record. 1919—No record.
Maj. P. J. O'Shaughnessy	Assistant to commanding officer, Frankford Arsenal, Bridesburg, Pa., in charge of purchase, stock, and stores, from August 13, 1917, to Sept. 28, 1919; War Transactions Board, from April 24, 1923, to Oct. 31, 1924; Chief of Advisory Division, Ordnance Office, claims, contracts, war transactions, assisting Department of Justice in defending claims against the Government, Oct. 21, 1924, to June 30, 1932; commanding officer, Old Hickory Ordnance Reserve Depot, April 7, 1921, to Dec. 11, 1922.	Twenty-five years prior to August 13, 1917, superintendent of supplies Erie Railroad; up to July 1917, secretary and treasurer Meadville Wrench Company; up to July 1917, president Crawford County Oil-Gas Company and secretary-treasurer Conneaut Lake Ice Company; prior to entering military service, stockholder of two largest banks of Meadville, Pa., and director of a bank.	1917—Not in file. 1918—No record 1919—No record.
Brig. Gen. Palmer Eddy Pierce.	Director of Purchases and Assistant Chief of Staff War Dept., January to April 1918 (member of General Munitions and War Industries Board); commanded brigade in France (Infantry); awarded D.S.M.; retired January 12, 1920.	After retirement accepted position with Baldwin Locomotive Works and later with Standard Oil Co.	1917—Salary, Brigadier General, U.S. Army; dividends on stock, corporations unknown. 1918—No record. 1919—No record.
John D. Ryan	November 14 to November 27, 1918, 2nd Asst. Secretary of War; chairman Aircraft Production Board.	Ind. Conn. Dir. American International Surety Co.; Anaconda Copper; C. M. & St. P. Ry.; Cuba Cane Sugar Corp.; Emigrants Industrial Savings Bank; trustee Inspiration Consolidated Copper Co.; Mechanics & Metals National Bank of N.Y.; Greene Cananea Copper Co.; Montana Power Co.; United Metals Selling Co.	1917—Salaries, president Anaconda Copper Mining Company, president United Metals Selling Company, president Great Falls Power Company; director's fees, various corporations; dividends, various corporations unknown. 1918—Ditto.
Maj. Chas. E. Sholes	Chemical Branch, Raw Materials Section, Procurement Division, Ordnance Dept., July 28, 1918, to Feb. 1, 1919, when he was honorably discharged.	Prior to 1917, chemical companies, including Grasselli; General Chemical; J. T. Baker Chemical Works; Chemical Alliance; creditors committee, Aetna Explosives Co.	1917—No record. 1918—No record. 1919—No record.
Col. Wm. C. Spruance, Jr.	Ordnance Dept., Explosives & Loading Div., Dec. 6, 1917, to Feb. 1, 1919, when he was honorably discharged; awarded distinguished Service Medal; prepared data on powder manufacture to facilitate making estimates of production.	Formerly with Westinghouse Electric & Mfg. Co.; Cellulose Products Co.; duPont Companies; American Glycerin Co.; member Naval Consulting Board; until September 26, 1918, stockholder in Atlas Powder Co., Canadian Explosives Ltd., Diamond Match Co., E. I. du Pont de Nemours & Co., General Motors Corp., Hercules Powder Co., United Motors Corp., U. S. Finishing Co., U. S. Steel Corp.	1917—Dividends from foreign stocks and bonds and dividends from duPont & Hercules. 1918—No record. 1919—No record.

Edward R. Stettinius	Second Asst. Secretary of War, April 11, 1918, to Nov. 13, 1918; Surveyor General of Purchases and Supplies; member of War Council; War Dept. representative on Inter-Allied Munitions Council; overseas representative of Secretary of War; chairman Advisory Liquidation Board of A. E. F.; awarded Distinguished Service Medal.	Banker; Morgan partner, 1917-1918; purchase of munitions for Allies through J. P. Morgan & Co.; trustee American Surety Co.; director Fidelity-Phenix Fire Insurance Co.; director American International Agricultural Corp.	1917—Salary and dividends J. P. Morgan & Co.; dividends from Bankers Trust Co., Mercantile National Bank, American Surety Co., United Alloy Steel Corp., American Foreign Securities Co., Kennecott Copper Co., and various other corporations. 1918—Salary and dividends, J. P. Morgan Co. 1919—Salary and dividends, J. P. Morgan Co.
Brig. Gen. Guy E. Tripp	Chief Production Division, Ordnance Department from Jan. 14, 1918, to Aug. 17, 1918.	Chase National Bank, American International, American Surety Co., American Waterworks, Baldwin Locomotive, Bryant Electric, Butterworth-Judson Corp., Canadian Westinghouse, Federal Light & Traction, Interborough Consolidated, Interborough Rapid Transit, J. Stevens Arms Co., Morris Plan Company, New England Westinghouse, 145th Street Crosstown R.R., Pan-American Debenture Corp., Pennsylvania Electric, Pittsburgh Meter Co., R. D. Nutall Company, Wabash Railway Co., Western Light & Power, Westinghouse-Church-Kerr & Co., Westinghouse-Church-Kerr, Inc., Westinghouse Electric Mfg. Company, Westinghouse Export Co., Westinghouse Gear & Dyanamometer Co., Westinghouse Lamp Co., Westinghouse Metal, Filament Co. of London, Westinghouse Metallfaden Gluhlampenfabrik Gesellschaft, Vienna, West Penn. Power Co., West Penn. Railways, West Penn Traction & Water Power Co., West Penn Traction Co., S. R. Avis & Sons, Inc., Krantz Mfg. Co., R. D. Nuttall Co., Penn Barrel Co.	1917—Salary and director's fees, Westinghouse Electric Co., dividends, Farmers Loan & Trust Co. 1918—Salary, U. S. Army; salary, director's fees and dividends, Westinghouse Electric Co. 1919—No record.
Gen. C. C. Williams	Acting Chief of Ordnance from May 7, 1918, to July 16, 1918, when he was made Major General Chief to Ordnance to April 1, 1930.	Stockholder, Pan American Petroleum Co., Royal Dutch Petroleum Co., Southern Pacific R.R., U.S. Steel Corp., Alaska Gold Mines, Mexican Petroleum Co.	1916—No record. 1917—No record. 1918—No record. 1919—No record.
Lt. Col. Wm. H. Williams	Procurement Division, Ordnance Dept., Feb. 7, 1918, to Jan. 29, 1919, when he was honorably discharged; signed various contracts for ordnance materials, as contracting officer, including #P-10317-1059E with duPont Nitrate Co., for nitrate of soda, amounting to $16,000,000, and #P-15271-1433E for $33,470,000 for T.N.T. plant at Barksdale, Wis., with duPont Engineering Co.; was U.S. Commissioner of Immigration, Port of New York, 1902-05 and 1909-1913.	Lawyer, commissioner of water supply, New York, 1914-1917; stockholder in General Electric, U.S. Steel, Otis Elevator Co., duPont Powder Co., Westinghouse Electric; and bondholder in United Lead and Bethlehem Steel.	1917—No record of income-tax returns. 1918—Returns destroyed by Internal Revenue Bureau. 1919—Salaries and investments.

Exhibit No. 1337–A

War Department,
The Adjutant General's Office,
Washington.

STATEMENT OF THE MILITARY SERVICE OF CHARLES F. COOK, MAJOR, ORDNANCE DEPARTMENT

The records of this office show that Charles F. Cook accepted a commission as major, ordnance section, Officers' Reserve Corps, September 14, 1917; reported for active duty in the office of the chief of ordnance, Washington, D.C., September 17, 1917; was detailed for duty in the office of the director of purchase, storage and traffic, general staff, April 26, 1918; was granted fourteen days leave of absence effective about December 12, 1918, and died January 1, 1919, at St. Lukes Hospital, New York City, from bronchopneumonia.

Major Cook was awarded the Distinguished Service Metal (posthumous) "for exceptionally meritorious and distinguished services. While serving in the ordnance department he was instrumental in organizing the divisions dealing with the procurement of ordnance material. While serving on the general staff he worked out a plan for the consolidation of all articles of standard commercial circulation in single purchasing units throughout the War Department, upon which basis was built the organization of the present division of purchase, storage and traffic of the general staff. In his various assignments he gave himself whole-heartedly and self-sacrificingly to the work of the Government".

At the time of his application for a commission in the ordnance department he gave his business experience as: 1908, served six months for Mr. Hugh L. Cooper, consulting engineer, on the construction of the McCall Ferry hydroelectric power plant at McCall Ferry, Pa.; 1909, personal assistant to Mr. A. S. Crane, chief engineer of J. G. White & Company, engineers and contractors, New York City; 1910, engineer in charge of the excavation of the ancient city of Sardes in Turkey-in-Asia; 1911, assistant resident engineer on the construction of an hydroelectric power plant at Bonny Eagle, Maine; J. G. White & Company, engineers; 1912 to 1915, with the Power Construction Company of Shelburne Falls, Massachusetts; from September 1915 to date of application for a commission, in charge of the Pittsburgh district for the British Munitions Board of New York City, the direct representative in this country of the British ministry of munitions of war.

Official statement furnished December 6, 1934.

By authority of the Secretary of War:

E. T. Conley,
Brigadier General,
Acting The Adjutant General.

Exhibit No. 1337–B

[SIS-f-442]

War Department,
The Adjutant General's Office,
Washington, November 24, 1934.

STATEMENT OF THE MILITARY SERVICE OF RICHARD HAYS HAWKINS

Born Feb. 15, 1879, Hawkins Station, Pa. Appointed from Pennsylvania.

Capt., ord. sec., O.R.C	Jan. 28, 1918
Accepted	Jan. 29, 1918
Active duty	Feb. 6, 1918
Maj., ord. dept., N.A	July 25, 1918
Accepted	Aug. 1, 1918
Lt. Col., ord. dept., U.S.A	June 18, 1919
Accepted	June 20, 1919
Vacated	Sept. 16, 1920
Maj., ord. dept., R. A	July 1, 1920
Accepted	Sept. 16, 1920
Resigned	Sept. 29, 1921
Lt. Col., ord.-res	Nov. 9, 1921
Accepted	Nov. 22, 1921
(Reappointed Nov. 9, 1926 and Nov. 9, 1931.)	
Resigned	Oct. 4, 1932

Active duty subsequent to Nov. 9, 1921; none; education: Ph.B., Yale University, 1900; LLB., University of Pittsburgh, 1903; Shadyside Academy, graduate, 1897.

Business experience (officer's statement at time of appointment): 1903–1917, attorney-at-law (DeGill, Scott and Gordon, DeGill, Fisher and Hawkins); professor, Pittsburgh Law School.

He held securities in Standard Underground Cable Co., Westinghouse Electric & Manufacturing Co., Galena Signal Oil Co., Westinghouse Air Brake Co., Nationl Transit Co., Pennsylvania Railroad Co., Lehigh Valley Railroad Co., Dayton Supply Co., San Toy Mining Co., West Laurel Hill Cemetery Co., Wood Lawn Cemetery Co., Pittsburgh Brewing Co., First National Bank of Pittsburgh, City of Newcastle (Pa.) Water Co., Ellwood Water Co. (under date of Aug. 4, 1919, page 21, Document 69, U.S. Senate, 66th Congress, 1st session).

SERVICE

He was assigned to active duty Feb. 6, 1918, in the office of the chief of ordnance Washington, D.C., and served in that office until Sept. 29, 1921, the date of his resignation.

He was appointed to fill a vacancy in the purchase section, gun division, as officer in charge of the preparation of contracts and commandeering orders and served in that section and in the contract section, procurement division, to Feb. 4, 1919 (becoming the head of that section Oct. 24, 1918); contracting officer and chief, contract section, administration division, to the date of his separation from the service. He was also a member of the ordnance claims board from Oct. 10, 1919, to Sept. 29, 1921.

He was placed on detached service from July 29 to Sept. 12, 1920, with a commission ordered to proceed to Santo Domingo via Port au Prince, Haiti, for the purpose of taking testimony of witnesses and procuring evidence in connection with the performance of a contract entered into between Eliseo Espaillat and Maj. A. C. Downey, S. C., relative to procurement of castor beans.

It appears that after separation from the military service, he resided in Pittsburgh, Pa., and was engaged in the practice of law and as professor of law, Pittsburgh Law School.

While a member of the reserve corps, 1921 to 1932, he was assigned to the manufacturing service, office chief of ordnance, for industrial mobilization.

His latest address appears as 1405 Squirrel Hill Avenue, Pittsburgh, Pa., but the Veterans Administration has advised this office that he died October 14, 1933.

By authority of the Secretary of War.

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT No. 1337–C

WAR DEPARTMENT,
THE ADJUTANT GENERAL'S OFFICE,
Washington, December 6, 1934.

STATEMENT OF THE MILITARY SERVICE OF PALMER EDDY PIERCE

BORN IN SAVANNA, ILL., OCT. 23, 1865, APPOINTED FROM IOWA

Cadet, U. S. Military Academy	June 16, 1887
Second lieut., 9th Infantry	June 12, 1891
Transferred to 6th Infantry	July 16, 1891
First lieut., 13th Infantry	Mar. 23, 1898
Captain, 8th Infantry	Oct. 9, 1900
Major, 15th Infantry	Mar. 28, 1912
Unassigned	Sept. 1, 1915
Assigned to 22d Infantry	Nov. 24, 1915
Lieut. col. of Infantry	May 15, 1917
Colonel (temporary)	Aug. 5, 1917
To	Feb. 5, 1918
Brigadier general, National Army	Dec. 17, 1917
Accepted	Feb. 6, 1918
Unassigned	Dec. 1, 1918

STATEMENT OF THE MILITARY SERVICE OF PALMER EDDY PIERCE—Continued

Assigned to 54th Infantry	Dec. 26, 1918
Honorably discharged as brig. gen. N.A. only	June 1, 1919
Transferred to 42d Infantry	Aug. 26, 1919
Colonel of Infantry	Nov. 1, 1919
Retired (after 32 years' service)	Jan. 12, 1920
Brigadier general, Officers' Reserve Corps	Dec. 23, 1921
Accepted	Jan. 25, 1922
Reappointed brigadier general Reserve	Dec. 23, 1926
Accepted	Dec. 23, 1926
Transferred to brigadier general, auxiliary Reserve (having attained age of 64 years)	Oct. 23, 1929
Advanced to brigadier general, retired (act of Congress, June 21, 1930)	June 21, 1930
Appointment as brigadier general, auxiliary Reserve, terminated	Dec. 22, 1931
General Staff Corps, Feb. 16, 1916, to May 2, 1918; graduate Army Staff College 1911; honor graduate Army school of line 1910; A. B. Grinnell College 1887.	

SERVICE

He joined Co. D, 6th Infantry, Fort Porter, N.Y. for duty Sept. 30, 1891, and commanded company, Sept. 30, 1891, to Oct. 29, 1891, Nov. 4 to 17, 1891; post adjutant Sept. 30, 1891, to Feb. 8, 1892; acting assistant quartermaster Sept. 30, 1891, to Feb. 8, 1892; acting commissary of subsistence Sept. 30, 1891, to Feb. 8, 1892; regimental recruiting officer Sept. 30, 1891, to May 4, 1892; acting ordnance officer Feb. 8, 1892, to May 4, 1892; acting signal officer Feb. 8, 1892, to May 4, 1892; in charge of post school Feb. 8, 1892, to May 4, 1892 (on detached service at Fort Niagara, N.Y., as a member of a general court-martial from Oct. 29 to Nov. 4, 1891; on leave of absence Dec. 1 to 4, 1891 and Dec. 25 to 28, 1891); left Fort Porter, N.Y. with Company D, 6th Infantry, and arrived at Fort Thomas, Ky., May 5, 1892; commanding company July 30 to Aug. 5, 1892, Aug. 22 to 23, 1893, Sept. 6 to 25, 1893; (on leave of absence May 22 to 28, 1892; in camp at Fort Thomas rifle range June 25, 1892, to July 13, 1892; on detached service as a competitor at the Department rifle competition, Fort Niagara, N.Y., from Aug. 30, to Sept. 30, 1892; on leave of absence Dec. 26 to 31, 1892; participated with company in parade at dedication of the new city hall at Cincinnati, Ohio, May 13, 1893; on special duty with Company C, 6th Infantry, May 30, 1893, to June 16, 1893, at Fort Thomas rifle range; on leave of absence June 22 to July 6, 1893, Dec. 15, 1893, to Feb. 2, 1894); joined at Newport Barracks, Ky., for duty with Company E, 6th Infantry, Feb. 2, 1894; commanding Company E, from May 18 to 30, 1894, June 5 to 7, 1894, Aug. 30 to Sept. 19, 1894. (Company E left Nov. 10 but he remained temporarily at post settling up accounts and transferring property to Nov. 29, 1894); post adjutant Feb. 3, 1894, to Nov. 29, 1894; acting assistant quartermaster Feb. 3, 1894, to Nov. 29, 1894; acting commissary of subsistence Feb. 3, 1894, to Nov. 20, 1894; acting signal officer Feb. 3, 1894, to Nov. 29, 1894; acting ordnance officer Feb. 3, 1894, to Nov. 29, 1894; regimental recruiting officer Feb. 28, 1894, to Nov. 10, 1894 (on leave of absence Apr. 22 and 23, 1894; May 13 and 14, 1894; Aug. 15 to 30, 1894); joined at Fort Thomas, Ky., for duty with Company E, 6th Infantry, Nov. 29, 1894; commanding company Dec. 7 to 16, 1894, Mar. 6 to 16, 1895, June 4, to Aug. 15, 1895 (on leave of absence Dec. 27, 1894, to Jan. 2, 1895); on duty at the U.S. Military Academy, West Point, N.Y., as instructor of chemistry Aug. 20, 1895, to Apr. 21, 1899, except as follows:

On academic leave of absence Jan. 1896, 2 days, March 1896, 3 days, June 19 to Aug. 23, 1896, Nov. 1896, 2 days, Dec. 1896, 5 days, Apr. 1897, 3 days, May 1897, 1 day, June 1897, 1 day, July 11 to Aug. 28, 1897, Dec. 23 to 28, 1897, on detached service at Governor's Island, N.Y., undergoing examination for promotion Feb. 24, 1898; on academic leave Apr. 1898, 1 day; on detached service en route to and at Camp George H. Thomas, Chickamauga Park, Georgia from 11, 1898, to July 5, 1898; Aide-de-camp to Brigadier General Oswald H. Ernst, U.S. Volunteers June 14, 1898, to Aug. 18, 1898; Special Instructor and Inspector, 1st Brigade Guards, June 14, 1898, to Aug. 18, 1898; en route to and at Charleston, S.C. with 1st Brigade, 1st Division, 1st Army Corps, July 5 to 20, 1898; arrived at Gaanica Harbor, P.R., July 27 and at Ponce, P.R., July 28, 1898; landed and went into camp about one mile south of Ponce, July 28, 1898, in the field with Major General Nelson A. Miles' expedition to Puerto Rico; took part in engagement at Coamo, P.R., and various skirmishes to Aug. 18, 1898; en route to U.S. Military Academy, West Point, N.Y., Aug. 18 to 26, 1898; absent with leave Oct. 1 to 15, 1898; Dec. 28, 1898, to Jan. 4, 1899; on academic leave of absence March 1899, 1 day.

En route to join regiment Apr. 20 to 27, 1899; joined Company K, 13th Infantry at San Francisco, Calif., Apr. 27, 1899; sailed on transport "Ohio" Apr. 27, 1899, for Manila, P.I.; arrived at Honolulu, H.I., May 5, 1899, and departed May 9, 1899; arrived Manila, P.I., May 29, 1899; disembarked May 30, 1899, and marched to the Luneta, Manila, P.I., and went into camp about 1½ miles from mouth of Pasig River, to June 15, 1899; in the trenches northeast of Manila, June 15 to 24, 1899; in the trenches at Pasay, P.I., and at times forming part of south line of Manila defenses, extending east to San Pedro Macati on the Pasig River to Oct. 5, 1899; Paranaque, P.I., Oct. 5 to 7, 1899; in the field with expedition of Brig. Gen. Theodore Schwan, U.S.V. commanding Second Provisional Brigade, First Division, Eighth Army Corps, Oct. 7 to 14, 1899; Nipa Barracks, Manila, P.I., Oct. 14 to Nov. 5, 1899; all except as follows:

On duty with Company K, 13th Infantry, Apr. 27, 1899, to May 31, 1899; commanding company since June 1, 1899; in the field June 10 and 11, 1899 and took part in engagements at Guadalupe Ridge, P.I., June 10, 1899, Cavite Viego, Oct. 8, 1899, Noveleta Oct. 8, 1899, San Francisco de Malabon, Oct. 10, 1899.

In the field with expedition under Brig. Gen. Loyd Wheaton, U.S.V., commanding expeditionary brigade, Eighth Army Corps, Nov. 5, 1899, to Jan. 7, 1900 (commanding Co. K, 13th Infantry, since June 1, 1899). Marched to foot of Malcolm Street, Manila, P.I., Nov. 5, 1899, and embarked on transport "Sheridan" same date, sailed Nov. 6th and arrived in Gulf of Lingayen, near San Fabian, Luzon, P.I., Nov. 7, 1899, disembarked in small boats and under protection of bombardment by the Navy effected a landing on beach just north of San Fabian, Nov. 7, 1899. The insurgents were driven from intrenchments, through and beyond town until darkness stopped the engagement; Nov. 8, 1899, slight engagement with insurgents near San Jacinto, P.I.; on outpost duty at San Fabian, P.I., Nov. 9 to 13, 1899; while reconnoitering in direction of Santo Tomas, P.I., engaged the insurgents strongly intrenched on road at Rabon River and adjacent foothills, charged and took possession of intrenchments Nov. 14, 1899, Lieut. Pierce with Company K as advance guard; later Nov. 14, 1899, the same advance guard encountered slight opposition from insurgents at Santo Tomas, pursued and drove them a distance of one mile beyond town in direction of Agoo; left Santo Tomas, P.I., Nov. 15, 1899, then to Rabon River and San Fabian also Nov. 15th; remaining at San Fabian to Nov. 26, 1899, except reconnoitering in direction of Dagupan, P.I., Nov. 19, 1899; civil government was established and certain information obtained for General Wheaton, returning to San Fabian at midnight Nov. 19, 1899; en route to and commanding Company K, 13th Infantry, stationed at Dagupan, P.I., Nov. 26, 1899, to Oct. 25, 1900, performing the usual guard, outpost, scout, patrol, and escort duty, except as follows:

On detached service at San Carlos, P.I., attending execution by hanging of two condemned native prisoners, on Mar. 30, 1900; on leave of absence Apr. 13 to 20, 1900; on detached service at Manila, P.I., undergoing examination for promotion from Apr. 27 to May 8, 1900; on detached service, en route and at Manila, P.I., Sept. 17 to 23, 1900, commanding guard and in charge of transferring native and general prisoners to Presidio de Manila.

Joined at Bautista, Pangasinan, P.I., Oct. 25, 1900; on duty commanding Company K, 13th Infantry, since June 1, 1899, to Feb. 27, 1901; performing the usual garrison escort and patrol duties, temporarily attached to Company K, while transferring company property, Feb. 27 to Mar. 3, 1901; en route to and on duty at headquarters, Department of Southern Luzon, Manila, P.I., as judge advocate of general court martial and military commission to Sept. 20, 1901; temporarily at Manila, P.I., to Oct. 1, 1901, when he sailed on transport "Meade" for San Francisco, Calif., arriving Oct. 28, 1901; en route to new station Oct. 28 to Nov. 8, 1901; on duty as instructor in department of natural and experimental philosophy, United States Military Academy, West Point, N.Y., Nov. 8, 1901, to Aug. 12, 1904 (temporarily on duty as adjutant, recruiting officer, commanding band, etc., and post noncommissioned staff, July 8, 1904, to Aug. 5, 1904), except as follows:

On academic leave Nov. 1901, 4 days; absent with leave Dec. 23 to 30, 1901; on academic leave Feb. 1902, 1 day, Mar. 1902, 4 days, Apr. 1902, 1 day, May 1902, 1 day; absent on detached service June 15 to 17, 1902, at Plattsburg Barracks, N.Y., as counsel at the trial by general court martial of Captain John L. Hines, quartermaster, 23rd Infantry, which resulted in acquittal; on academic leave July 1 to Aug. 28, 1902; on sick leave of absence Aug. 29 to Sept. 28, 1902; on academic leave Nov. 1902, 4 days, Dec. 1902, 3 days, besides Dec. 23, 1902, to Jan. 8, 1903; Feb. 1903, 1 day, Mar. 1903, 3 days, Apr. 1903, 1 day; June 22 to Aug. 21, 1903; Oct. 1903, 2 days, Dec. 22, 1903, to Jan. 1, 1904; Feb. 1904, 3 days; June 22 to July 1, 1904.

Assistant professor of natural and experimental philosophy, U.S. Military Academy, West Point, N.Y., Aug. 13, 1904, to Aug. 13, 1907; member of athletic council of Army Athletic Association, football representative through 1904 to 1906 (also president Intercollegiate Athletic Association since 1905), except as follows:

On academic leave: Aug. 5 to 31, 1904; Sept. 1904, 1 day; Nov. 1904, 2 days; Dec. 21, 1904, to Jan. 2, 1905; Apr. 1905, 1 day; July 5 to Aug. 30, 1905; Dec. 1905, 3 days; besides Dec. 23, 1905, to Jan. 15, 1906; besides Jan. 1906, 3 days; Feb. 1906, 5 days; May 1906, 4 days; June 8 to Aug. 31, 1906, with permission to go beyond sea; Sept. 1906, 1 day; Nov. 1906, 1 day; Dec. 1906, 1 day; Jan. 1907, 4 days; Apr. 1907, 1 day; May 1907, 1 day; June 1907, 3 days; July 15 to Aug. 13, 1907.

On leave of absence from Aug. 14 to Nov. 12, 1907, with permission to go beyond the sea (appears to have been at London, England; Tours and Paris, France); joined at Fort Leavenworth, Kansas, Nov. 12, 1907, for duty; commanding Company H, 13th Infantry to Apr. 11, 1908, except as follows:

On leave of absence Nov. 28 to Dec. 3, 1907; on detached service at New York, N.Y., attending meeting of Intercollegiate Athletic Association of the United States from Dec. 26, 1907, to Jan. 2, 1908.

On special duty, commanding 1st Battalion, 13th Infantry, Fort Leavenworth, Kansas, since Apr. 11, 1908, to Jan. 15, 1909 (en route to camp of instruction and maneuver, by marching, July 29 to Aug. 9, 1908; participated in maneuvers at Fort Riley, Kansas, Aug. 10 to Sept. 7, 1908; en route to Topeka, Kansas, by marching Sept. 8 to 14, 1908; proceeded by rail to St. Joseph, Missouri, on Sept. 15, 1908; participated in military tournament and returned to Fort Leavenworth, Kansas, by rail on Sept. 27, 1908); all except as follows:

On leave of absence May 25 to 29, 1908; recorder of examining board at Fort Leavenworth, Kansas, for promotion of Infantry officers from Oct. 21, 1908, to Jan. 15, 1909; on leave of absence Dec. 17, 1908, to Jan. 15, 1909.

Commanding Company H, 13th Infantry, Fort Leavenworth, Kansas, Jan. 16 to July 29, 1909; commanding 2nd Battalion, 13th Infantry, in addition to other duties July 1 to 29, 1909, except as follows:

Recorder of examining board at Fort Leavenworth, Kansas, for promotion of Infantry officers from Oct. 21, 1908, to June 3, 1909; on detached service at Des Moines, Iowa, Apr. 13 to 18, 1909, as a member of a board appointed to plan a program for the military tournament in Sept. 1909; May 13 to 15, 1909, participated in practice march, 30 miles; engaged in practice march and field exercises July 9, 10, 11, 1909, distance marched about 32 miles.

On leave of absence July 30 to Aug. 28, 1909; student at school of the line, Army Service Schools, Fort Leavenworth, Kansas, Aug. 28, 1909, to Aug. 31, 1910, except as follows:

On detached service at West Point, N.Y., for conference relative to athletics and to attend annual meeting of Intercollegiate Athletic Association at New York, N.Y., Dec. 22, 1909, to Jan. 2, 1910. On detached service at camp of instruction, Pine Camp, N.Y., July 29 to Aug. 31, 1910.

Student officer, Army Staff College, the Army Service Schools, Fort Leavenworth, Kansas, Aug. 31, 1910, to Aug. 31, 1911 (retained at schools for duty as instructor), except as follows:

On detached service at West Point, N. Y., for conference relative to athletics and to attend annual meeting of Intercollegiate Athletic Association at New York, N.Y., Dec. 21, 1910, to Jan. 3, 1911; sick in quarters May 24 to 26, 1911; on academic leave June 23 to Aug. 31, 1911.

On duty as instructor, department of military art, the Army Service schools, Fort Leavenworth, Kansas, from Aug. 31, 1911, to July 13, 1912, except as follows:

On detached service at West Point, N.Y., for conference relative to athletics and to attend annual conference of National Collegiate Athletic Association at

New York, N.Y., then on temporary duty in office Chief of Staff, War Department, Washington, D.C., Dec. 22, 1911, to Jan. 8, 1912; on leave of absence Feb. 3 to 5, 1912; sick in quarters June 10 to 13, 1912; absent, sick at Army and Navy General Hospital, Hot Springs, Ark., June 13 to July 12, 1912.

On leave of absence July 13 to Aug. 25, 1912; authorized to join his regiment via Europe and Siberia and left the U.S. Aug. 27, 1912, for Bremen, Germany, and arrived at Tientsin, China, Sept. 28, 1912 (appears to have been at no. 22, Unter den Linden, Berlin, Germany, Sept. 4, to 10, 1912, and at Bazaar Slav, Moscow, Russia, on Sept. 16 to 18, 1912); on duty with Fifteenth Infantry, Sept. 28 to Oct. 2, 1912, commanding 1st Battalion, 15th Infantry, Oct. 2, 1912, to Feb. 1, 1914, but temporarily at station to Feb. 13, 1914, except as follows:

Athletic officer Nov. 17, 1912, to Oct. 20, 1913; assistant fire marshal, Feb. 7 to Oct. 28, 1913; on detached service, inspecting troops at Tongsham, Kaiping, Wali, Linsi, and Leichwang, China, Mar. 14 to 16, 1913; on detached service visiting battle fields of Russian-Japanese War in Manchuria and Korea from May 3 to 17, 1913; on leave of absence Nov. 12 to Dec. 3, 1913; undergoing physical examination and riding test at station Oct. 7 to 9, 1913; transferred to 2nd Battalion, 15th Infantry, Camp Gregg, P.I., Feb. 1, 1914.

Sailed from Tientsin, China, Feb. 13, 1914, on U.S. Army transport "Logan" via Nagasaki, Japan, and left Japan Feb. 21, 1914, arriving in U.S. Mar. 16, 1914; on leave of absence Mar. 16 to June 4, 1914; sailed from San Francisco, Calif., June 5, 1914 on U.S. Army transport "Logan" and arrived at Manila, P.I., July 9, 1914; en route to station at Regan Barracks, Albay, P.I., to July 27, 1914; commanding post July 27 to Oct. 18, 1914; Oct. 26 to Nov. 24, 1914; Dec. 10, 1914, to Sept. 28, 1915; commanding 2nd Battalion, 15th Infantry, July 27, 1914, to Oct. 18, 1914; Oct. 26 to Nov. 24, 1914; Dec. 10, 1914, to Sept. 28, 1915. (On leave of absence Oct. 19 to 25, 1914; on detached service with troops in the field Nov. 24 to Dec. 10, 1914, during which period he took annual physical examination and riding test.)

En route to and temporarily at Manila, P.I., Sept. 29 to 30, 1915, when he sailed on U.S. Army transport "Logan" for the U.S. via China and Japan; en route to U.S. Sept. 30 to Oct. 29, 1915 (constructive dates); on leave of absence from Oct. 30 to Dec. 4, 1915; en route to new station to Dec. 8, 1915; joined at Douglas, Arizona, Dec. 8, 1915; commanding 22nd Infantry from Dec. 9, 1915 to Feb. 5, 1916; commanding 3rd Battalion, 22nd Infantry, on Mexican Border Patrol, from Dec. 9, 1915, to Jan. 21, 1916 (undergoing physical examination and riding test Jan. 5 to 8, 1916, at station); commanding 2nd Battalion, 22nd Infantry Jan. 21 to Feb. 5, 1916.

On leave of absence Feb. 6 to 10, 1916; en route to new station Feb. 11 to 16, 1916; on duty with the General Staff in the War College Division, Army War College, Washington, D.C., Feb. 16, 1916, to Feb. 5, 1918; director of purchases and Assistant to Chief of Staff, War Department, Washington, D.C., Jan. 11 to Apr. 16, 1918 (member of General Munitions and War Industries boards, which replaced the former, serving from Apr. 9, 1917 to May 8, 1918), except as follows:

On leave of absence June 11 to 14, 1916; Sept. 8 to 12, 1916; Nov. 19 to 25, 1916; detailed a member of board of officers, by War Department Orders, Oct. 2, 1916, to meet in Washington, D.C., to consider and report upon standardization of motor transportation for the Army, and methods of purchase and upkeep of motor vehicles; undergoing annual physical examination and riding test Nov. 1 to 4, 1916; undergoing examination for promotion Jan. 2, 1917; member of National Board for Promotion of Rifle Practice, Aug. 17, 1916, to May 8, 1918; member of Training Camp Activities Commission, Apr. 1917 to May 8, 1918; member of War Council Dec. 28, 1917, to May 8, 1918; designated to make inquiry, investigation, and report to Secretary of War on the commandeering and appraisal of property taken over for use of the Army and on such duties from Feb. 6 to May 8, 1918; ordered to Midvale and Bethlehem, Pa., for the purpose of carrying out verbal instructions of the Secretary of War, per paragraph 145, Special Orders, No. 212, War Department, Sept. 12, 1917 (dates of absence not shown); on leave of absence Sept. 23 to 27, 1917.

Joined the 54th Infantry Brigade at Camp Stuart, Va., May 9, 1918; sailed from Newport News, Va., en route to France, commanding 54th Infantry Brigade, May 10 to 23, 1918; temporarily at Brest, France, and vicinity May 23 to 26, 1918; on duty commanding 54th Infantry Brigade, 27th Division, attached to the British Expeditionary Forces in France, and Belgium from May 26 to Nov. 22, 1918 (commanding 27th Division June 16 to 18, 1918, and Nov. 14 to 22, 1918; on observation at front line Aug. 17 to 18, 1918; on detached service at

Machine Gun School, Grantham, England, Oct. 25 to Nov. 4, 1918; participated in the following combat service or service in the theatre of operations: Dickebusch Lake and Scherpenberg sector July 31 to Aug. 18, 1918; Ypres-Lys offensive Aug. 19 to Sept. 3, 1918; Somme offensive Sept. 24 to Oct. 22, 1918).

Commanding 54th Infantry Brigade at American Embarkation Center, Le Mans, France, Nov. 23 to Dec. 7, 1918; en route and undergoing course of instruction at Army Center of Artillery Studies, Langres, France, Dec. 7, 1918, to Jan. 8, 1919; commanding 54th Infantry Brigade, American Embarkation Center, Le Mans, France, Jan. 9 to Feb. 23, 1919; en route with 54th Infantry Brigade to and at base section no. 5, Brest, France, Feb. 23 to 28, 1919; sailed Feb. 28, 1919 on steamship "Mauretenia", commanding brigade; arrived at Hoboken, N.J. on Mar. 6, 1919; on duty with the 54th Infantry Brigade, Camp Merritt, N.J. to Mar. 27, 1919; on leave of absence from Mar. 28 to Apr. 10, 1919; commanding 151st Depot Brigade, Camp Devens, Mass., Apr. 10 to May 24, 1919 (on leave of absence May 15 to 17, 1919); commanding demobilization group, Camp Devens, Mass., May 24 to 29, 1919; on leave of absence May 30 to June 3, 1919; demobilization officer, demobilization group, Camp Devens, Mass., June 3 to Sept. 1, 1919; all except as follows:

On detached service at New York, N.Y., for conference with commission on training-camp activities, June 24 to 25, 1919; on leave of absence July 19 to Aug. 20, 1919.

On duty with 42nd Infantry, Camp Upton, N.Y., Sept. 2 to Dec. 22, 1919; on duty as Assistant to the Chief of Staff, headquarters, Eastern Department, Governors Island, N.Y., from Dec. 22, 1919, to Jan. 12, 1920, date of retirement.

Awarded:

Distinguished Service Medal "for exceptionally meritorious and distinguished services as brigadier general, United States Army, his zeal, intelligence, and effective work in the preliminary organization of our industries of war, contributed substantially to the progress made. From May 1918 until March 1919 he commanded the 54th Infantry Brigade, 27th Division, in a highly meritorious manner during all the operations of his division against the Hindenburg line. His sound judgment, marked ability, and skillful leadership were important factors in the successes attained by his division against the enemy."

British Order of the Bath (companion) by Royal Appointment of March 27, 1919; "In recognition of meritorious services rendered the Allied cause."

Silver star citation, "For gallantry in action against Spanish forces at Coamo, Porto Rico, August 9, 1898."

Inactive duty training credit hours

1926–1927: Troop school conference and problem 153rd Brigade	12
May 20–23, 1927: Terrain exercises at Gettysburg, Pa	16
Nov. 17, 1927: Attending meeting 153rd Brigade	2
Nov. 21, 1927: Attending first of series of General Staff conferences	2
Dec. 15, 1927: Attending meeting 153rd Brigade	2
Jan. 19, 1928: Attending conference 153rd Brigade	2
Feb. 16, 1928: Attending conference 153rd Brigade	2
Mar. 22, 1928: Attending conference 153rd Brigade	2
June 20, 1928: Attending conference 153rd Brigade	2
Sept. 26, 1928: Attending conference 77th Div. Hq	1
Nov. 26, 1928: Conference 77th Div. Hq. Group, Harvard Club, New York, N.Y	3
Oct. 29, 1928: Conference 77th Div. Hq. Group	2
Total	48

The records show that he was identified with the National Collegiate Athletic Association as president as early as 1905, and until about 1912, and later referred to as president and acting president, National Amateur Athletic Federation of America, 1919, 1921, 1924, and 1927.

Shortly after the retirement of General Pierce on January 12, 1920, he accepted a position with the Baldwin Locomotive Works, Philadelphia, Pa., and of his own volition left that organization in November 1920, to go with the Standard Oil Company of New Jersey, in the legal department, also shown as assistant to the president, 26 Broadway, New York, N.Y.

By authority of the Secretary of War:

[SEAL]

E. T. Conley,
Brigadier General,
Acting The Adjutant General.

[SIS-hf-442]

EXHIBIT NO. 1337-D

WAR DEPARTMENT,
THE ADJUTANT GENERAL'S OFFICE,
Washington, November 30, 1934.

STATEMENT OF SERVICE OF EDWARD R. STETTINIUS

Edward R. Stettinius, by business a banker, was well known for his management of Allied purchases in this country. Paragraph 2, section II, General Orders, No. 25, War Department, March 11, 1918, refers to him as "Surveyor General of Purchases and Supplies" and designated him as an additional member of the War Council. No record has been found of either his appointment to, or his separation from, the position as Surveyor General of Purchases and Supplies. The office of Surveyor General of Supplies in the Purchase and Supply Division of the War Department, General Staff, was organized per paragraph 3-d, section I, General Orders, No. 14, War Department, February 9, 1918, and the position was abolished per paragraph 2, section II, General Orders, No. 36, War Department, April 16, 1918.

He was commissioned as Second Assistant Secretary of War, effective April 11, 1918, and resigned November 13, 1918. He was placed in charge of all questions of purchase and supply for all bureaus of the department, under the general direction of the Secretary of War, per section II, General Orders, No. 44, War Department, May 7, 1918. Under date of July 6, 1918, he was instructed to proceed at his earliest convenience to France and remain there as long as necessary, to attend meetings of Inter-Allied Munitions Council, as the special representative of the United States War Department, and later served as special representative overseas of the Secretary of War, in dealings with the Allied Governments, which service continued to about January 24, 1919. Also shown as member and chairman of the Advisory Liquidation Board of the American Expeditionary Forces.

AWARDED

Distinguished Service Medal "as Director General of Purchases for the War Department, Second Assistant Secretary of War, and special representative in France of the Secretary of War in connection with the procurement of munitions for the American Expeditionary Force, rendered conspicuous services. His broad vision and splendid judgment have been of the greatest value to the success of the military program." (Per General Order No. 25, War Department, February 13, 1919.)

French Legion of Honor with rank of commander as Assistant Secretary of War, awarded on May 11, 1919.

This office has been informed that he died September 3, 1925, after a long illness, the result of his strenuous work during the war and post-war years.

Volume 13 of Who's Who in America contains a biographical sketch of Mr. Stettinius which it is thought will furnish all the desired information about him.

By authority of the Secretary of War:

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT NO. 1337-E

STATEMENT OF THE MILITARY SERVICE OF RICHARD R. FARR, MAJOR, JUDGE ADVOCATE GENERAL'S DEPARTMENT, OFFICERS' RESERVE CORPS

The records of this office show that Richard R. Farr was a civilian candidate in training with the 5th Provisional Training Regiment, Fort Myer, Virginia, from August 25 to October 8, 1917, when honorably discharged by reason of physical disability. He accepted a commission as major, Judge Advocate General's Department, United States Army, March 15, 1919; served in the Judge Advocate General's Department, in the Purchase, Storage, and Traffic Division, General Staff, as a member of the Appeal Section, War Department Claims Board and Board of Contract Adjustment, and was honorably discharged December 31, 1920, for the convenience of the Government, his services being no longer required.

He was appointed a major, Judge Advocate General's Department, Officers' Reserve Corps, January 1, 1921; was on active duty from January 3, 1921, to June 30, 1921, with the War Department Claims Board, Supply Division, General Staff; appointed lieutenant colonel, Judge Advocate General's Department Reserve, November 8, 1923; on active duty with the 3rd Corps Area Headquarters, November 16 to 30, 1924, and from September 18 to October 22, 1927, taking a course of instruction at the Army War College; was reappointed lieutenant colonel, Judge Advocate General's Department Reserve, November 8, 1928, and was on active duty from August 15 to 28, 1929, and August 15 to 28, 1934, in the office of the Judge Advocate General, having been reappointed lieutenant colonel, Judge Advocate General's Department Reserve, November 8, 1933, which commission he now holds.

At time of his entry into the service he gave his business experience as general practice of law at Fairfax, Virginia, since 1907.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT NO. 1337-F

STATEMENT OF THE MILITARY SERVICE OF EDWARD A. DEEDS, COLONEL, AIR CORPS, OFFICERS' RESERVE CORPS

The records of this office show that Edward A. Deeds accepted a commission as temporary colonel, Signal Corps of the Army, August 27, 1917, and reported for duty in charge of the Equipment Division, Office of the Chief Signal Officer; was appointed a member of a board to recommend additional legislative provision to strengthen the Signal Corps; was transferred to duty in the Executive Division, Office of the Chief Signal Officer, January 14, 1918; reported to the Attorney General for cooperation and assistance in the aviation investigation, May 22, 1918; assisted in the development and production of the Liberty engine and served with the Supply Section, Division of Military Aeronautics until honorably discharged June 20, 1919, for the convenience of the Government, his services being no longer required.

He was appointed colonel, Air Service, Officers' Reserve Corps, September 4, 1919; was reappointed colonel, Air Service Reserve, September 4, 1924, and September 4, 1929; was on active duty October 17 to 30, 1932, for training with the Air Corps procurement planning representative, 39 Whitehall Street, New York City, and was reappointed colonel, Air Corps Reserve, September 4, 1934, which commission he now holds.

At time of his entry into the service he gave as his business experience: President of several manufacturing companies; held important executive position with the National Cash Register Company, Delco Company, Domestic Engineering Company, and Dayton Research Laboratories Company. His work in civil life subsequent to his discharge in 1919 is shown as industrialist and electrical engineer; chairman of executive committee, United Aircraft and Transport Corporation, chairman of board of National Cash Register Company, and chairman of board of Niles-Bement-Pond Company.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT NO. 1337-G

STATEMENT OF THE MILITARY SERVICE OF CHARLES N. BLACK, COLONEL, ORDNANCE DEPARTMENT

The records of this office show that Charles N. Black accepted a commission as major, Ordnance Section, Officers' Reserve Corps, January 16, 1918; reported for active duty January 17, 1918, in the Procurement Division, Office of the Chief of Ordnance, Washington, D.C.; was promoted to lieutenant colonel, National Army, January 18, 1918, and to colonel, Ordnance Department, United States

Army, October 16, 1918; sailed for overseas service October 27, 1918, for temporary duty in England and France; returned to the United States December 30, 1918, and was honorably discharged January 4, 1919, for the convenience of the Government, his services being no longer required.

He was awarded a meritorious services citation certificate by the commander in chief of the American Expeditionary Forces, for services as assistant to the Chief Ordnance Officer, American Expeditionary Forces.

At the time of his application for a commission he gave his business experience as from 1902 to 1907, vice president and general manager Kansas City Railway and Light Company, Kansas City, Missouri; 1907 to 1916, vice president of United Railroads of San Francisco, California; January 1, 1916, to January 1, 1918, buyer of munitions for the Allies, export department, J. P. Morgan and Company, also member of the firm of Ford, Bacon and Davis, engineers, from 1912 to 1918.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT No. 1337–H

[SIS–f]

STATEMENT OF THE MILITARY SERVICE OF JOSEPH LAURENCE AMAN, BORN IN HYATTSVILLE, MD., SEPT. 11, 1891; APPOINTED FROM MARYLAND

Sergeant, Ordnance Dept	May 26, 1917
To	Oct. 1, 1917
1st lieut., Ord. Section, O.R.C	Sept. 26, 1917
Accepted	Oct. 2, 1917
Active duty	Oct. 2, 1917
Captain, Ordnance Dept., U.S.A	Feb. 17, 1919
Accepted	Feb. 20, 1919
Vacated to accept appointment in R.A	Sept. 16, 1920
1st lieut., Ordnance Dept. (R.A.)	July 1, 1920
Accepted	Sept. 16, 1920
Captain	Jan. 27, 1921
Discharged as captain and appointed 1st lieut. (acts of Congress June 30 and Sept. 14, 1922)	Nov. 18, 1922
Captain	Aug. 26, 1927

SERVICE

He left the United States June 13, 1917, for service in France with Ordnance Depot Company No. 6; arrived in France June 27, 1917; honorably discharged as an enlisted man at Hq., A.E.F., Chaumont, France, October 1, 1917.

He was on duty in the office, Chief Ordnance Officer, A.E.F., Chaumont, France, rearranging Dewey decimal system of files from Oct. 2, 1917, to Nov. 1917; on duty in the storehouse, Ordnance Depot Company No. 6, to Dec. 1917; student, French Ammunition School, Formerie and Bazoches, France, to Jan. 21, 1919; on duty at Ordnance Repair Shops, Mehun sur Yevre, France, to Feb. 8, 1919; commanding Ord. Cas. Co. 17 and in charge of ammunition warehouses, Intermediate Ordnance Depot No. 4, Entrepot de Foecy, France, to Feb. 28, 1919; commanding Ordnance Casual Company No. 17, St. Loubes (Gironde) France, to Apr. 24, 1919; en route to U.S. on Transport "Black Arrow", Apr. 24, 1919, to May 6, 1919; temporarily at Camp Merritt, N.J. to May 9, 1919; on duty with tank, tractor, and trailer section, Manufacturing Division, office, Chief of Ordnance, Washington, D.C., to Sept. 10, 1919; on duty with 5th and 6th Ordnance Detachments, ordnance shop, Camp Stanley, Texas, to March 5, 1921; on duty at the Old Hickory Ordnance Reserve Depot, Jacksonville, Tenn., to Feb. 1, 1922; on duty at Raritan Arsenal, Metuchen, N.J., serving as officer in charge of ammunition storage and supply, Feb. 13, 1922, to Sept. 1924, as adjutant and recruiting officer, May 1924, to June 20, 1926, also served as signal officer, post-exchange officer, finance officer, and motor-transport officer at various times during period July 1924, to June 20, 1926; student officer, the Ordnance School, course II Watertown Arsenal, Watertown, Mass., June 30, 1926, to Apr. 9, 1927; student, Ordnance Specialists School, Raritan Arsenal, N.J., Apr. 10, 1927, to June 17, 1927; on leave of absence from June 18 to July 29, 1927; commanding 51st Ordnance Company (ammunition), post-exchange officer, summary court officer, Delaware ordnance depot, Pedricktown, N.J., July 30, 1927, to Apr. 30, 1928; student in loading department, Picatinny Arsenal, Dover, N.J., May 2 to July 1, 1928; on duty at Delaware ordnance depot, Pedricktown, N.J., commanding 51st Ordnance Company (ammunition), serving as superintendent of ammunition renovating plant, adjutant and other minor duties at various times during period July 1, 1928, to June 25, 1930; on leave of absence June 26 to July 23, 1930; on duty at headquarters, Fourth Corps Area, Fort McPherson, Ga., as assistant corps area ordnance officer and instructor, nondivisional Organized Reserve units, July 25, 1930, to date.

The following information relative to professional or business relationships appears in the officer's application for appointment in the Army:

Period		Capacity	Firm name and address
From—	To—		
1910	1913	In charge of parts and claim-adjustment department.	Studebaker Automobile Co., Branch, Washington, D.C.
1913	1917	Chief clerk	Hyattsville Gas and Electric Co., Hyattsville, Md.

By authority of the Secretary of War.

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT NO. 1337–I

STATEMENT OF THE MILITARY SERVICE OF WILLIAM WILLIAMS, LIEUTENANT COLONEL, ORDNANCE DEPARTMENT

The records of this office show that William Williams was enrolled and mustered into Federal service June 24, 1898, as private, Troop A, squadron, New York Volunteer Cavalry, War with Spain; was honorably discharged July 21, 1898, to accept commission as commissary of subsistence with rank of major, United States Volunteers; sailed for Porto Rico August 4, 1898; returned to New York City September 10, 1898, and was honorably discharged March 10, 1899; accepted a commission as major, Ordnance Section, Officers' Reserve Corps, February 7, 1918, and reported for active duty the same date in the Procurement Division, Office of the Chief of Ordnance; was promoted to lieutenant colonel, Ordnance Department, National Army, February 15, 1918, and was honorably discharged January 29, 1919, for the convenience of the Government, his services being no longer required.

At the time of his application for a commission in the Ordnance Department he gave his business experience as 1888 to 1902 lawyer; 1892–93 associate counsel for United States in Bering Sea Arbitration; 1902 to 1905 United States Commissioner of Immigration at the port of New York; 1905 to 1909 lawyer in business for himself; 1909 to 1913 United States Commissioner of Immigration and 1914 to 1917 commissioner of water supply New York City.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT NO. 1337–J

STATEMENT OF THE MILITARY SERVICE OF WILLIAM C. SPRUANCE, JR., COLONEL ORDNANCE DEPARTMENT

The records of this office show that William C. Spruance, Jr., accepted a commission as major, Ordnance Section, Officers' Reserve Corps, December 3, 1917; reported for active duty December 6, 1917, being assigned to the Explosives and

Loading Division of the Office of the Chief of Ordnance, charged with securing the production of powder for which orders or contracts had been placed by the Procurement Division; collected and codified all information relating to the processes of powder manufacture; initiated studies of methods of manufacture, the production that should be attained with various types of equipment, and compiled this data so as to facilitate the making of estimates of production; assisted new manufacturers to get started, supplying them with such information concerning equipments, methods of manufacture, sources of raw material, and so forth, and assisted manufacturers already established by disseminating results obtained from various plants manufacturing smokeless powder, systematically making available to all, the products of the best, with a view to enabling all to reach the highest standard with respect to quantity and quality of output; was promoted to lieutenant colonel, Ordnance Department, National Army, January 21, 1918, to colonel, Ordnance Department, United States Army, October 22, 1918, and was honorably discharged February 1, 1919, for the convenience of the Government, his services being no longer required.

He was awarded the Distinguished Service Medal with the following citation: "For exceptionally meritorious and conspicuous service as chief of the powder section, production division, of the Office of the Chief of Ordnance. Later as special assistant to the Chief of Ordnance in charge of chemicals, propellants and explosives, and chief of the explosives, chemicals and loading division, Office of the Chief of Ordnance, in which capacities he successfully organized the industry of the country so as to yield at all times an ample supply of powder, not only for the needs of the United States Army, but to some extent for the needs of the cobelligerents against Germany."

At the time of his application for a commission he gave his business experience as shop student, Westinghouse Electric and Manufacturing Company, Pittsburgh; 1896 and 1897 assistant engineer, Wilmington City Electric Company; 1900 and 1901 manager Cellulose Products Company, Boston; 1901 to 1903 consulting engineer practicing profession in Wilmington, Delaware; 1903 to 1907 L. H. and P. engineer, Du Pont Companies, Wilmington; 1908 to 1917 various, including assistant director, high explosives operating department, Du Pont Companies, Wilmington, Delaware; 1916 and 1917 served as associate member of the naval consulting board and member of board of directors of the organization for industrial preparedness for the State of Delaware; in charge of manufacture of commercial and military high explosives and black powder, blasting supplies and accessory products. Also a member of board of directors American Glycerin Company.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT No. 1337-K

STATEMENT OF THE MILITARY SERVICE OF CHARLES E. SHOLES, MAJOR, ORDNANCE DEPARTMENT

The records of this office show that Charles E. Sholes accepted a commission as major, Ordnance Section, Officers' Reserve Corps, July 26, 1918; reported for active duty July 28, 1918, and served in the chemical branch, raw materials section, Procurement Division of the Office of the Chief of Ordnance, Washington, D.C., until honorably discharged February 1, 1919, for the convenience of the Government, his services being no longer required.

He was appointed a major, Ordnance, Officers' Reserve Corps, March 12, 1919, reappointed major, Ordnance, Reserve, March 12, 1924, and his commission was terminated March 11, 1929, as he did not desire reappointment. He performed no active duty during these periods.

At time of his application for a commission in 1918, he gave his business experience as 1884 to 1887 Marsh and Harwood Company, manufacturers of chemicals, Cleveland, Ohio; 1887 to 1890 National Bank, Cleveland, Ohio; 1890 to 1895 Grasselli Chemical Company, New York; 1895 to 1905 Nichols Chemical Company and General Chemical Company, successors; 1905 to 1911 built and operated the Naugatuck Chemical Works, Georgetown Chemical Works and helped to organize and finance the J. T. Baker Chemical Works; 1911 to 1918

Grasselli Chemical Company, New York, as manager in charge of Government business of the company and as an alternate on the acid committee of the chemical alliance and the active member of creditors' committee, Aetna Explosives Company.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL] JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT NO. 1337-L

STATEMENT OF THE MILITARY SERVICE OF SEELEY W. MUDD, COLONEL, ENGINEERS

The records of this office show that Seeley W. Mudd accepted a commission as major, engineer section, Officers' Reserve Corps, March 8, 1917; reported for active duty January 11, 1918, and was assigned as assistant director for the construction and operation of smokeless powder and other explosives plants; was promoted to colonel, Engineers, National Army, June 12, 1918, and honorably discharged January 20, 1919, at the United States Government explosives plants, Washington, D.C , for the convenience of the Government, his services being no longer required.

At the time of his application for a commission he gave his business experience as mining engineer; 1883-1885 assayer and superintendent of copper department St. Louis Smelting and Refining Company; 1885 to 1902 manager of several large mining companies; 1902 to 1917 consulting engineer in West successively for New Jersey Zinc Company, Guggenheim Exploration Company, American Smelting and Refining Company, Ray Consolidated Copper Company, and others, also personal mining investments and operations involving geological examination of and consideration of economic conditions surrounding many mining properties in the West, particularly copper, gold, silver, lead and zinc mines.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL] JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT NO. 1337-M

STATEMENT OF THE MILITARY SERVICE OF SAMUEL MCROBERTS, BRIGADIER GENERAL, OFFICERS' RESERVE CORPS

The records of this office show that Samuel McRoberts accepted a commission as major, ordnance section, Officers' Reserve Corps, November 27, 1917; reported for active duty December 1, 1917, was promoted to colonel, Ordnance Department, National Army, December 3, 1917; served as Chief of the Procurement Division, Office of the Chief of Ordnance; left the United States July 30, 1918, for temporary duty with the American Expeditionary Forces; was promoted to the rank of brigadier general, Ordnance Department, United States Army, August 30, 1918; returned to the United States September 22, 1918; again sailed overseas October 27, 1918, and served as assistant chief ordnance officer, American Expeditionary Forces, exercising a general supervisory power over all matters pertaining to the purchase of supplies and their procurement from the United States; returned to the United States December 21, 1918, and was honorably discharged January 15, 1919, for the convenience of the Government, his services being no longer required.

He was awarded the Distinguished Service Medal with the following citation: "For exceptionally meritorious and distinguished services as Chief of the Procurement Division of the Office of the Chief of Ordnance, in which capacity he was charged with the procurement by purchase or manufacture, of all articles of ordnance supplied to the United States Army, and the execution of the necessary contracts in connection therewith."

He was appointed brigadier general, Ordnance, Officers' Reserve Corps, September 27, 1923; was reappointed as such July 9, 1928, effective September 27, 1928; was transferred to the auxiliary Reserve February 28, 1933, and reappointed brigadier general, auxiliary Reserve, September 27, 1933, which commission he now holds. He performed no active duty during these periods.

At time of his application for a commission in 1917, he gave his business experience as 1893 law clerk, Swift, Campbell, Jones and Martin, Borden Block, Chicago, Illinois; 1894 independent practice as lawyer; 1895 to 1900 private attorney, Armour and Company, Chicago; 1900 to 1904 assistant treasurer, Armour and Company; 1904 to 1909 treasurer, Armour and Company and financial manager for Armour interests in various institutions; 1909 to 1917 vice president, National City Bank of New York. He is shown subsequent to his discharge in 1919, as president of the Metropolitan Trust Company, New York City; vice president of the National City Bank; chairman of the board, Chatham Phenix National Bank and Trust Company, and member of the New York ordnance advisory board.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT NO. 1337–N

STATEMENT OF THE MILITARY SERVICE OF WILLIAM M. MACCLEARY, MAJOR, ORDNANCE DEPARTMENT

The records of this office show that William M. MacCleary accepted a commission as captain, Ordnance Section, Officers' Reserve Corps, September 20, 1917; reported for active duty September 28, 1917, and served in the Procurement Division of the Office of the Chief of Ordnance, Washington, D. C., was promoted to major, Ordnance Department, National Army, August 1, 1918, and was honorably discharged February 1, 1919, for the convenience of the Government, his services being no longer required.

He was appointed a major, Ordnance, Officers' Reserve Corps, March 13, 1919; appointed lieutenant colonel, Ordnance, Reserve, October 25, 1919; reappointed lieutenant colonel, Ordnance, Reserve, October 25, 1924, which appointment was terminated on October 24, 1929, and performed no active duty during these periods.

At time of his application for a commission in 1917, he have his business experience as with the cost department, Wheeling Corrugating Company, Wheeling, West Virginia; in 1912 went to the Portsmouth Steel Company, Portsmouth, Ohio, as assistant sales manager, then as special representative of the Whitaker-Glessner Company who bought the former concern, and since 1914, sales work, drawing of contracts, including those with Allied Governments.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT NO. 1337–O

STATEMENT OF THE MILITARY SERVICE OF ROBERT P. LAMONT, COLONEL, ORDNANCE DEPARTMENT

The records of this office show that Robert P. Lamont accepted a commission as major, Ordnance Section, Officers' Reserve Corps, January 19, 1918; reported for active duty January 20, 1918, and served in the Procurement Division, Office of the Chief of Ordnance, charged with handling all matters relating to the placing of orders with private manufacturers and arsenals and meeting the schedule of requirements for ordnance, ordnance stores and supplies, and for the repair and alteration thereof; was promoted to lieutenant colonel, Ordnance Department, National Army, February 5, 1918; and to colonel, Ordnance Department, United States Army, October 21, 1918, when made chief of the Procurement Division in which capacity he served until the armistice and upon the merging of the activities of that Division with those of the Claims Board, he was made a member of the board which was charged with adjusting all outstanding contracts in the Ordnance Department, serving until January 30, 1919, when honorably discharged for the convenience of the Government, his services being no longer required.

He was awarded the Distinguished Service Medal with the following citation: "For exceptionally meritorious and conspicuous service as Assistant to the Chief of the Procurement Division. Later as Chief of the Procurement Division and as a member of the Claims Board of the Ordnance Department he has rendered material assistance to the Nation's industry in adjusting equitably outstanding contracts, with full justice to employers and employees alike."

At the time of his application for a commission he gave his business experience as President of the American Steel Foundries, Chicago, Illinois. Subsequent to his military service he was Secretary of Commerce.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL]

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

EXHIBIT No. 1337–P

[SIS-f]

OCTOBER 4, 1934.

STATEMENT OF THE MILITARY SERVICE OF JOHN HERBERT HUNTER, BORN IN ALLIANCE, OHIO, MAY 19, 1879; APPOINTED FROM ILLINOIS

Captain, Ord. Section, O.R.C	Dec. 7, 1917
Accepted	Dec. 24, 1917
Major, Ord. Dept., U.S.A	Oct. 8, 1918
Accepted	Nov. 1, 1918
Vacated	Sept. 8, 1920
Major, Ordnance Dept. (R.A.)	July 1, 1920
Accepted	Sept. 8, 1920

SERVICE

He was on duty designing explosives, propellants, chemicals, and raw materials in the Engineering and Ammunition Divisions, later Chief of Explosives and Loading Section, Ammunition Division, in office of Chief of Ordnance, Washington, D.C., from January 7, 1918, to March 30, 1921; technical assistant, Artillery Ammunition and later Chief, Explosives Section and Inspection Department, at Picatinny Arsenal, New Jersey, to June 20, 1923; on leave to July 7, 1923; surveying officer, U.S. Army Transport *Merritt*, en route to the Philippine Islands, arriving at Manila, August 19, 1923; on duty as assistant and later Coast Defense Ordnance Officer, Coast Defense of Manila and Subic Bays, at Fort Mills, P.I., to date of death.

He died at Fort Mills, P.I., February 20, 1925, as result of street-car accident.

The following information relative to professional or business relationships appears in the officer's application for appointment in the Army:

Period		Capacity	Firm name and address
From—	To—		
1900	1901	Assistant chemist	Albermarle Zinc & Lead Co., Washington, D.C.
1901	1903	Assistant chemist (smokeless powder)	Smokeless Powder Factory, Indian Head, Md.
1903	1906	Chemist and assistant chemist (smokeless powder).	E. I. Dupont Powder Co., Haskell, N.J.
1906	1907	Superintendent (high explosives)	Emporium Powder Mfg. Co., Emporium, Pa.
1909	1910	Assistant chemist (smokeless powder)	Naval Proving Ground, Indian Head, Md.
1910	1915	Assistant chemist and inspector (high explosives).	U.S. Bureau of Mines, Pittsburgh, Pa.
1915	1917	Superintendent (smokeless powder)	Western Cartridge Co., Springfield, Ill.

By authority of the Secretary of War:

JAMES F. MCKINLEY,
Major General,
The Adjutant General.

Exhibit No. 1337–Q

Statement of the Military Service of Edgar A. Hamilton, Lieutenant Colonel, Ordnance Department

The records of this office show that Edgar A. Hamilton accepted a commission as captain, Ordnance Section, Officers' Reserve Corps, June 13, 1917; reported for active duty June 15, 1917, being assigned as chief of the legal section, gun division, Office of the Chief of Ordnance, Washington, D.C., which in the last few months of the calendar year 1917 and the early part of the calendar year 1918 prepared contracts covering the procurement of more than $1,500,000,000 of ordnance material; was promoted to major, Ordnance Department, National Army, January 21, 1918, and became chief, contract section, Procurement Division, Office of the Chief of Ordnance; left the United States April 25, 1918, for temporary duty in England and France in connection with the methods of purchase of ordnance material and the replacement of raw materials in payment of the finished products purchased abroad; returned to the United States July 25, 1918; attended and graduated from the Staff Officers' School, Army War College; left the United States October 2, 1918, for England for duty as assistant to the Chief Ordnance Officer in England; served as acting executive officer and later as executive officer, Advance Ordnance Depot No. 1, American Expeditionary Forces also attended school at Jonchery; returned to the United States March 5, 1919; was promoted to lieutenant colonel, Ordnance Department, United States Army, May 27, 1919, and served in the Purchase, Storage and Traffic Division, General Staff, as a member of the Board of Appraisers and War Department Board of Contract Adjustment until November 4, 1919, when honorably discharged for the convenience of the Government, his services being no longer required.

At time of his application for a commission he gave his business experience as law, general business and legal. Subsequent to his discharge he appears to have been assistant chairman of the board of directors, Fidelity and Deposit Company, Baltimore, Maryland.

Official statement furnished November 3, 1934.

By authority of the Secretary of War:

[SEAL]

James F. McKinley,
Major General,
The Adjutant General.

EXHIBIT NO. 1338

War Industries Board and war-time agencies—Principal officials

[Source: The information on the following chart has been taken from official War Industries Board and Counsel of National Defense records, from the Handbook of Economic Agencies during the World War, General Staff Planning Division, from the Graham Report, from the Directory of Directors, and from income-tax returns]

Name	Governmental position	Industrial connections	Sources of income during war years
Bernard M. Baruch	Mar. 17, 1917, to May 26, 1918, member advisory committee and Chairman Raw Materials Division, Council of National Defense. May 27, 1918, to Jan. 1, 1919, Chairman War Industries Board. Appointed various committees on raw materials. Member Allied Purchasing Commission Aug. 27, 1917, to Dec. 14, 1918.	Private banker and financier	1917—Atolia Mining Co., San Francisco, Calif. 1918—Returns destroyed by Internal Revenue Bureau. 1919—Returns destroyed by Internal Revenue Bureau.
Harry Payne Bingham	Apr. 6, 1917, to Jan. 7, expert, Council of National Defense, and secretary of War Industries Board.	Director Cleveland Trust Co	1917—Income from Lewis Cass Ledyard and Lewis Cass Ledyard, Jr., trustees; Northern Finance Co. 1918—Income from Lewis Cass Ledyard Trust and from Cleveland Trust Co.; profit from sale of securities, First National Bank, New York. 1919—Profit from sale of securities, Northern Finance Corporation; income from trusts of Lewis Cass Ledyard and Cleveland Trust Co.
Robert S. Brookings	Aug. 1, 1917, to May 27 1918, expert, Council of National Defense. May 28, 1918, to Feb. 28, 1919, Chairman Price Fixing Committee, War Industries Board. Member, Allied Purchasing Commission Aug. 27, 1917, to Dec. 14, 1918.	Vice president and director, St. Louis Union Trust Co., Supples Woodenware Co., St. Louis; varied lumber interests.	1917—No record. 1918—No record. 1919—No record.
March F. Chase	Oct. 24, 1917, to May 27, 1918, expert, Council of National Defense. May 28, 1918, to Nov. 30, 1918, director, Explosives Division, War Industries Board.	Vice president, Commercial Acid Co., St. Louis, Mo.	1917—Salary, Commercial Acid Co.; income as consultant, American Zinc, Lead & Smelter Co.; Swansea Vale Smelter Co.; England & Burma Co.; profit from stocks and bonds. 1918—Destroyed. 1919—No record.
Clarence Dillon	May 28, 1918, to Dec. 31, 1918, assistant to Chairman War Industries Board.	Member, Dillon, Read & Co.; American Foreign Securities Corporation; Brazilian Traction, Light & Power Co.; Central Trust Co., New York; various oil companies and utilities.	1917—Income from partnership profit, Wm. A. Read & Co.; interest in Newport Mining Co. contracts; profit from chemical contracts; dividends, Wm. A. Read & Co.; directors' fees. 1918—Income as partner, Wm. A. Read & Co.; Newport Mining Co.; stock dividends, corporations unknown. 1919—Income from stocks, Wm. A. Read & Co.; Newport Mining Co.; director, Central Union Trust Co.
Rear Admiral F. F. Fletcher	Navy Department representative, War Industries Board; Priorities Board.		1917—Salary, officer in U. S. Navy; profit from sale of stocks and bonds; dividends, corporations inknown. 1918—No record. 1919—Destroyed.

Hugh Frayne	May 28, 1918, to Feb. 14, 1919, Chairman Labor Division, War Industries Board.	General organizer, American Federation of Labor.	1917—Not in file. 1918—No record. 1919—No record.
Joseph F. Guffey	Oct. 4, 1917, to (no record of termination of service), expert, Raw Materials Division, Council of National Defense; Chief, Petroleum Section, War Industries Board.	Various oil companies and utilities	1917—Salary, general manager, Philadelphia Co., Pittsburgh, Pa.; profit on stocks, dividends from corporations, unknown. 1918—Salary, general manager, Philadelphia Co.; dividends from stock in domestic corporations. 1919—Salary, president Atlantic Gulf Oil Corporation; trustee, American Metals Co.; director's fee, Guffey & Gillespie Oil Co.; profit various stock transactions; various cash dividends.
H. P. Ingels	May 28, 1917, to May 27, 1918, expert, Munitions Division, Council of National Defense. May 28, 1918, to Feb. 14, 1919, secretary, War Industries Board.	Second vice president, Realty Guaranty & Trust Co., Youngstown, Ohio.	1917—Salary and bonus, Realty Guarantee & Trust Co.; dividends, corporations unknown. 1918—Destroyed. 1919—No record.
Brig. Gen. Hugh S. Johnson	War Department representative, War Industries Board.		1917—Salary, U. S. Army officer. 1918—No record. 1919—No record.
Alexander Legge	May 28, 1918, to Feb. 28, 1919, Vice Chairman, War Industries Board; Chairman, Requirements Division; business manager, Allied Purchasing Commission until May 1, 1918.	Vice president and general manager International Harvester Co.	1917—Dividends from International Harvester Co.; salary, general manager, International Harvester Co. 1918—Destroyed. 1919—Salary, International Harvester Co.; salary, $1, War Industries Board; director's fees; and dividends, corporations unknown.
Robert S. Lovett	Aug. 1, 1917, to Mar. 5, 1918, expert, Priorities Division, Council of National Defense. Member War Industries Board Purchasing Committee (Priorities). Committee on Transportation and Communications, etc., no dates given. Member, Allied Purchasing Commission Aug. 27, 1917, to Dec. 14, 1918.	Chairman, executive committee, Union Pacific R. R., director, various railroads; director, National City Bank; director, American International Corporation.	1917—No record. 1918—No record. 1919—No record.
C. H. MacDowell	May 27, 1918, to Dec. 31, 1918, director, Chemical Division, War Industries Board.	President, Armour Fertilizer Works, Chicago, Ill.	1917—Salary, president, Armour Fertilizer Co.; profit from sale of United States Steel Corporation stock; dividends from other stocks. 1918—No record. 1919—Destroyed.

War Industries Board and war-time agencies—Principal officials—Continued

Name	Governmental position	Industrial connections	Sources of income during war years
Eugene Meyer	Apr. 6, 1917, to May 13, 1918, expert, Raw Materials Division, Council of National Defense; director National War Savings Committee; chief Nonferrous Metals Section, War Industries Board; director, War Finance Corporation.	Firm, Eugene Meyer, Jr., & Co.; Alabama Marble Co., Alaska Juneau Gold Mining Co.; Cosden Oil & Gas Co.; Fidelity Phenix Fire Insurance Co.; Inspiration Consolidated Copper Co.; Mongollon Mines Co.; New York Stock Exchange; Pan American Petroleum & Transport Co.; Utah Copper Co.; W. Beckers Analine & Chemical Works, Inc.	1917—Sundry director's fees; dividend received from partnership, Eugene Meyer, Jr., & Co. (taxpayer dealt in Anacouda Copper Co., American Smelters, W. Beckers Analine, Chemical Co., Kennicott Copper, Westinghouse Electric, Maxwell Motor, Inspiration Copper. Utah Copper, Royal Dutch Petroleum, United States Steel, American Can, American Radiator); dividends from Anaconda Copper, American Smelters, Kennicott Copper, Pan American Petroleum, Utah Copper, Westinghouse Electric, Inspiration Copper, United States Steel, American Radiator. 1918—Income from War Finance Corporation, salary; income from brokerage business; dividends from domestic corporation stock; dealt in Anaconda Copper, Inspiration Copper, Utah Copper, Westinghouse Electric; dividends from Pan American Petroleum, Inspiration Copper, Westinghouse Electric, Anaconda Copper, Utah Copper, American Radiator, National Analine. 1919—Income from business, banker, and broker; salary, managing director War Finance Corporation; dividends from stocks of domestic corporations; dealt in Anaconda Copper, Analine Preferred, Westinghouse Electric, War Finance; dividends from Utah Copper, American Radiator, National Analine, Pan American, Westinghouse, Fisher Body, Pierce-Arrow, Anaconda.
Robert H. Montgomery	Board of Appraisers, War Department; member, Price Fixing Commitee, War Industries Board, representing the Army.	Member, Lybrand, Ross Bros. & Montgomery; director, Acceptance Corporation; American Taxi-Meter Co.; Entz Motor Patents Corporation; Lane Bryant, Inc.; Mitchell Motor Car Co.; R. M. Owen & Co.	1917—Income from partnership of Lybrand Ross Bros. & Montgomery; dividends from a fund accumulated in 1917. 1918—Income from Lybrand Ross Bros. & Montgomery and U. S. Army. 1919—Income from Lybrand Ross Bros. & Montgomery and U. S. Army.
Charles A. Otis	May 15, 1918, to May 27, 1918, expert, Council of National Defense. May 28, 1918, to Dec. 9, 1918, expert, Finished Products Division, War Industries Board; chief, Resources and Conversion Section, War Industries Board.	Member of firm, Otis & Co., Cleveland, Ohio; various industries; director, Cleveland Life Insurance Co.; member, Cleveland Stock Exchange.	1917—Income as partner and director's fees, Otis & Co.; dividends on stocks; dividends from National Car Wheel Co. 1918—Destroyed. 1919—Income as partner, Otis & Co.; salary president, Otisito Mines Co., Colorado Springs, Colo.; dividends and director's fees; dividends from Chandler Motors, Otisito Mines, National Car Wheel, Producers & Refiners Co., various banks, and partnership.
George N. Peek	Dec. 5, 1917, to May 27, 1918, expert, Council of National Defense. May 28, 1918, to Jan. 31, 1919, Commissioner, Finished Products Division, War Industries Board.	Vice president, Deere & Co., Moline, Ill.	1917—Salary, Deere & Co., dividends accumulated. 1918—Destroyed. 1919—Salary, Deere & Co., and Moline Plow Co.

J. L. Replogle	May 28, 1918, to Jan. 14, 1919, Administrator, Steel Division, War Industries Board.	American Vanadium Co.; Wharton Steel Co.; and railroads.	1917—Not in files. 1918—No record. 1919—No record.
Albert C. Ritchie	June 3, 1918, to (no record of termination of service), expert, Administrative Division, War Industries Board; general counsel, War Industries Board.	1916-17—Firm of C. H. & J. A. Young, 76 William Street, New York.	1917—Income from law business, Ritchie & Janney, Baltimore, Md.; professor, University of Maryland; dividends, companies unknown; salary, attorney general of Maryland. 1918—Salary, attorney general of Maryland; income from law business; salary, counsel, War Industries Board; professor, University of Maryland; dividends, corporations unknown. 1919—Salary, attorney general of Maryland; income from law business; salary, War Industries Board; dividends from stock or personal service corporations.
Frank A. Scott	Aug. 1, 1917, to Oct. 26, 1917, Chairman, Munitions Standards Board; Chairman, General Munitions Board; Chairman, War Industries Board of the Council of National Defense, until Oct. 26, 1917; Chairman, Clearance Committee.	Vice president Warner & Swasey Co., Cleveland, Ohio; Cleveland Trust Co.	1917—Warner-Swasey Co., Cleveland Trust Co., Bank of Commerce. 1918—Sources of income, salaries, director's fees, and dividends Warner-Swasey Co., Cleveland Trust Co., Union Commerce National Bank. 1919—Sources of income, salaries and dividends Warner-Swasey Co., Union Commerce National Bank, Cleveland Trust Co., The White Co.
L. L. Summers	Mar. 28, 1917, to May 27, 1918, expert, General Munitions Board Council of National Defense. May 28, 1918, to July 25, 1918, expert, Chemicals and Explosives Division, War Industries Board; Chairman, Foreign Mission.	L. L. Summers & Co., New York, N. Y.	1917—Income from L. L. Summers, engineers; profit on stock sales. 1918—No record. 1919—Income from engineering services.
Samuel Vauclain	Mar. 17, 1917 to (no record of termination of service), member Munitions Standards Board; Chairman, Committee on Army and Navy Artillery, General Munitions Board; member Committee on Transportation and Communication; member, Cooperative Committee on Locomotives (this last position came under his duties as Chairman of Advisory Commission on Plants and Munitions).	Senior vice president, Baldwin Locomotive Works; Midvale Steel & Ordnance Co.	1917—Salaries, Baldwin Locomotive Works, Standard Steel Works; director's fees; profit from sale of land to Baldwin Locomotive Works; income from unimproved land of Eddystone Ammunition Corporation; dividends from stock in domestic corporations through Philadelphia Trust Co., agent; dealt in Midvale Steel and Lima Locomotive. 1918—Salary, Baldwin Locomotive Works and Standard Steel Works; dividends, director's fees. 1919—Salary and director's fees, Baldwin Locomotive Works, Standard Steel Works, Cambria Steel, Westinghouse, Union Oil, Philadelphia Trust, Philadelphia National Bank; income from land through J. P. Morgan & Co., Eddystone, Pa.; dividends, corporations unknown
Daniel Willard	Oct. 11, 1916, to Jan. 11, 1918, member Advisory Commission, member ex officio executive committee, Council of National Defense; Chairman Committee on Transportation and Communication; Chairman War Industries Board.	Officer and director, various railroads; Baltimore & Ohio, etc.	1917—Dividends and salaries. 1918—Dividends and salaries. 1919—Dividends and salaries.
Pope Yeatman	Nov. 8, 1917, to May 27, 1918, expert, Council of National Defense. May 28, 1918, to Jan. 4, 1919, expert, Nonferrous Metals Section, War Industries Board.	Consulting engineer, New York, N. Y.; Chile Copper Co. of Delaware.	1917—No record. 1918—No record. 1919—No record.

Exhibit No. 1339

List of Civilian Lecturers, Army Industrial College

Adair, Mr. J. G. (CE).
Agnew, Dr. P. G. ,secy., American Eng. Standards Committee.
Aishton, R. H., American Railway Assoc.
Aitchison, Clyde B., Interstate Commerce Commn.
Allport, James, Barnesboro, Pa. (Fuel).
Anderson, J. Robt., spec. asst. to Attorney General.
Baker, Dr. O. E., Dept. Agriculture.
Baldwin, H. C., Babson Inst.
Baruch, Bernard M., honorary adviser AIC.
Beales, LeVerne, Dept. of Commerce.
Beard, Charles A., author, historian, economist. Mrs. Beard.
Bonner, Jas. B., Philadelphia, Pa. (Steel).
Briggs, Dr. L. J., Bureau of Standards.
Brookings, Robert S., honorary adviser.
Buchanan, Wm. G., C.P.A., Washington, D.C.
Burgess, Dr. G. K., Bur. of Standards.
Butler, Hugh (Thru Dept. of Commerce).
Clarkson, W. B. (Bell System).
Coffin, Howard E., honorary adviser, AIC.
Crockett, A. E., Jones & Laughlin-Steel.
Daly, J. F., Census Mfrs.
Darlington, Frederick, Power in W.W.
Dickey, Raymond B., Washington, D.C. (contract law).
Donham, Wallace B., dean, Harvard Graduate School of Bus. Adm.
Donohue, F. Jos., prof. of economics, Catholic Univ.
Doriot, Georges F., prof. Harvard Graduate School of Bus. Admn.
Durand, E. Dana, Bur. For. & Dom. Commerce.
Duranty, Walter, Corres., New York Times (on Russia).
Earle, Prof., E. M., Columbia Univ.
Ely, E. W., Bur. Standards.
Evans, Joshua, District National Bank.
Faragher, Dr. P. V., Aluminum Co. of America.
Flattery, Mr. W. D., Boston, Mass. (exp. in World War).
Fleming ,Robert V., Riggs National Bank.
Frey, John P., Rep. A.F.L.
Friday, Dr. David, economist and author, Wash., D.C.
Freidman, Elisha M., New York City.
Garlock, Fred, economist, Dept. Agriculture.
Gifford, Walter S., honorary adviser.
Goldenweiser, Dr. E. A., Fed. Res. Bd.
Green, Wm., A.F.L.
Gormley, M. J. (chr. Car Service Div., A.R.A.).
Hardy, Dr. Chas. O., Brookings Inst.
Hill, Dr. Charles E., G.W.U.
Hinrichs, Dr. A. F., Brown Univ.
Hudson, Ray M. (then with Bur. Standards).
Isaacs, Dr. Nathan, Harvard Grad. Sch. of Bus. Admn.
Klein, Hon. Julius, Asst. Sec. Commerce.
LaMotte, Arthur (Story of Dynamite).
Lewis, Dr. H. T., prof. Harvard Grad. Sch. of Bus. Admn.
Leith, Dr. C. K. (Minerals in the North Atlantic).
McAllister, Dr. A. S., Bur. Standards.
Mann, Mr. L. B., Dept. of Commerce.
Marsh, Mr. J. W. (CE).
Martin, Dr. F. H., honorary adviser.
Meyer, Hon. Eugene.
Mitchell, W. E. (Georgia Power Co.).
Moulton, Dr. Harold G., inst. of economics, Brookings Inst.
Myers, Prof. Wm. Starr (Amer. Political Experiences in Time of War).
Omwake, John, Cincinnati, O.

Oxholm, Axel H., Dept. of Commerce.
Palmer, Virgil M., Eastman Kodak Co.
Parish, Wm. F., New York City (Oils).
Peek, George N., spec. adviser to the President on foreign trade.
Roush, G. A., Prof. Lehigh Univ.
Rubens, Dr. H. S., New York City (Industrial Alcohol).
Sarnoff, David, New York, Communications.
Scheffer, Paul, (on Russia).
Schnitman, L. Seth, statistician, F. W. Dodge Corp.
Shaw, Mr. A. W., War Industries Board member.
Sloan, Laurence H., Standard Statistics Co.
Spacek, Mr. Stan (Czecho Slovak Ministry of Public Works).
Stewart, Dr. Ethelbert, Labor statistics.
Storm, Dr. C. G. (O.D.).
Stout, Charles, (Hides, Leather and Leather Goods).
Summers, L. L., War Industries Board member.
Skvirsky, Boris, Counselor of Embassy U.S.S.R.
Taeusch, Prof. C. F., Harvard Grad. Sch. of Bus. Admn.
Unger, Dr. J. S., Carnegie Steel Co.
Vanderblue, Prof. Homer, B., Harvard.
Vauclain, S. M.
Wallace, B. B., U. S. Tariff Commn.
Whitford, Dr. H. W., Dept. of Commerce (Crude Rubber).
Whitney, Richard, pres. New York Stock Exchange.
Wilson, Ralph B., Babson Statistical Orgn.
Young, Roy A. (then Governor Federal Reserve Board).

EXHIBIT NO. 1339-A

WW/amw.

WAR DEPARTMENT,
OFFICE OF THE CHIEF OF ORDNANCE,
PROCUREMENT DIVISION,
Washington, November 1, 1918.

To insure prompt attention,
in replying refer to
——— No. ———

(Attention of Lt. Col. Wm. Williams)
From: Lt. Col. Wm. Williams, Staff Officer, Procurement Division.
To: Major General C. C. Williams, Chief of Ordnance.
Subject: Names of manufacturers dealing with the Ordnance Department in which the undersigned has an interest.

1. As directed by the Chief of the Procurement Division under date of October 19th, I annex hereto a statement showing to the best of my knowledge and belief the name of each manufacturer or dealer in materials or supplies, purchased through the Procurement Division, with whom I have relationship as officer, employee, stockholder or bondholder.

2. Such relationship existed for some time, in most instances for many years, prior to the date when I entered the service and my several stated interests (which in no case are large) have neither been increased nor decreased since said time.

3. I am financially interested in other industrial concerns, but so far as I am aware these concerns have no dealings with the Procurement Division, or War Dept.*

(Signed) WILLIAM WILLIAMS,
Lt. Col. Ord. Dept. U.S.

Gen. Electric Co. (stockholder).
U.S. Steel com. & pfd. (stockholder).
Otis Fensom Elev. pfd. (stockholder).
Dupont Power Co. pfd. (stockholder).
Westinghouse Elec. pfd. (stockholder).
United Lead Co. (bondholder).
Bethlehem Steel Co. (bondholder).

*The words "or War Dept." were added to point 3, above, in hand-writing.

Exhibit No. 1340

The following advisory boards have been appointed to assist the district chiefs in the event of an emergency. In but few instances have they been called upon to exercise any assistance in time of peace. The extent to which they would be available and the extent and manner in which they would assist the district chief can be determined only if and when an emergency arises.

LIST OF MEMBERS OF ORDNANCE DISTRICT ADVISORY BOARDS

Boston District:
- Colonel James F. Monaghan, Ord-Res., consulting engineer.
- Lt. Col. R. F. Whitelegg, Ord-Res.
- George L. Gilmore.

Hartford district:
- G. A. Bausman, v.p., treas., & genl. mgr. National Equipment Co., Springfield, Mass.
- C. R. Burt, president & genl. mgr. Pratt & Whitney Co., Hartford, Conn.
- C. C. Chesney, Pittsfield, Mass.
- Arthur B. Reynders, works mgr. Westinghouse E.&M. Co., Springfield, Mass.
- Philip B. Gale, chairman of bd., Standard Screw Co., Hartford, Conn.
- John H. Goss, vp. & Genl. Mgr. Scoville Mfg. Co., Waterbury, Conn.
- E. Kent Hubbard, president the Mfgrs. Assn. of Conn., Hartford, Conn.
- Edwin Pugsley, Winchester R. A. Co., New Haven, Conn.
- S. M. Stone, president Colt's P.F.A. Mfg. Co., Hartford, Conn.
- W. R. Webster, chairman of bd., Bridgeport Brass Co., Bridgeport, Conn.

New York district:
- Patrick E. Crowley, president New York Central Lines.
- J. M. Davis, president, Delaware, Lackawanna & Western R.R.
- John I. Downey, v.p. Bankers Trust Company.
- Malcolm Muir, president McGraw-Hill Publishing Co.
- Colonel James L. Walsh.
- Gen. James G. Harbord, president Radio Corp., of America.
- Herbert P. Howell, pres. Commercial Natl. Bank & Trust Co.
- William C. Dickerman, pres. American Locomotive Co.
- Seward Prosser,Bankers Trust Co.
- B. L. Winchell, chairman Remington Rand, Inc.
- Owen D. Young, chairman General Electric Co.
- Lt. Col. C. E. Davies, A.S.M.E. (secretary).
- James A. Farrell, former president U.S. Steel Corporation.
- H. Hobart Porter, president American Water Works & Electric Co.
- Col. C. C. Goodrich, secretary & treas. Goodrich Lockhart Co.
- Lt. Col. J. E. Fullam, v.p. International Telephone Securities Corp.
- Lt. Col. Charles H. Higgins, architect, New York, New York.
- Frank C. Wright, Lee, Higginson & Co.
- Col. Douglas I. McKay, president Standard Coupler Co.
- Hon. Nathan L. Miller, Hornblower, Miller, Miller & Boston.

Rochester district:
- Edwin Corning, chairman bd. of directors, Ludlum Steel Co.
- C. E. Eveleth, v.p. General Electric Co.
- Edward Hoagland, asst. genl. freight agent N.Y. Central R.R.
- J. T. Loree, genl. mgr. Delaware & Hudson Co.
- G. S. Ruffner, pres. Mohawk Hudson Power Co.
- Carl L. Bausch, director Bausch & Lomb Co., Rochester, N.Y.

Philadelphia district:
- Samuel M. Vauclain, chairman of bd., Baldwin Locomotive Works.
- W. W. Atterbury, president Pennsylvania Railroad.
- Geo. Horace Lorimer, editor Saturday Evening Post.
- Josiah Penniman, president University of Pennsylvania.
- Chas R. Richards, president Lehigh University.
- A. Atwater Kent, president Atwater Kent Mfg. Co.
- Eldridge R. Johnson, financier.
- Irenee duPont, president E. I. duPont Company.
- Eugene G. Grace, president Bethlehem Steel Co.
- E. T. Stotesbury, financier.
- Leonard H. Kinnard, pres. Bell Telephone Co. of Pa.
- John E. Zimmerman, president U. G. I. Company.

LIST OF MEMBERS OF ORDNANCE DISTRICT ADVISORY BOARDS—continued

Pittsburgh district:
  F. J. Chesterman, p.p. Bell Telephone Co. of Pa.
  George Gordon Crawford, pres. Jones & Laughlin Steel Corp.
  T. M. Girdler, pres. & chairman bd. of directors, Republic Steel Corp.
  A. L. Humphrey, president Westinghouse Air Brake Co.
  C. D. Marshall, president McClintic-Marshall Company.
  W. L. Mellon, president Gulf Refining Co.
  F. A. Merrick, president Westinghouse E. & M. Co.
  William L. Munro, president American Window Glass Co.
  A. W. Robertson, chairman bd. of directors Westinghouse E. & M. Co.
  Homer D. Williams, chairman, president Pittsburgh Steel Co.
  E. T. Whiter, regional vice president Pennsylvania Railroad.
  I. Lamont Hughes, president Carnegie Steel Co.
  E. T. Weir, chairman bd. National Steel Corp.
  Arthur E. Braun, president Farmers Deposit Natl. Bank.
Cleveland district:
  Henry C. Osborn, v.p. & chairman, exec. com. Addressograph-Multigraph Corp., Euclid, O.
  Benedict Crowell, Brig. Gen., Crowell & Little Construction Co.
  Henry G. Dalton, Pickands, Mather & Co.
  Allyn F. Harvey, pres. Pittsburgh Steamship Co.
  Colonel Frank A. Scott, chairman India Tire & Rubber Co.
  Alexander C. Brown, president Industrial Brownhoist Corp., Cleveland, Ohio.
Baltimore district: None.
Cincinnati district:
  Frank Andrews, v.p., Andrews Steel Co., Newport, Ky.
  B. S. Armstrong, president the Mabley & Carew Co.
  C. H. M. Atkins, president Warner Elevator Co.
  J. B. Doan, president American Tool Works Co.
  Walter A. Draper, president the Cincinnati Street Railway Co.
  Nelson Emons, Jr., v.p., Dayton Mfg. Co.
  Tylor Field, president Ferro-Concrete Construction Co.
  F. A. Geier, president the Cincinnati Milling Machine Co.
  C. R. Hook, v.p., American Rolling Mill Co., Middletown, Ohio.
  R. K. LeBlond, president the R. K. LeBlond Machine Tool Co.
  H. M. Lefton, treas. & genl. mgr., the Columbian Iron Works Co., Chattanooga, Tenn.
  A. B. Morgan, v.p., the U. S. Printing & Lithograph Co., Norwood, O.
  George Puchta, president Queen City Supply Co.
  Walter D. Randall, v.p. & mill mgr., Champion Coated Paper Co., Hamilton, O.
  J. A. Reilly, v.p., Queen City Coal Co.
  J. J. Rowe, president First National Bank.
  Herman Schneider, president University of Cincinnati.
  Col. Clarence O. Sherrill, v.p. Kroger Grocery & Baking Co.
  F. D. Stalnaker, president Indiana Natl. Bank, Indianapolis, Ind.
  T. H. Townshend, exec. v.p., Hardwood Mfrs. Institute, Memphis, Tenn.
  Wm. F. Wiley, gen. mgr., the Cincinnati Enquirer.
  H. A. Worcester, v.p., the C. C. C. & St. Louis R.R. Co.
  Lucien Wulsin, president the Baldwin Piano Co.
Detroit district: None.
Chicago district:
  Frank R. Bacon, president Cutler-Hammer Mfg. Co., Milwaukee, Wis.
  William Butterworth, pres. U.S. Chamber of Commerce, Washington, D.C.
  Col. W. W. Coleman, pres. Bucyrus-Erie Co., So. Milwaukee, Wisc.
  Brig. Gen. Charles G. Dawes, chairman Central Republic Bank & Trust Co.
  A. R. Erskine, president the Studebaker Corp., South Bend, Ind.
  George M. Gillette, Minneapolis, Minn.
  R. P. Lamont.
  B. C. Heacock, president Caterpiller Tractor Co., Peoria, Ill.
St. Louis district:
  Louis H. Egan, president Union Electric Light & Power Co.
  Geo. B. Evans, St. Louis, Mo.
  H. I. Finch, president, the Emerson Electric Mfg. Co.
  S. W. Fordyce, Fordyce, White, Mayne & Williams, St. Louis, Mo.

LIST OF MEMBERS OF ORDNANCE DISTRICT ADVISORY BOARDS—continued

St. Louis district—Continued
- C. B. Fox, Alcoa Ore Co., East St. Louis, Ill.
- J. M. Kurn, president St. Louis-San Francisco R.R. Co.
- John J. Lonsdale, president Mercantile Commerce Bank & Trust Co.
- P. S. Medart, Fred Medart Mfg. Co.
- J. M. Olin, v.p., Western Cartridge Co., E. Alton, Ill.
- H. M. Pflager, senior v.p., Granite City, Ill.
- E. H. Steedman, president curtis Mfg. Co.
- John B. Strauch, president National Bearings Metals Corp., St. Louis.

San Francisco district:
- C. N. Black, chairman of board, Ford, Bacon & Davis, Engineers.
- J. D. Grant, capitalist, San Francisco, Cal.
- Theodore J. Hoover, Lt. Col., Ord.-Res., dean, School of Engineering, Stanford University, Calif.
- D. C. Jackling, president Utah Copper Co.
- W. H. Oliver, president Oliver United Filter Co.
- D. C. Seagrave, Col., Ord.-Res., v.p. & genl. mgr., Pacific Coast Shipbuilding Co.
- Stanley G. Harris, Harris Trust & Savings Bank of Chicago, San Francisco.
- K. R. Kingsbury, president Standard Oil Co. of Calif., San Francisco.

Exhibit No. 1341

Ordnance District Contract Boards

In compliance with a request from the president of the Board to Standardize War Contract Forms, the following boards have been appointed in the various ordnance districts for the purpose of making a study of the proposed war-time contract forms, especially the adjusted-compensation contract:

Baltimore Ordnance District:
- Major William E. Grainger, Ord.-Res., of the Bethlehem Steel Company.
- 2nd Lieut. Bernarde E. Anderson, Ord.-Res., of the Krebs Pigment & Color Corporation.
- Major J. S. Hatcher, Ord. Dept., recorder.

Boston ordnance district:
- Colonel Charles H. Tenney, district chief, chairman.
- Mr. H. C. Dodge, president S. A. Woods Machine Co.
- Mr. Alf Anderson, president Albert & J. M. Anderson Co.
- Mr. Alvan T. Simonds, president Simonds Saw & Steel Co.
- Lt. Col. Winthrop Sargent, Jr., Ord.-Res.
- Major George Paul Slade, Ord.-Res., lawyer.
- Major Roger Taylor, Ord. Dept., recorder.

Chicago ordnance district:
- Colonel Hamilton, Ord.-Res., president M. H. Treadwell Co.
- Lt. Col. F. A. Lorenz, Ord.-Res., general works manager, American Steel Foundries.
- Lt. Col. Max Epstein, Ord.-Res., chairman board of directors General American Tank Car Corporation.
- Captain Whitney B. Hobbs, Ord.-Res., superintendent at the Western Electric Company.
- Captain John Slezak, Ord.-Res., vice-president Turner Brass Company.
- Major M. K. Barroll, Ord. Dept., recorder.

Cincinnati ordnance district:
- Mr. Ludwig Kemper, president Cincinnati Ball Crank Co. Alternate, Mr. W. W. Sudmeier, Mr. Kemper's assistant.
- Mr. George W. Haydock, head of Haydock, Lamson & Co.
- Colonel Geo. G. King, head of King Powder & Peters Cartridge Co. Alternate: Mr. R. E. King, his son.
- Mr. Vincent H. Beckman, lawyer.
- Major A. C. Rasmussen, Ord.-Res., chief engineer, Insley Manufacturing Co.
- Mr. S. J. Hopper, general alternate.

Hartford ordnance district:
- Colonel B. A. Franklin, Aux. Res.
- Mr. John H. Goss, Scovill Manufacturing Co.

ORDNANCE DISTRICT CONTRACT BOARDS—Continued

Hartford ordnance district—Continued.
  Mr. C. R. Burt, Pratt & Whitney Company.
  Major D. B. Wesson, Ord. Res., vice president and purchasing agent, Smith & Wesson.
  Captain J. A. Lavallee, Spec. Res., superintendent, Westinghouse Electric & Manufacturing Co.
  Captain R. D. Mallary, Spec. Res., attorney.
  Captain J. V. Montague, Ord. Res., assistant comptroller, Scovill Manufacturing Co.
  Major F. H. Miles, Jr., Ord. Dept., recorder.
New York ordnance district:
  Colonel Frank W. Roller, Ord. Res., president Roller-Smith Co.
  Lt. Col. C. O. Brown, Ord. Res., chemist, American Cyanamid Co.
  Lt. Col. T. F. Brown, Ord. Res., vice president National Distillers Products Co.
  Lt. Col. C. E. MacQuigg, Ord. Res., research director, Union Carbide & Carbon Testing Laboratories.
  Lt. Col. Crosby Field, Ord. Res., president Flakice Corp.
  Major H. H. Hall, Ord. Res., mechanical engineer, Aluminum Company of America.
  Major R. L. Hall, Ord. Res., technical advisor, Kearny plant of Western Electric Company.
  Lt. Col. H. K. Rutherford, Ord. Dept.
  1st Lieut. W. S. Broberg, Ord. Dept.
Rochester ordnance district:
  Schenectady:
    Mr. J. F. Cunningham, General Electric Co.
    Mr. W. E. Hoffman, General Electric Co.
  Buffalo:
    Mr. J. L. Crane, attorney.
  Rochester:
    Mr. James Gleason, president Gleason Gear Works.
    Mr. Carl L. Bausch, Bausch & Lomb Optical Co.
San Francisco ordnance district:
  Mr. Roland Oliver, Pres., Calif. Cap Co., chairman.
  Mr. Milton S. Ray, president Ray Burner Co.
  Mr. E. H. Daniel, treasurer Columbia Steel Co.
  Major K. B. Harmon, Ord. Dept., recorder.
St. Louis ordnance district:
  Col. M. E. Singleton, district chief, chairman.
  Col. Harry Scullin, Aux. Res., pres. Scullin Steel Co.
  Mr. F. W. Olin, president Western Cartridge Co.
  Major E. H. Sager, Ord. Res., professor mechanical engineering, Washington University.
  1st Lieut. G. C. Hetlage, Ord. Res., Hetlage & Co., appraisal engineers.
  Capt. L. J. Dillon, Ord. Dept., recorder.
Philadelphia ordnance district:
  Lt. Col. Edward Wiener, Aux. Res., lawyer, chairman.
  Major I. E. Lambert, vice president RCA Victor Co.
  Mr. Charles E. Acker, Treasurer Baldwin Locomotive Works.
  Mr. E. Grant Tice, special representative, Bethlehem Steel Co.
  Mr. J. H. Hubbs, purchasing agent, United Gas Improvement Company.
  Major W. L. Clark, Ord. Dept., recorder.
Detroit ordnance district:
  Mr. Alex Dow, chairman.
  Mr. C. S. Hirshfeld, vice chairman, chief of research, Detroit Edison Company.
  Mr. C. J. Jolly, legal department, General Motors Corp.
  Maj. John Worley, Spec. Res., Q.M.C., professor of transportation, University of Michigan.
  Mr. E. B. Stason, Law Department, University of Michigan.
  Mr. J. W. Parker, chief engineer, Detroit Edison Company.
  Mr. Edward T. Gushwe, purchasing agent, Detroit Edison Company.
  Lt. Col. Alfred E. White, Ord. Res.
  Maj. A. B. Quinton, Jr., Ord. Dept., recorder.

ORDNANCE DISTRICT CONTRACT BOARDS—Continued

Pittsburgh ordnance district:
  - Mr. T. S. Grubbs, comptroller, Westinghouse Air Brake Co.
  - Mr. W. V. McConnor, asst. gen. mgr. of sales, National Tube Co.
  - Lt. Col. G. Elkins Knable, Ord. Res., Carnegie Steel Co.
  - Mr. H. N. Mathias, dir. of ind. accounts, Westinghouse Electric and Manufacturing Co.
  - Mr. James O. Carr, v.p., Allegheny Steel Co.

Cleveland ordnance district:
  - Major John O. Findeisen, Spec. Res. (president).
  - Major Theodore H. Eickhoff, Spec. Res.
  - Major Daniel L. Britten, Ord. Res.
  - Major Charles A. Kelley, Spec. Res.
  - Capt. Chas. E. Herrstrom, Ord. Res.
  - 2nd Lt. Walter B. McClelland, Ord. Res., recorder.

Birmingham ordnance district:
  - Major Herbert Ephgrave, Spec. Res.
  - Major Herbert E. Smith, Spec. Res.
  - Captain C. W. Cheathan, Ord. Res.
  - 1st Lieut. D. J. Early, Spec. Res.
  - 1st Lieut. Paul G. Parsons, Spec. Res. (lawyer).
  - 1st Lieut. Allen Rushton, Spec. Res.
  - Captain J. D. McIntyre, Ord. Dept.

The following correspondence regarding Exhibit No. 1294 is included in the record at the request of the Remington Arms Co. (See text, pp. 3953.)

REMINGTON ARMS COMPANY, INC.,
EXECUTIVE OFFICES,
Bridgeport, Conn., March 5, 1935.

HON. GERALD P. NYE,
Chairman Special Committee Investigating the Munitions Industry,
United States Senate, Washington, D. C.

DEAR SENATOR NYE: At your committee's session of December 19, considerable attention was devoted to a comparative tabulation (exhibit no. 1294) made up in 1928 under the chairmanship of Mr. Hadley of our company, in which the attempt was made to set off in detail the estimated costs of various commercial manufacturers for the manufacture of .30/172 Springfield '06 boat tail cartridges against the reported costs of Frankford Arsenal. As you will no doubt recall, the consideration given to this cost comparison at the hearing was somewhat inconclusive, and the desire was indicated (pages 5811, 5814, 5816, and 5833 of the mimeograph record) for some further explanation by which the uncertainty that was thought still to attend the matter might be resolved. After the necessary review of the tabulations in question, we are now writing to respond to this request of your committee. In doing so, we of course have no thought of assuming to speak for the other manufacturers named in the exhibit; our statements are made solely on the authority of the Remington Arms Company.

Confining the view, then, to Frankford Arsenal and Remington, and excluding the complications of administrative expense, interest, and profit, the crucial figures of this 1928 comparison may be conveniently restated from sheet #7A of the exhibit as follows:

	Frankford	Remington	Difference
Materials	$10.3286	$9.1968	−$1.1318
Labor	3.5912	3.1037	−.4875
Burden	4.3902	9.7322	+5.3420
Total	18.3100	22.0327	+3.7227

With respect to both materials and labor, it will be noted, a moderate advantage was indicated for Remington. In the important item of factory burden, however, the estimated amount for Remington was more than double the reported figure for Frankford Arsenal, leaving a substantial net disadvantage to Remington for the total of the three essential elements of factory cost.

As was sought to be made clear by our witnesses at the hearing, this whole problem is mainly a question of comparative volume and assurance of continued volume. The figures submitted for Frankford Arsenal no doubt reflected the actual volume of some 60 million cartridges a year and the established condition of regular and continuous production there of this paramount item of small arms ammunition; that is, the manufacturers ideal of continuous, large volume production of a standard item, which was in accord with the actual condition.

The Remington figures, on the other hand, not only were arrived at in the spirit of conservatism which attends, or should attend, all estimates, but also naturally reflected the then recent experience of the manufacture in our plant of an experimental order of 10 million cartridges, of which 1 million were rejected upon inspection by the Government and had to be reconditioned. The lack of special equipment by the use of which considerable economies are attainable in the continuous large-scale production of a standard item of this sort, and the necessity which our factory had been under of adapting general equipment to the production of this cartridge, in the absence of any assurance of continued orders, we believe was made sufficiently plain at the hearing.

To show more definitely the influence of the volume factor, we have, after the necessary further brief study, adjusted the original Remington figures for alternative assumptions of 60 million and 100 million cartridges, in comparison with the original assumption of 10 million and with the Frankford Arsenal figures. The results, again disregarding all questions of interest on investment, profit, etc., may be compactly restated as follows:

	Frankford Arsenal	Remington—For various volumes		
		10 million	60 million	100 million
Material furnished by Government	$11.73	$11.73	$11.73	$11.73
Material furnished by manufacturer	10.33	9.20	9.20	9.20
Total material	22.06	20.93	20.93	20.93
Labor	3.59	3.10	3.10	3.10
Factory overhead and shrinkage	4.39	9.95	3.98	3.51
Total factory cost	30.40	33.98	28.01	27.54
Administration and general expense	.83	1.37	.56	.34
Total	30.87	35.35	28.57	27.88

This tabulation, we believe, will be found self-explanatory. We are entirely confident of its essential soundness and of our ability to substantiate in actual practice the advantage shown for private manufacture on a basis of volume and assured continuity of operation comparable with the actual conditions prevailing at the Government plant.

Mainly as a safeguard against possible misunderstanding, it occurs to us to submit also the following observations:

1. All the above figures, of course, reflect 1928 cost levels, which were high in relation to present conditions. Remington's present costs, especially as to materials, and no doubt those of Frankford Arsenal also, would naturally be substantially below the above figures.

2. Notwithstanding the contrary impressions which may naturally result from the appointment of Mr. Hadley to supervise the collection of the figures in question, from the formalities which attended their compilation and from the cooperation which was generously made available by Frankford Arsenal, the fact is that this study, especially so far as it related to the production costs of the Government, was by no means exhaustive and failed to arrive at satisfactorily complete and definite final figures. This, we believe, will be fully apparent to anyone upon brief scrutiny of the footnotes on various of the 11 pages of tabulations which make up the exhibit. It is to be regretted that the result was thus left inconclusive, and that no satisfactorily complete, definite, and assuredly reliable comparison of Government vs. private manufacturing costs for this standard product exists. The above figures are submitted, and should be regarded, in the light of this fact.

3. At the hearing (pages 5801–5802 of the mimeograph record), upon offhand examination of the exhibit, it was pointed out by Mr. Lammot du Pont, as an

evidence of incompleteness, that the comparison, as indicated on sheet #8, apparently made no allowance whatever for shrinkage at Frankford Arsenal, thereby assuming the impossible factory condition of 100% yield; and it was at once remarked by the chairman that the allowance for Remington was only 1%. This comment represents a quite natural misapprehension, growing out of a necessarily hurried examination of the footnote. As a matter of fact, as will be seen from a more deliberate reading of the entire footnote in question (single-starred note on sheet #8), this 1% was simply a supplementary allowance, thrown in for good measure, after a normal allowance for "known loss on condemned product and cost of repairing product" had already been included in the Remington figure for factory burden.

4. Finally, in presenting this response to the committee's request we desire to say with the utmost emphasis that there is nothing in this exhibit, or in the attended circumstances, which in any degree shakes our conviction as to the superior economy of private against government manufacture under basically similar conditions. In saying this, we have no thought of claiming for the Remington Arms Company or any other private manufacturer any superiority of managerial ability over the highly competent personnel in charge of production at the Frankford Arsenal. The difference is in the conditions of private as against public manufacture; and these same men, under the free conditions of competitive industry and with a sufficient background of that sort of experience, we have no doubt would surpass in a private factory the highly creditable results which they have already attained at the Frankford Arsenal.

In the preparation of this letter, the undersigned and his associates have acted under the same sense of responsibility which attended their oral statements made under oath before your committee. We request that this letter be included as an exhibit in the committee's record, since without some such statement with respect to matters left uncertain at the hearing, we believe a serious liability of misapprehension would inevitably remain.

Yours very truly,

Remington Arms Company, Inc.,
C. K. Davis, *President.*

March 8, 1935.

Mr. C. K. Davis,
President and General Manager, Remington Arms Company, Inc.,
Bridgeport, Conn.

Dear Mr. Davis: Senator Nye has asked me to acknowledge your letter of March 5th containing certain figures. The figures, contrary to your statement that they are self-explanatory, seem to need some explanation.

One question occurs first: How do you arrive at your factory overhead for the various quantities of 10 million, 60 million, and 100 million? The overhead on your table on page 3 drops from $9.95 to $3.51. What proportion of your total overhead would be represented in the $3.51 if the company is producing 100 million cartridges?

Further, how do you arrive at the figure that the Frankford Arsenal would pay $10.33 for material from the manufacturer, whereas you under your various categories would pay only $9.20?

Again, how do you arrive at your drop in administrative and general expenditures from $1.37 to $0.34?

These matters seem to need base figures before being at all comprehensive.

Further, what information have you that the cost at Frankford Arsenal would or would not drop proportionately with increased production up to 100 million?

The whole question is, as you say, quite open as far as volume production goes, but does not seem to me that another set of figures produced especially for this committee without more adequate explanation, really adds to an understanding of the situation.

Presumably the value of the other figures was that they were collected for your own benefit and by contrast these figures are collected to make a different kind of a case. In such instances, presumably the accuracy of your figures for large-scale production could only be checked by an impartial committee of engineering experts.

Upon receiving you reply to the information requested in this letter, the original letter and the correspondence will be put before the committee.

Sincerely,

Stephen Raushenbush, *Secretary.*

SR:Mly

REMINGTON ARMS CO., INC.,
Bridgeport, Conn., March 22, 1935.

MR. STEPHEN RAUSHENBUSH,
Secretary, Special Committee Investigating the Munitions Industry,
Room 408, Senate Office Building, Wasdington, D. C.

DEAR MR. RAUSHENBUSH: This is in reply to your letter of March 8, in further reference to the comparative cost estimates of your "Exhibit No. 1294." A more prompt answer has been prevented by a recent brief absence from this office of our treasurer, Mr. Reisinger, who is officially responsbile for all our cost calculations (although, as you know, neither he nor I was connected with the Remington Arms Co. or the ammunition business when the original estimates in question were made up, in 1928).

I believe we can best seek to serve your purpose by first restating and then answering briefly the five questions included in your letter.

1. "*How do you arrive at your factory overhead for the various quantities of ten million, sixty million, and one hundred million?*"

Our total charges for factory overhead are made up of elements of two distinct sorts: (a) items that vary almost in direct ratio as the volume of production is increased or reduced, which we designate as "*variable overhead*"; and (b) items of which the amount remains practically constant regardless of any ordinary variations in volume of output, which we call "*fixed charges*". An example of variable overhead would be the allowance for shrinkage which was included in factory overhead as shown in the tabulation on page 3 of our letter of March 5th; while fixed charges are typified by the local taxes on our plant, or by the salary of the plant manager. The amount of fixed charges which must enter into the cost of the unit of production will, of course, diminish as volume increases; for example, if the output is doubled, then the cost per unit for this part of the total factory overhead will be cut in half. In the 1928 estimate for Remington, the $9.95 allowed for factory overhead and shrinkage on a volume basis of only 10 million rounds was made up of $2.786 of variable overhead and $7.164 of fixed charges. In adjusting this part of the estimated total cost for a volume six times as large or ten times as large, we simply let the variable overhead per unit remain constant and reduced the sub-total of fixed charges by spreading them proportionately over the greatly increased volume.

2. "*The overhead on your table on page 3 drops from $9.95 to $3.51. What proportion of your total overhead would be represented in the $3.51 if the company is producing 100 million cartridges?*"

By reason especially of the important effect of variable overhead, the answer to this question would, of course, depend on the total amount of production of all sorts in our factory at the time the 100 million order of .30 caliber ammunition was being manufactured. If total factory production increased, then variable overhead, and consequently the total cost for factory overhead and shrinkage (though not proportionally) would also increase; and vice versa. On the basis of present conditions and outlook, as reflected in our forecast now current for the calendar year 1935, this allowance of $3.51 per thousand rounds on a hypothetical order of 100 million rounds of .30 caliber ammunition to be manufactured in our plant within one year, would be approximately 15% of the total "Factory Overhead and Shrinkage" costs of the entire year's production in the ammunition department of our business.

3. "*Further, how do you arrive at the figure that the Frankford Arsenal would pay $10.33 for material from the manufacturer, whereas you, under your various categories, would pay only $9.20?*"

We did not originate the Frankford Arsenal figure of $10.33 for "Material furnished by Mfr." That cost was determined by Frankford Arsenal itself, and was part of the information furnished us. We believe, however, that a closer examination of your "Exhibit No. 1294" will show quite clearly how this difference could exist, since it will be noted that Frankford Arsenal did not use the same sizes and weights of materials for making the various components of the cartridge as those which were taken by Remington as the basis for its calculations. Of course, it might be entirely practicable for Frankford Arsenal to use identically the same materials as Remington, but it must not be assumed that the consequent saving in cost of materials would remain as a net gain in the total cost of production. The point is that here, as is often the case in factory operation, the manufacturer has to some extent a choice in seeking to arrive at the ultimate goal of minimum total production cost, between proceeding by the route of maximum economy in raw materials or in labor. The cheaper materials may require more operations or longer processing; and an initial saving in materials costs may be partly, or even more than, offset by the necessity of increased expenditures for fabrication. This statement is, of course, theoretical, and its application in the present case is to some extent conjectural; but we believe Frankford Arsenal would not have been using the materials indicated in the exhibit unless there had been a distinct advantage in their doing so. Of course, it must be constantly borne in mind also that this whole discussion refers to 1928 conditions, which were in many respects different from those prevailing today.

4. *"Again, how do you arrive at your drop in administrative and general expenditures from $1.37 to $0.37?"*

Here the principle is similar to that explained under question No. 2 above. The drop in "Administrative and General Expense" is in proportion to the assumed increase in volume of output, after taking into consideration the probable necessary added expense incidental to the increased quantity.

5. *"Further, what information have you that the cost at Frankford Arsenal would or would not drop proportionately with increased production up to 100 million?"*

Our understanding is that the figures for Frankford Arsenal were furnished by them in accord with a then prevailing actual volume of 60 million rounds of .30-caliber ammunition yearly. We have no specific information as to what would have been at that time, or would be now, the exact effect upon Frankford Arsenal's costs of any further substantial increase in volume. We understand that their facilities for manufacturing this 30/06 cartridge were expanded during or shortly after the year 1928 to permit production of 100 million rounds a year instead of 60 millions. Since this stepping up of production from 60 to 100 million would have to carry the additional fixed charge brought about by expanding the plant facilities, it seems obvious that under any complete and accurate system of accounting, even that part of the overhead element of Frankford Arsenal's costs could not go down in direct ratio to production for this added 40 million rounds of yearly output.

I hope the above explanations will make this matter entirely clear; but if not, we shall be glad to endeavor to answer your further questions.

As to your closing thought of a special study of this problem by "an impartial committee of engineering experts", we would heartily welcome such an investigation, whether directed to these plainly incomplete 1928 figures or, preferably, to comparative present costs in our factory and at Frankford Arsenal.

Careful reflection upon the last three paragraphs of your letter, impels me to add one further thought by way of insurance against any lack of complete understanding as to the relationship of our letter of March 5th to the record of the committee's December hearings. We were very glad of the opportunity to submit the data contained in that letter; but in doing so we acted not upon our own initiative but under what we felt was a definite and compelling obligation laid upon us by the committee. In fact, even if we had been disinclined to furnish that further explanation, no option was left to us to decline to furnish it. On pages 5811, 5813, 5814, 5816, 5833, 5834, and 5836 of the typewritten record, the committee's desire was repeatedly and insistently indicated for a more complete explanation than our witnesses were able to give off-hand of the plainly incomplete and unsatisfactory figures of the exhibit in question. Our letter of March 5th was therefore directly responsive to the committee's own reiterated request. As matters now stand, the absence in the record of any response on our part to this request would inevitably be misconstrued by future students of your record, and would leave us in a false light with them. I would therefore like especially to repeat and stress the request which we made in our letter of March 5th that that letter be included in the official record of the committee as finally published. The letter should, of course, also be plainly connected by appropriate reference, or references, with "Exhibit 1294" and with the expressions of committee members which I have just cited by page numbers; and this subsequent correspondence may, of course, be either included or omitted as you may think desirable. I am sure the reasonableness of this request cannot fail to be fully apparent to you; and I hope we may have the benefit of your kind offices in making sure that the final record does not lack inclusion of, or appropriate references to, our letter of March 5th.

Yours truly,

REMINGTON ARMS CO., INC.,
C. K. DAVIS, *President.*

The following list of campaign contributions of officers and directors of the Winchester Co. was requested by the committee. (See text, p. 3976.)

WINCHESTER REPEATING ARMS COMPANY,
New Haven, Conn., December 18, 1934.

Mr. STEPHEN RAUSHENBUSH,
Secretary U. S. Senate Special Committee Investigating Munitions Industry.
Washington, D. C.

DEAR SIR: As requested in your letter of December 13, 1934 to Mr. J. M. Olin, first vice president, I wish to inform you that I have made no campaign contributions during the period of my official connection with the Winchester Repeating Arms Company, New Haven, Conn., namely, between December 22, 1931, and this date.

The above is intended to answer item 1 of your letter of November 20, 1934, addressed to the Winchester Repeating Arms Company, this item reading as follows:

(1) A list of all the campaign contributions from 1920 to 1934, inclusive, made by the officers and directors of the company.

Yours truly,

F. W. OLIN, *President and Director.*

WINCHESTER REPEATING ARMS COMPANY,
New Haven, Conn., December 18, 1934.

Mr. STEPHEN RAUSHENBUSH,
Secretary, U. S. Senate Special Committee Investigating
Munition Industry, Washington, D. C.

DEAR SIR: As requested in your letter of December 13, 1934, to Mr. J. M. Olin, first vice president, I wish to inform you that I have made no campaign contributions during the period of my official connection with the Winchester Repeating Arms Company, New Haven, Conn., namely, between December 22, 1931, and this date.

The above is intended to answer item 1 of your letter of November 20, 1934, addressed to the Winchester Repeating Arms Company, this item reading as follows:

(1) A list of all the campaign contributions from 1920 to 1934, inclusive, made by the officers and directors of the company.

Yours truly.

OTTO GNERICH, *Treasurer and Director.*

WINCHESTER REPEATING ARMS COMPANY,
New Haven, Conn., December 18, 1934.

Mr. STEPHEN RAUSHENBUSH,
Secretary U. S. Senate Special Committee Investigating
Munitions Industry, Washington, D. C.

DEAR SIR: As requested in your letter of December 13, 1934 to Mr. J. M. Olin, first vice president, I wish to inform you that I have made no campaign contributions during the period of my official connection with the Winchester Repeating Arms Company, New Haven, Conn., namely, between December 22, 1931, and this date.

The above is intended to answer item 1 of your letter of November 20, 1934, addressed to the Winchester Repeating Arms Company, this item reading as follows:

(1) A list of all the campaign contributions from 1920 to 1934, inclusive, made by the officers and directors of the company.

Yours truly,

SPENCER T. OLIN, *Secretary and Director.*

WINCHESTER REPEATING ARMS COMPANY,
New Haven, Conn., December 18, 1934.

Mr. STEPHEN RAUSHENBUSH,
Secretary U. S. Senate Special Committee Investigating Munitions Industry,
Washington, D. C.

DEAR SIR: As requested in your letter of December 13, 1934, to Mr. J. M. Olin, first vice president, I wish to inform you that I have made no campaign contributions during the period of my official connection with the Winchester Repeating Arms Company, New Haven, Conn., namely, between December 22, 1931, and this date.

The above is intended to answer item 1 of your letter of November 20, 1934, addressed to the Winchester Repeating Arms Company, this item reading as follows:

(1) A list of all the campaign contributions from 1920 to 1934, inclusive, made by the officers and directors of the company.

Yours truly,

M. W. ACKER, *Director.*

The following explanation regarding cost figures is in connection with "Exhibit No. 1305." (See text, p. 3977.)

WINCHESTER REPEATING ARMS COMPANY,
New Haven, Conn., December 21, 1934.

Mr. ROBERT WOHLFORTH,
Washington, D. C.

DEAR MR. WOHLFORTH: In reply to your letter of December 18th, I talked with Mr. Taft and he was under the impression that he had explained to you that prior to 1932 it was impossible for us to give you anywhere near accurate cost figures, therefore the cost figures which were submitted are only for shipments made from 1932 on.

Mr. Taft furthermore wished me to reiterate to you his statement that the cost figures in the earlier part of the period from 1932 to date are more of an estimate than those during the latter part, as there have been some modifications made in our method of costing during this time.

Yours very truly,

H. F. BEEBE,
Manager Foreign Dept.

HFB:H

The following list of stockholders in Western Cartridge Co. was requested by the committee. (See text, p. 3977.)

WESTERN CARTRIDGE CO.,
East Alton, Ill., May 25, 1935.

U. S. SENATE SPECIAL COMMITTEE
INVESTIGATING THE MUNITIONS INDUSTRY,
Washington, D. C.

(Attention of Miss Lydia Lee.)

GENTLEMEN: Your letter of May 22 requesting information concerning the common-stock ownership of the Western Cartridge Co. constituting 1 percent or more of the issued stock.

This is the first request you have made for this information and that is the reason you have not received such information before.

A tabulation in accordance with your request is attached hereto.

Yours truly,

WESTERN CARTRIDGE CO.,
J. M. OLIN, *Vice President.*

Common stockholders of Western Cartridge Company holding 1 percent and more of said stock

[Common stock outstanding 28,404 shares]

	Shares
Gnerich, Otto, c/o Ernest H. Gnerich, 609 Monroe Street, Ann Arbor, Mich	285
James, E. C., 2512 Amelia Street, Alton, Ill	384
McMurray, The C. F. Corporation, Central Hanover Bank & Trust Co., 70 Broadway, New York, N. Y	3,984

Common stockholders of Western Cartridge Company holding 1 percent and more of said stock—Continued

	Shares
Judson, Mrs. Helen B., Manufacturers National Bank, Troy, N. Y.	369
Olin, F. W., Western Cartridge Co., East Alton, Ill.	503
Olin, J. M., Western Cartridge Co., East Alton, Ill.	2, 789
Olin, Mary M., 1128 State Street, Alton, Ill.	781
Olin, Spencer T., Western Cartridge Co., East Alton, Ill.	2, 016
Olin, The Security Co., East Alton, Ill.	14, 964
Total	26, 075

The following list of campaign contributions and stockholdings of Remington officers and directors was requested by the committee. (See text, p. 3978.)

New York, *March 4, 1935.*

Mr. Stephen Raushenbush,
Secretary Special Senate Investigating Committee,
Washington, D. C.

Dear Sir: Enclosed you will find a list of securities held by Mr. M. H. Dodge between the year 1926 and 1934, inclusive. Also, a list of campaign expense from 1928 to 1934. We have nothing available previous to the above dates. I believe this is what you asked for and I am forwarding it to you in the absence of Mr. Dodge.

Very truly yours,

O. C. Heppa,
Secretary to M. H. Dodge.

	1926	1927	1928	1929	1930	1931	1932	1933	1934
	Shares	*Shares*	*Shares*	*Shares*	*Shares*	*Shares*	*Shares*	*Shares*	*Shares*
D. L. & W. Ry	1, 850	1, 850	1, 950	1, 150	550	750	550	550	550
Inspiration Copper	1, 400	1, 400	1, 400	500	--------	--------	--------	500	500
Mountain Producers	2, 000	2, 000	2, 000	2, 500	2, 500	2, 500	2, 500	--------	--------
N. Y. Central R. R.	1, 500	2, 500	2, 700	700	225	425	225	--------	--------
Salt Lake Producers	1, 500	1, 500	1, 500	2, 000	2, 000	2, 000	2, 000	--------	--------
Southern Pacific Co	1, 000	1, 000	--------	--------	--------	--------	--------	--------	--------
Phillips Petroleum	--------	2, 000	1, 325	1, 325	1, 325	1, 325	1, 325	--------	--------
Sears, Roebuck	--------	200	--------	--------	--------	--------	--------	--------	--------
General Ry. Signal	--------	110	110	110	110	110	110	10	--------
Hartford Fire Ins. Co	--------	125	--------	--------	--------	--------	--------	--------	--------
Nash Motors Co	--------	1, 500	--------	500	500	500	1, 000	--------	--------
Mack Trucks	--------	1, 000	2, 500	1, 500	1, 000	--------	200	--------	1, 000
U. S. Steel	--------	1, 000	--------	1, 950	--------	300	--------	--------	--------
Bethlehem Steel	737	737	737	--------	--------	--------	--------	--------	--------
Packard Motors	2, 500	2, 500	--------	--------	--------	--------	--------	500	500
Brooklyn Edison Co	500	500	500	--------	--------	--------	--------	--------	--------
Consolidated Dairy Prod	--------	500	500	--------	--------	--------	--------	--------	--------
Anaconda Copper	--------	500	3, 000	2, 600	200	--------	--------	--------	--------
Am. Tel. & Tel	--------	--------	300	1, 300	816	816	1, 116	200	200
Marconi of London	--------	--------	1, 000	--------	--------	--------	--------	--------	--------
Texas Gulf	--------	--------	500	500	--------	--------	--------	--------	--------
National City Bank	225	275	[1] 360	[2] 2, 100	4, 100	4, 100	4, 100	3, 900	2, 000
Con. Gas Co	--------	--------	1, 000	--------	--------	--------	--------	--------	--------
Chase Nat'l Bank	--------	--------	[1] 150	[2] 3, 483	4, 000	4, 000	3, 900	3, 900	500
General Electric Spec	--------	--------	--------	1, 500	--------	--------	--------	--------	--------
Conn. Elec. Serv. Co	--------	--------	--------	240	240	240	240	240	240
Chartered Investors	--------	--------	--------	275	275	275	275	--------	--------
General Ind. Alcohol	--------	--------	--------	300	300	--------	--------	--------	--------
Am. Com. Alcohol	--------	--------	--------	500	678	678	678	--------	--------
Bulova Watch Co	--------	--------	--------	1, 000	500	500	500	500	--------
E. I. dePont de N. Co	--------	--------	--------	--------	--------	--------	--------	2, 065	2, 700
Irving Trust Co	--------	--------	--------	1, 050	1, 000	1, 000	1, 000	400	--------
Equitable Trust Co	--------	--------	--------	200	--------	--------	--------	--------	--------
Empire Trust	--------	--------	--------	50	250	250	250	--------	--------
Manhattan Co	--------	--------	--------	75	500	500	500	400	--------
Hibernia Trust Co	--------	--------	--------	50	100	100	100	100	--------
Rio Grande Oil (Cons. Oil Co.)	--------	--------	--------	1, 030	1, 030	1, 030	412	--------	--------
Nat'l Cash Register Co	--------	--------	--------	500	--------	100	700	1, 400	1, 400
General Motors	--------	--------	--------	700	700	100	--------	--------	--------
Mohawk Hudson	--------	--------	--------	300	--------	--------	--------	--------	--------
Continental Ins. Co	--------	--------	--------	300	200	200	200	--------	--------
Burroughs Add. Machine	--------	--------	--------	1, 700	200	200	200	200	--------
General Electric	--------	--------	--------	400	800	800	800	1, 200	2, 400
Inter-Ocean Ins. Co	--------	--------	--------	--------	--------	25	25	25	--------
Norfolk & Western	--------	--------	--------	200	200	200	200	--------	--------

[1] Old.

[2] New.

1928:	
Madison, N. J., Republican Executive Committee	$50
Morris County Republican Committee	50
Connecticut Republican State Committee	500
1930:	
Dwight W. Morrow campaign	600
Morris County, N. J., Republican Committee	300
1934:	
Connecticut Republican Executive Committee	250
Connecticut Republican Committee	200
New Jersey Republican Committee	200
New Jersey Republican Committee	100

New York, *January 19, 1935.*

Mr. Stephen Raushenbush,
Washington, D. C.

Dear Sir: Mr. C. K. Davis, president and general manager of Remington Arms Company, Inc., has informed me that the Special Senate Committee Investigating the Munitions Industry requests me, as a director of Remington Arms Company, Inc., to inform you of my stockholdings and campaign contributions since becoming a director of Remington Arms Company, Inc.

I was appointed a director of Remington Arms Company on February 6, 1933, and since that date have not made any political contributions and have held stock in the amount of $10,000 or over in the following companies:

Atlas Corporation.
American Gas and Electric Company.
Commonwealth and Southern Corporation.
Central Hanover Bank and Trust Company.
Chase National Bank.
Electric Power and Light Corporation.
The Fiduciary Corporation.
National Fuel Gas Company.
United Corporation.

Very truly yours,

Wm. Crawford.

Remington Arms Company, Inc.,
Bridgeport, Conn., January 25, 1935.

Mr. Stephen Raushenbush,
Secretary Special Senate Committee
Investigating the Munitions Industry,
Washington, D. C.

Dear Sir: This is to advise that during the time I have been an officer of the Remington Arms Company I have not owned outright stock in any other corporation in the amount of $10,000, nor have I made any contributions to any political organizations.

Yours very truly,

W. U. Reisinger.

Remington Arms Company, Inc.,
Bridgeport, Conn., February 7, 1935.

Mr. Stephen Raushenbush,
Washington, D. C.

Dear Sir: In accordance with the request of the Special Committee Investigating the Munitions Industry, I wish to advise that during the period that I was connected with the Remington Arms Company, as an officer and director, my stock holdings in other companies, in amounts of $10,000 or over were as follows: 1,000 shares of E. I. duPont de Nemours & Co., common stock.

I have made no campaign contributions of any kind.

Very truly yours,

C. K. Davis,
President and General Manager.

REMINGTON ARMS COMPANY, INC.,
New York City, January 28, 1935.

MR. STEPHEN RAUSHENBUSH,
Secretary to Senate Committee, Washington, D. C.

MY DEAR SIR: As an officer and director of this company and agreeable to your request I beg to inform you that I now own the following stocks amounting to $10,000 or more, viz:

100 Campe Corporation.
105 N. Y. Telephone, preferred.
290 Du Pont common.

From 1926 to 1931, I owned the following stocks:

150 N. Y. Central R. R. common.
50 Knox Hat, common.
1,100 Mountain Producers.
600 Salt Creek Producers.
154 Con. Gas, common.
200 Anaconda.
200 Ford of Canada, A stock.

Have not made any contributions to any campaign committees at any time.

Very truly yours,

GEORGE BINGHAM.

The following exhibit, showing commission arrangements of Remington agents was requested by the committee. (See text, p. 3979.)

REMINGTON ARMS COMPANY'S AGENTS IN THE FOREIGN FIELD—COMMERCIAL BUSINESS

Agurto & Calvo, Apartado 700, Guayaquil, Ecuador (5%)	SAGURTO.
Ch. Andre & Cie., 56 Rue de Paradis, Paris, France (5%)	ARMANDRE.
A. M. Barata, c/o S. A. du Pont do Brasil, Rua dos Ourives 92, Rio de Janeiro, Brazil (salary)	REMACIO.
Sub-Agents:	
Ernesto Pflueger, Caixa Postal 20–A, Manaos, Brazil (3%)	WOTAN.
Fausto Sant' Anna, Caixa Postal 327, Porto Alegre, Brazil (3%)	FAUNA.
H. Marinho & Cia., Rua Maciel Pinheiro 270, Parahyba, Brazil (3%).	
Agnello Britto, Rua Portugal 28, Bahia, Brazil (3%).	
M. D. Besso, P. O. Box 237, Iquitos, Peru (10%)	BESSO.
Troels Branner, Amagertorv 29, Copenhagen, Denmark (5%)	TROBRANNER.
D. D. Bryant, G. P. O. Box 686–E, Melbourne, Vic., Australia (salary and 3% $90,000 and up to $100,000; 2% over $100,000)	REMARUMCO.
Victor L. Bryant & Co., Ltd., P. O. Box 164, Belize, Br. Honduras (5%)	TOCINO.
William Campbell, P. O. Box 1814, Johannesburg, South Africa (5%)	ACCELERATE.
J. D. Capriles & Co., 30 Prinsenstraat, Curacao, D. W. I. (5%).	
S. J. David & Co. (5%):	
P. O. Box 388, Shanghai, China	PSALMIST.
David House, Hong Kong	"
Ernesto De Rossi, Apartado 1079, Lima, Peru	EDERO.
Th. de Schryver Ltd. (5%):	
P. O. Box 326, Auckland, New Zelaand	DESCHRYVER.
Maritime Bldgs., Wellington, New Zealand	"
Express Co., Ltd. Bldg., Dunedin, New Zealand	"
78 Lichfield St., Christchurch, New Zealand	"
Martial Dupont, Via Spiga 7, Milan, Italy (5%)	DUPONT JOS.

REMINGTON ARMS COMPANY'S AGENTS IN THE FOREIGN FIELD—COMMERCIAL BUSINESS—Continued

D. Epstein & Co., P. O. Box 176, Nairobi, Kenya Colony, Br. E. Africa 7½%)	EPSTEIN.
C. Eynard, Beyrouth, Syria (5%).	
Fidanque Bros. & Sons, 8–10 Bridge Street, New York, N. Y. (Canal Zone) (5%).	
Armando Frenkel, Apartado 63, San Salvador, El Salvador (10%)	ARCAHENRA.
G. Heitor Ferreira, Rua Souza Martins 20, Lisbon, Portugal (5%).	
Getz Bros. & Co., P. O. Box 234, Singapore, Straits Settlements (5%)	GETZ.
T. S. R. Gillett, Limited (5%):	
P. O. Box 760, Bombay, India	STRANTHAM.
P. O. Box 509, Calcutta, India	"
Dunolly Road, Karachi, India	"
17–A Armenian Street, Madras, India	"
81–83 Chatham St., Colombo, Ceylon	"
105 Tseekai Maung Tauley St., Rangoon, Burma	"
Heedles & Breidsprecher, Apartado 505, Mexico D. F., Mexico (Street address: Calle Netzahualcoyotl 120) (10%; 5% on Mexico hardware & Quintana).	
Geo. S. Huggins, P. O. Box 267, Port of Spain, Trinidad, B. W. I. (5%)	DRUMAR.
Oscar C. M. Knudsen, Oslo Havnelager, Oslo, Norway, (7½% arms and ammunition)	RELIANCE.
F. A. Larcada, Apartado 1994, Habana, Cuba (5%)	LARCADA.
M. P. Mandry, P. O. Box 109, San Juan, Puerto Rico (5%)	MIMANDRY.
Felipe S. Mendez, Alvarez de Abreu 14, Santa Cruz de la Palma, Canary Islands (5%).	
M. J. Miller, Casilla 67, La Paz, Bolivia (5%)	MILLER.
A.–B. Gustav Mohr, Birger Jarlsgatan 33, Stockholm (5%)	MOHR.
J. W. Morris, P. O. Box 823, St. John's, Newfoundland (5%).	
Luis E. Nicolas, Calle Colon 38, Santo Domingo, Dominican Republic (5 %)	NICOLAS.
Joh. Olafsson & Co., P. O. Box 838, Reykjavik, Iceland (5%)	JUWEL.
Palmer & Company (5%):	
Moreno 574, Buenos Aires, Argentina	DONNELL.
Rio Branco 1390, Montevideo, Uruguay	"
Hernan Restrepo, Apartado 1565, Bogota, Colombia (7½%)	LEOR.
Alberto Reyna, Apartado 287, Caracas, Venezuela (5%)	REYTOM.
J. M. Sapyras, 21 Colocotroni, Athens, Greece (7%)	SAPYRAP.
Shima Trading Co., Ltd., 9 & 10 Koraibashi 4-chome, Osaka, Japan (5%)	SHIMACO.
Spencer & Waters, Ltd., Casilla 627, Santiago, Chile (5%)	SPENWATERS.
B. E. Sydow, Skrytka Pocztowa 669, Warsaw, Poland (5%)	ARAUCO.
Union Espanola de, Explosivos, Villanueva 11, Madrid, Spain (5% on firearms only)	EXPLOSIVOS.
Remington Arms UMC Company, Ltd., Brimsdown, Enfield, Middlesex, England	UMCARMS.

Of those shown on the foregoing sheets of Remington agents on commercial business, the following are Remington employees on a salary basis:

A. M. Barata, Brazil	$250.00 per month
D. D. Bryant, Australia	240.00 " "

REMINGTON ARMS COMPANY'S AGENTS ON FOREIGN GOVERNMENT BUSINESS

Casa Mayrink Veiga S/A, 17 Rua Mayrink Veiga 21, Rio de Janeiro, Brazil—on .50 caliber ammunition only	MAYRINK.
Francisco Sefzic, Pension Borja, Quito, Ecuador	SEFZIC.
Box 368, Guayaquil, Ecuador	"
Urueta & Samper H. (Sucs.),	
Apartado Aereo 3600, Bogota, Colombia	URSAM.
Apartado Postal 536, " "	"
Webster & Ashton, Casilla 144, La Paz, Bolivia	ACTIVOS.

Casa Mayrink Veiga usually purchases direct and resells to the Brazilian Government. However, our arrangements will allow of deviation in this plan if the circumstances in any particular case warrant it.

Francisco Sefzic has not concluded any Government business for us. Our arrangements permit either of a commission for him being included in the price or for him to add his commission to the quotation we give him.

Urueta & Samper received a commission of 5 percent, but the arrangements allow of deviation from this if conditions warrant.

Webster & Ashton received a commission from us of 2 percent, but our arrangements allow of deviation in this plan if the conditions warrant.

MUNITIONS INDUSTRY

HEARINGS

BEFORE THE

SPECIAL COMMITTEE
INVESTIGATING THE MUNITIONS INDUSTRY
UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

PURSUANT TO

S. Res. 206

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS
CONCERNING THE MANUFACTURE AND SALE
OF ARMS AND OTHER WAR MUNITIONS

PART 17

DECEMBER 20 AND 21, 1934

INDUSTRIAL ORGANIZATION IN WAR (Concluded)

EXAMPLES IN WORLD WAR AND PLANS FOR NEXT WAR

Printed for the use of the
Special Committee Investigating the Munitions Industry

UNITED STATES
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.S. Congress. Senate.

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ALGER HISS, *Legal Assistant*

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[1] In cases of exhibits comprised of excerpts from the minutes of certain wartime civilian boards only such parts as were actually entered into in the hearings have been published in the appendix. At a later date the committee ordered to be printed separately as committee prints, the minutes of the following wartime agencies: War Industries Board, Price Fixing Committee of the War Industries Board, Council of National Defense, Advisory Commission of the Council of National Defense, Munitions Standards Board, General Munitions Board.

INVESTIGATION OF MUNITIONS INDUSTRY

THURSDAY, DECEMBER 20, 1934

United States Senate,
Special Committee to
Investigate the Munitions Industry,
Washington, D. C.

The hearing was resumed at 9:30 a. m. in room 357, Senate Office Building, pursuant to the taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Pope, and Vandenberg.

Present also: Robert Wohlforth, assistant to the secretary of the committee, and Alger Hiss, investigator.

The Chairman. The committee will be in order.

TESTIMONY OF LT. COL. C. T. HARRIS, LT. E. M. BRANNON, LAMMOT DU PONT, IRÉNÉE DU PONT, AND K. K. V. CASEY—Resumed

Senator Clark. Mr. Chairman, for the purpose of clearing up the record on a matter that was considered here yesterday, I would like to say for the record that I have been in communication this morning with the Bureau of Internal Revenue. I am told that there is nothing out of the ordinary routine in a return for an earlier year still being in existence in the Department and returns for later years being not in existence; that it is the Department's practice whenever the scarcity of room for storing records makes it desirable to come to Congress and get specific authority in each case of the destruction of a classification of returns; that it is not the practice of the Department in any case to destroy a return in which there has been or may be either any demand for further payment on the part of the Government or any demand for refund on the part of the taxpayer. Only the returns which are not in controversy and clearly not likely to be in controversy are destroyed.

I simply make that statement for the purpose of clearing up the matter that was mentioned here yesterday.

Mr. Lammot du Pont. Mr. Chairman, in yesterday's hearing we were shown "Exhibit No. 1331", which we accepted subject to the provision of studying it more carefully. Apparently that exhibit was prepared by a man in our foreign relations department for the guidance of the investigators when they were looking through our files.

Senator Clark. What was that exhibit?

Mr. Lammot du Pont. It was intended for the committee. I have a copy of it here as it was presented yesterday.

Those pencil marks show the changes that we ask be made in it. Here are the new copies with the changes on them. The changes are all minor, in some cases correcting erroneous language, in other cases arranging it more satisfactorily.

Senator CLARK. You mean you desire to have this substituted for the other exhibit?

Mr. LAMMOT DU PONT. Yes.

The CHAIRMAN. Then let there be substitution of that particular exhibit, with the original exhibit marked as a committee exhibit and identified as such at this time.

(The substituted document referred to was marked for identification as "Exhibit No. 1331", and is on file with the committee.)[1]

(The original "Exhibit No. 1331", was replaced by "Exhibit No. 1342", which is included in the appendix on p. 4351.)

Lieutenant Colonel HARRIS. May I make a request?

The CHAIRMAN. Yes.

Lieutenant Colonel HARRIS. Mr. Chairman, as a representative of the War Department for your committee, may I state that when your committee has reached its conclusions, submitted its recommendations, and the Congress of the United States has indicated its pleasure regarding matters under discussion here, the War Department will still remain one of those agencies charged with carrying out any plan adopted in war.

Testimony has been introduced to the effect that the War Department thinks this or that; that the War Department has agreed to this or that. I myself have answered various questions "yes" and "no", and have acknowledged many isolated paragraphs read to me.

Since I fear from all the above that there may be some confusion as to what the War Department's policies are in regard to these matters, I request to be given 30 minutes during the current sittings of this committee for the purpose of presenting to the committee the War Department's views concerning the production of munitions.

The CHAIRMAN. That is your own request?

Lieutenant Colonel HARRIS. As a representative of the War Department.

The CHAIRMAN. The Chair will announce that the committee will be delighted to afford that time or more, if more may be needed for the Colonel to do that.

You are not desirous especially of approaching this before the holidays, are you, Colonel? You mean before the committee shall complete its work?

Lieutenant Colonel HARRIS. I want to have an opportunity of verbally stating it to the committee rather than having it go on the record. In other words, I want to submit it to the committee in session.

The CHAIRMAN. Very well. That chance will be afforded.

Mr. CASEY. On December 6, there was a discussion of a letter from Colonel Taylor to me regarding the possible sale of 30 tons of powder to Holland, which it was afterwards discovered was to go to China. At that time there was no attempt to discuss whether or not that powder went. We were really discussing the principle of a proposition as to whether or not we should take the matter up with the State Department whether Holland was not involved in any question of license.

---

[1] Hearings, Part XVI, p. 3983.

For the matter of the record, I would like to advise that that 30 tons of powder never went to Holland. It was reported in the press that such was the case, but there was absolutely——

Senator CLARK. That was the case, Major, was it not, where you accepted the order?

Mr. CASEY. We accepted the order, but they never came through with the final proposition.

Senator CLARK. You never delivered the goods?

Mr. CASEY. No. I just wanted that as a matter of record.

Mr. IRÉNÉE DU PONT. Mr. Chairman, you asked me to report on certain stockholdings of Lt. Col. William Williams. We have communicated with Wilmington and find that the name William Williams, No. 1 West Fifty-fourth Street, New York City, appears as the owner of 100 shares of debenture stock of the E. I. du Pont de Nemours & Co.—not " powder company "—from November 1913 to May 1925.[1]

The CHAIRMAN. Thank you.

Proceed, Mr. Hiss.

ADJUSTED COMPENSATION CONTRACT—VALUATION OF PLANTS

Mr. HISS. Colonel Harris, in connection with that provision of the adjusted compensation contract which calls for valuation, has the War Department decided what type of valuation is meant? For example, is it original investment or is it replacement value, or is it prudent investment, or just what kind of valuation does the War Department have in mind or will it differ for different companies?

Lieutenant Colonel HARRIS. This contract form is in the development stage. There has been no definite conclusion as to the points you make.

Mr. HISS. Quite different results in total value assigned to any plant might result, depending upon which particular theory of valuation was taken?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. Are you familiar with the work that the Interstate Commerce Commission has done in the field of valuation, Colonel Harris, and the difficulties that they have had?

Lieutenant Colonel HARRIS. I am not.

Mr. HISS. I have a memorandum here which I offer in evidence, that you may wish to consider.

(The memorandum referred to was marked " Exhibit No. 1343 ", and is included in the appendix on p. 4353.)[2]

Mr. HISS. On the first page of this is a quotation from a statement of Mr. Ernst, in connection with an investigation of the Bureau of Internal Revenue by a Senate committee known as the " Couzens Committee." The statement is there made:

> The Interstate Commerce Commission in valuing only the properties of the railroads of the country has spent more than 13 years on the task and more than $27,000,000, and the carriers themselves in working on these same valuations have spent the same period of time and more than $85,000,000.

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[1] Hearings, Part XVI, p. 4012.

[2] In connection with this memorandum on valuation the committee appends a letter dated January 28, 1935, from the Acting Secretary of the Treasury. (See appendix, p. 4488.)

Does the War Department have in mind anything like a judicial or legal valuation in the sense that the Interstate Commerce Commission uses the term "value", Colonel Harris?

Lieutenant Colonel HARRIS. I would say not.

Mr. HISS. I call your attention to a further fact in connection with the Interstate Commerce Commission——

Senator CLARK. How are you going to find value, Colonel?

Lieutenant Colonel HARRIS. Senator, I am not acquainted with this contract form at all.

Senator CLARK. I am just interested to know that.

Lieutenant Colonel HARRIS. I would say it would be by mutual agreement and by disinterested advice. It would have to be a negotiated sum, arrived at within a reasonable time or else we could not go to war.

Senator CLARK. That might be a good thing.

Lieutenant Colonel HARRIS. I think the best answer for all this is not to go to war again.

Mr. HISS. Turning to the Interstate Commerce field again, I call your attention to the fact that the Interstate Commerce Commission is dealing with an industry that has been accustomed to rate making, supervision of one kind and another, and uniform accounting, for a long period of time. Any exact valuation in other industries would be even more difficult than in the railroad field. Is that not correct?

Lieutenant Colonel HARRIS. I think to get the same character of valuation that the Interstate Commerce Commission is giving would be more difficult for another agency in another field; yes.

Mr. HISS. I also call your attention to the amounts which have been appropriated simply for valuation. On page 2 of this memorandum, according to the fortieth to forty-third annual reports of the Interstate Commerce Commission, the reports between those periods, $1,800,000 was appropriated for that purpose in 1926, $1,700,000 in 1927, $2,500,000 in 1928, and $2,300,000 in 1929.

Are you familiar with some of the differences which have arisen in the field of valuation between Government experts and those representing industry, Colonel Harris?

Lieutenant Colonel HARRIS. No.

Mr. HISS. I call your attention to page 29 of "Exhibit No. 1343", in relation to certain valuations fixed at different times by the Bureau of Internal Revenue.

Under the heading "New Jersey Calcite Co." there appears this:

> The taxpayer claimed a value of $130,000. * * * The valuation engineers fixed the value of these leases at $8,950.93.
>
> The taxpayer appealed from this determination to the committee on appeals and review, which allowed a value of $106,000.

Then on the next page, with reference to valuation in the copper field, the first valuation of 47 copper mines was $1,456,327,002. The second valuation resulted in a total of $323,707,404; or a difference between the two of $1,132,619,598.

On page 31 of this memorandum, with reference to valuation of certain limestone mines, the first valuation averaged 191.87 percent of the proper values, according to the report of the Couzens committee:

> The first valuation of vein mines averaged 307.39 percent of the proper values, and the first valuations of the porphyry mines averaged 421.90 percent of the proper values.

Under this contract, Colonel Harris, the rate of return is a fixed one, and any increase in valuation makes a resultant increase in total compensation under this particular clause, does it not?

Lieutenant Colonel HARRIS. That is correct.

Mr. HISS. So that the actual practical fixing of value will be one of the most important points in determining the total compensation any contractor is to receive.

You are familiar, are you not, with the length of time that has been taken in certain valuation cases where a particular industry disagreed with the Government? Some of the rate cases have lasted 5, 6, and more years in the courts. Those are also referred to in this memorandum.

ADJUSTED COMPENSATION CONTRACT—ONLY A FEW CONTRACTORS RELIED ON TO SUPPLY EACH OF CERTAIN MAJOR ITEMS

Mr. HISS. Colonel Harris, you remember the exhibit introduced showing the approximate total purchases during the World War were about $12,000,000,000, and that some four billion of that amount was spent by the Ordnance Department.[1] Could you give some rough idea of the size in relation to the total amount or in rough figures of some of the most important and the largest items that were included in those totals?

Lieutenant Colonel HARRIS. One item alone was over a billion and a half.

Mr. HISS. A billion and a half in the Ordnance figures?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. Would you say that you could choose say 9 or 10 of the most importance from a military standpoint and the largest from a value standpoint?

Lieutenant Colonel HARRIS. May I inquire, Mr. Hiss, your query was as to the last war about that figure, was it not?

Mr. HISS. Yes, sir.

Taking those 9 or 10 items, under what general procurement branch would they fall? Would they be more apt to be in the Quartermaster Corps or would they be in one of the others? You do not need to name any particular branch.

Lieutenant Colonel HARRIS. I would say they would be more likely to fall in the others.

Mr. HISS. Would they be apt to be purchased under the adjusted-compensation contract or under a fixed-price contract?

Lieutenant Colonel HARRIS. Both. In that connection I would like to repeat what I said yesterday, that the cost-plus contract was 25 percent, approximately, of the total expenditures in the last war, the remaining 75 percent being the straight-price contract.

Mr. HISS. The fixed-price contract?

Lieutenant Colonel HARRIS. The fixed-price contract.

---

[1] "Exhibit No. 1104", Hearings, Part XIII, p. 2906, Appendix, p. 2974.

Mr. Hiss. When you say "fixed-price contracts" with reference to the present plan, you mean the contract that has the provision for increases in prices for labor and materials?

Lieutenant Colonel Harris. It is a fixed-price contract adjusted to certain war conditions, where the Government is responsible for raising rates of labor and material.

Mr. Hiss. All the contracts have a termination clause under which any raw materials acquired by the contractor for the purpose of performing the contract are to be paid for at cost less salvage value by the Government; is that not correct?

Lieutenant Colonel Harris. They have a termination clause; is that correct?

Mr. Hiss. Is that an accurate statement?

Lieutenant Brannon. I believe that is correct, Mr. Hiss. Each one of them has a different termination clause.

Mr. Hiss. We will get into the termination a little more fully later.

Returning to this other line, Colonel Harris, assuming 9 or 10 major items, would it be correct to say that a substantial portion of the expenditures which would have to be made for those 9 or 10 would be made under adjusted-compensation contracts which involve negotiations as to the valuation to be placed on plant?

Lieutenant Colonel Harris. They will have to be under some form of contract that is not a fixed-price contract. What that form will be, I do not know.

Mr. Hiss. The present crystallization of the War Department's views on that, although not permanently fixed, is the adjusted compensation contract, is it not?

Lieutenant Colonel Harris. That is the last thought, but it is not, to my mind, in satisfactory shape.

Mr. Hiss. Is it not true that within those 9 or 10 items the War Department has a relatively restricted field of contractors which it believes can supply its requirements?

Leutenant Colonel Harris. I think that is a fair statement. The reason for it is that these items are noncommercial in nature, and the character of industry permits only a relatively few to execute that program.

Mr. Hiss. Referring now to certain specific examples, do you know of one of those items of the size that has so far been indicated in which the present plans call for a division of the total requirements among three contractors and the United States Government, the three contractors each to have approximately 29 percent?

Lieutenant Colonel Harris. I have not those figures in front of me, but I have no doubt——

Mr. Hiss. I am referring to material previously supplied by the War Department.

Lieutenant Colonel Harris. That is my recollection, although I have not the data here. I left the data in the office.

Mr. Hiss. I have certain notes that I have made, Colonel, on the basis of information that you and I have been over. I will refer to those, and if you will just assume that they are correct and notify me if you find any error, we will proceed on that basis.

Another item, the plans show a division between four contractors, 30 percent of the total requirements from one contractor, 16 percent from each of two others, and 38 percent from the fourth.

Another item shows 50 percent from one contractor, and 25 percent from each of two other contractors.

Another item shows an approximate division among three companies, 34 percent to one and 33 percent to each of two others.

Another item shows five companies and the Government itself supplying the total requirements, broken down into percentages of 21 percent, 19 percent for each of two companies, 12 percent, and 6 percent, and the remainder to be supplied by the Government.

These items that I have been referring to represent, as you have already testified, I believe, Colonel, some of the most important from the standpoint of military defense and some of the largest from the standpoint of dollar valuation, do they not?

Lieutenant Colonel HARRIS. That is true.

Mr. HISS. In negotiating the valuation to be ascribed to any particular plant, will the War Department not be in a weaker bargaining position where it has only 2 or 3 or 4 or 5 contractors, each of whom has a definite percentage fixed for that contractor to supply, in your opinion, Colonel Harris?

Lieutenant Colonel HARRIS. I think that is open to question. I would not care to dispute it either way. But there is this viewpoint: The man that makes 20 percent of a program is running at a larger volume than if he had only 5 percent of a program. So perhaps in negotiating your statement might have weight, but in cost of production, I think the other viewpoint has weight.

Mr. HISS. Colonel Harris, in regard to the items that I summarized, do you know whether or not it is true that the apparently few numbers of companies can, from one point of view, be regarded as even fewer because of the intercorporate control or relations?

Lieutenant Colonel HARRIS. I am not familiar with the corporate organizations or the holding of stocks, so I could not answer your question.

Mr. HISS. I should like to state for the record that an examination of certain of these contractors whose names have been supplied the committee by the War Department does reveal intercorporate connections and relations, which makes that statement correct.

Colonel Harris, are there some important items, in addition to those already discussed, in which, because of the patent situation, the Government now plans to get 100 percent of its requirements from a single firm?

Lieutenant Colonel HARRIS. That applies to a few isolated cases.

Mr. HISS. Do those cases represent items of importance from a military point of view, Colonel?

Lieutenant Colonel HARRIS. Some do.

Mr. HISS. In connection with planning the future requirements and allocating or dividing those requirements among various contractors, has your particular branch, the planning branch, found that it is necessary to plan to use the larger companies, because they are more stable in keeping in existence, continuing in existence?

Lieutenant Colonel HARRIS. That statement is true; and also we are surer of their giving us the required munitions in the time required.

Mr. HISS. Mr. Lammot du Pont, is there someone from your company present who is familiar with the explosives-department practices?

Mr. Lammot du Pont. I think there is nobody here who is directly in that department, but probably we can find somebody who can answer your questions.

Mr. Hiss. May I just hand you a statement, an excerpt from the report of the explosives department for the month of February 1933 to the executive committee, which I will offer for the record for appropriate marking.

(The statement referred to was marked "Exhibit No. 1344", and is included in the appendix on p. 4366.)

Mr. Hiss. I call your attention to the next to the last paragraph [reading]:

> On February 27 du Pont made a general revision of dynamite prices and balanced the schedule by reducing the differentials between grades, particularly in the higher strength powders. Revised quantity differentials were instituted and sales groups realined at the same time. Approximately 4,000 special prices were eliminated. It is estimated that this department's gross value of sales will be decreased some $140,000 annually, but prices are now logical in comparison with costs and the whole price structure should be considerably improved.

In view of that paragraph, I call your attention specifically to the next sentence [reading]:

> All competitors have promulgated similar price schedules.

Do you know what that means, Mr. Lammot du Pont?

Mr. Lammot du Pont. Of course, I do not know what the writer had in mind, but it conveys to me the impression that after the du Pont Co. price list was published other competitors adjusted their prices to correspond.

Mr. Hiss. Were you a member of the executive committee in February 1933, Mr. Lammot du Pont?

Mr. Lammot du Pont. Yes.

Mr. Hiss. Do you remember this particular report being presented to the committee?

Mr. Lammot du Pont. No.

Mr. Hiss. Do you think that that refers to similarity in the actual prices established, Mr. du Pont?

Mr. Lammot du Pont. It says "similar price schedules."

Mr. Hiss. Do you think that means similarity of actual prices established?

Mr. Lammot du Pont. I think the "similar" modifies "schedules", if that is what you are driving at. They used similar schedules of prices.

Mr. Hiss. Do you mean similar in form as opposed to similar in amount?

Mr. Lammot du Pont. I would say it was similar in relationship of the different grades.

Mr. Hiss. Is there any substantial uniformity in the prices quoted in the dynamite business?

Mr. Lammot du Pont. I believe there is among the larger companies; yes, sir.

Mr. Hiss. Colonel Harris, if there is any established practice within any of the industries from which the War Department expects to receive its requirements—any similarity of prices—will that not constitute an added difficulty from the standpoint of negotiating separately with particular companies for the best price the Government can get?

Lieutenant Colonel HARRIS. I do not know just whether it would or not. There are prices even in time of peace that are similar for all companies and much material is bought at the present time under that arrangement.

Mr. IRÉNÉE DU PONT. Mr. Secretary, I wonder if you could not address a question to the colonel asking whether the bids on smokeless powder and other military explosives provided by these companies in the last war were identical in price per pound. That is what you mean by similar. I really don't know whether similar means equal or not, so I would like to have the question asked. I have been sort of inquiring around a little bit to find out what the Government did pay the other companies. I am satisfied that it did pay a higher price than it paid the du Pont Co. I was so advised in Washington years ago, but it was not authentic.

Mr. HISS. Were not the amounts purchased from du Pont greater in volume than the amounts purchased from your competitors?

Mr. IRÉNÉE DU PONT. I have no doubt of that; but I want to know whether on similar amounts the powder sold by Hercules Powder Co. or the Aetna Co., or other powder companies, compared in price per pound with what was sold by the du Pont Co. I think that is a pertinent inquiry, as to whether there was collusion among these companies to hike up the price to the United States Government to the same level.

Mr. HISS. Can you answer that, Colonel Harris?

Lieutenant Colonel HARRIS. I am unable to give the figures—unquestionably there were different prices submitted—but if the figures are desired, I would like to give them to you.[1]

Mr. IRÉNÉE DU PONT. I would like to see the record on that.

Mr. HISS. All right.

Lieutenant BRANNON. Mr. Hiss, weren't those prices brought out earlier in the hearing, the earlier prices on powder, showing the difference between different companies? It seems to me that 2 or 3 days ago there was evidence on that point submitted.

Mr. HISS. In connection with the testimony it occurs to me that in the negotiations preceding the letting of the Old Hickory contract there were certain minutes of one of the boards, either the War Industries Board or the Council of National Defense, in which prices were submitted in the powder field by Aetna, I think, Hercules and du Pont Co., and those showed certain differences in amounts.

Is that the point you were getting at?

Lieutenant BRANNON. No; that is not the point I had in mind. If you recall, there was a letter by Colonel Hoffer in which he wrote to the Chief of Ordnance a recommendation to the General Munitions Board as to the price to be paid for powder.[2]

Mr. HISS. Yes; I do, Lieutenant.

Lieutenant BRANNON. That was earlier. That was before the Old Hickory contract. That was, I believe, in June 1917.

Mr. HISS. That refers to a uniform price, as I recall.

Lieutenant BRANNON. I do not know, but I remember the prices were in there.

---

[1] Under date of April 4, 1935, the War Department submitted a list of comparative powder prices which is included in the appendix on p. 4496.

[2] "Exhibit No. 1121", Hearings, Part XIII, p. 2938, appendix, p. 3130.

Mr. HISS. But I do not think that the evidence was conclusive, as pointing directly to this particular inquiry.

Lieutenant Colonel HARRIS. To my mind, if you are going to submit the evidence covering this particular field, we should submit it fully.

Mr. HISS. Yes.

Lieutenant Colonel HARRIS. I should like to do so.

Mr. CASEY. Mr. Hiss, maybe I can enlighten you on one phase of that.

I was present in Colonel Hoffer's office in, I believe, April 1917, when all of the different powder manufacturers had been invited. Colonel Hoffer, after addressing the group, advised that each man present representing a company put in a memorandum of prices at which his company would supply powder. After all were in, he promptly opened them and began reading prices.

It was at that time that du Pont offered water-dried powder at 47½ cents and air-dried powder at 49½ cents, which was the lowest bid there by a good deal.

Colonel Hoffer then said, "Now, any of the other manufacturers who want powder, are they prepared to take it at these prices?" So you might say the low price established the price for all companies that were willing to take it at that price.

Within 2 hours after that I ran into one of the other bidders in the Willard Hotel, and his statement to me was, "The very thing happened that I was afraid would happen. Du Pont has taken all of the profit out of powder." .

Mr. HISS. Major Casey, I think an exhibit describing that specific conference has already been put in,[1] and there was a later exhibit,[2] as I remember it, a week or two later, in which the Ordnance Department recommended an increase, due to increases in prices of material, of 2 cents.

Mr. CASEY. Alcohol.

Mr. HISS. Two cents.

Mr. CASEY. On account of the increased price of alcohol.

Mr. HISS. But the difference in the price of powder was 2 cents a pound over that figure of 47½ cents, was it not?

Mr. CASEY. Yes; that happened within 2 months, I believe.

Mr. HISS. Colonel Harris, we have talked about allocation and division of requirements, and I am not sure that there has been an adequate statement of the principles involved, from the point of view of the War Department, for the record. Would you just explain briefly what allocation means in the mobilization plan and what the division of requirements among the future proposed contractors means?

Lieutenant Colonel HARRIS. I would rather take up requirements, first, because that comes first.

Mr. HISS. Yes.

Lieutenant Colonel HARRIS. The requirements are computed according to the military program and are transmitted to the supply branches, who are charged with the procurement of these materials. The United States is divided, as I stated the other day, into geographical districts. The requirements are allotted to the geographical districts. The districts, when they receive their allotment of procurement requirements, examine the industrial field. I may state these allotments were made on the basis of a previous survey of the industrial field, and we have some 12,000 plants for which a survey exists.

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[1] See footnote No. 2, on p. 4173.

[2] "Exhibit No. 1122", Hearings, Part XIII, p. 2942, appendix, p. 3133.

Upon the request of the supply branches, the Assistant Secretary of War's office allocates industrial plants to the supply branches to furnish their requirements of material. This word "allocate" means places at the disposal of the supply branches.

Going back to the allotment of the procurement requirements of the districts, when they are received in the districts the industrial capacity of the districts is analyzed and tentative tasks are set against the industrial units prepared to produce the material required. The industrial organization is acquainted with the tentative tasks that have been assigned them. They analyze the material, they analyze their productive capacity, and state whether or not they are capable of meeting the task assigned to them in the time required.

Mr. Hiss. Colonel Harris, in connection with the point that has been raised as to the valuation difficulties before the War Department in time of war, have you any idea of the approximate number of contracts that had to be handled by the War Department per day during the war?

Lieutenant Colonel Harris. I do not recall.

Mr. Hiss. I offer at this time for the record a summary of excerpts from a mimeographed memorandum, which I received from the War Department, dated March 28, 1932, headed "Explanatory notes. Contract forms for use in time of war."

(The memorandum referred to was marked "Exhibit No. 1345", and is included in the appendix on p. 4367.)

You will notice that the first paragraph says:

> From the fall of 1917 to the armistice approximately a hundred contracts a day were made in the Ordnance Department, and upward of 350 persons were employed in the negotiation and preparation of these contracts.

Does that volume sound about right to you, Colonel Harris, from your recollection?

Lieutenant Colonel Harris. I have nothing to dispute that with.

Mr. Hiss. Do you remember any instances during the war in which the Government desired certain action on the part of industrial concerns and was unable to secure it because the industrial concerns felt they were not receiving sufficient compensation?

WARTIME INSTANCES OF REFUSAL OF INDUSTRY TO AGREE TO GOVERNMENT VIEWS ON PRICES

Lieutenant Colonel Harris. I will be glad to answer that, but before that, may I add something to my previous answer?

Mr. Hiss. Certainly.

Lieutenant Colonel Harris. Of this large number of contracts a relatively small proportion of those was of the cost-plus variety. The great majority of those contracts were fixed-price contracts. Now, answering your question, it is true.

Mr. Hiss. Now, Colonel Harris, I show you excerpts from a meeting of the War Industries Board of September 11, 1917, which I will offer for the record for appropriate marking.

(The excerpts from the meeting of the War Industries Board referred to were marked "Exhibit No. 1346", and are included in the appendix on p. 4368.)

Mr. Hiss. We will turn to the second page of this document. This was a meeting with representatives of the copper interests, Mr. Ryan, Mr. Clendennin, Mr. Guggenheim, and others. [Reading:]

> Judge Lovett stated that the War Industries Board felt that a price of 22 cents per pound f. o. b. New York for copper was a fair price and would allow the copper companies a reasonable profit.

I ask you to turn to the next page. The next to the last paragraph quoted from the minutes of this same meeting is as follows:

> The representatives of the copper interests present gave assurances that they would do all they could to assist at whatever price was fixed, but that if a price below 25 cents per pound were fixed they felt sure that many mines would refuse to sell to the Government unless forced to do so.

Colonel Harris, in a situation like that, would it not be necessary in time of war, the Government having great need of supplies, for the Government to pay the price that was demanded?

Lieutenant Colonel Harris. This high price of copper was due to the enormous demand, which required the operation of high-cost copper mines. To reach the high-cost copper, the price was set. I think that that last paragraph, this being in 1917, where the mines would refuse to sell to the Government unless forced to do so, at that time they would have been able to sell commercially at a higher price, and the control of the price structure was not so well established at that time as it was later.

Mr. Hiss. Colonel Harris, I have only one copy of this other excerpt. I will read from it first and then hand it to you. That will be offered for appropriate marking.

(The excerpt from meeting of the War Industries Board referred to was marked "Exhibit No. 1347" and is included in the appendix on p. 4639.)

I quote from excerpts of a meeting of the War Industries Board, November 16, 1917:

> Colonel Pierce presented a communication from the Chief of Ordnance dated November 16, stating that the Ordnance Department wished to use the Howard plant of the Aetna Explosive Co. for the manufacture of smokeless powder to be at the rate of 1,000,000 pounds per month, and which plant was now vacant.
>
> It was stated that the Aetna Co. refused to operate this plant unless they received an order at over 64 cents per pound, which was 15 cents higher than the price being paid the du Pont Co.

Then on January 2, 1917, according to this excerpt—I suspect it means January 2, 1918.

Lieutenant Colonel Harris. Before you go to that, may I answer the other question while it is before us?

Mr. Hiss. Certainly.

Lieutenant Colonel Harris. I ran a small powder plant myself and it is not easy to compete in price with a large volume. This 1,000,000 pounds a month is relatively small production, and I, from my own knowledge of the manufacture of powder, am not surprised that there should be a difference of price between that and a company that was producing a hundred million pounds, we will say, in a year.

Mr. Hiss. In that connection, Colonel Harris, I would like to call your attention to an excerpt from another meeting, copy of which I have been furnished by the War Department, showing the meeting was January 2, 1917. Whether that should be 1918 or not, I am not sure.

Lieutenant Colonel Harris. That must be 1918. What is it? It is a meeting of what?

Mr. Hiss. It is a meeting of the War Industries Board, it says. That was not in existence at that time, as I recall.

Lieutenant Colonel Harris. It is bound to be 1918.

Mr. Hiss. Could you check that for some time in the future, so we can correct it on the exhibit?

Lieutenant Colonel Harris. Yes.

Mr. Hiss (reading from "Exhibit No. 1347"):

> Mr. Brookings presented a communication from the purchase section, gun division, Ordnance Department, dated December 29, relative to order for 30,000,000 pounds of smokeless powder to be placed with the Hercules Powder Co. and recently approved by the Board at the price of 63 cents per pound and advising that the proposed price had been changed to 70 cents per pound.
>
> Under the advice of Mr. Brookings the Board approved of the amended contract with the opinion that while the Board considers 70 cents a high price and that as 7 cents per pound charged was for amortization of a new plant, that this should have been so shaped that this plant paid for by the Government in price should have been the property of the Government, but that, however, as Captain Peters reports, it was impossible to secure this and that it was either necessary to pay the 70 cents per pound or go without this powder and that having had nothing to do with the negotiations and acting only on Captain Peters' statement of the case and considering its emergency nature, the Board can see no reason why the contract should not be made.

Lieutenant Colonel Harris. I can state from the names you mention now that I can identify that date as 1918.

Mr. Hiss. That is 1918?

Lieutenant Colonel Harris. Yes.

Mr. Casey. What was that? Rifle powder?

Mr. Hiss. It does not appear other than as stated. Would you just change that to 1918 on the memorandum, Colonel Harris?

Lieutenant Colonel Harris. I will.

Mr. Lammot du Pont. Mr. Hiss, it has been stated in explanation of the difference in price per pound of smokeless-powder quotations that the volume of business was an important factor. I do not deny that, but you should not understand that that is the only factor of importance. The high price for the product of the Howard plant of Aetna may have been due to a number of other causes, such as the location of the plant, arrangement of the plant, modernization, and so forth.

TESTIMONY OF C. K. DAVIS, E. E. HANDY, AND W. S. GREGG—Resumed

N. R. A. SMALL ARMS AND AMMUNITION INDUSTRY CODE

The Chairman. Judge Gregg, what were your connections with the Small Arms & Ammunition Manufacturing Institute?

Mr. Gregg. My only connection with the Small Arms & Ammunition Manufacturers Institute was to act as counsel for both the du Pont Co. and the Remington Arms Co.

The Chairman. Who were the officers of the institute?

Mr. Gregg. I cannot give you the list, Senator, of all the officers. Mr. Comeaux was secretary.

The CHAIRMAN. Who?

Mr. GREGG. Mr. Comeaux, Stuart Comeaux was secretary.

Mr. CASEY. Gen. Harold C. Dill, of the United States Cartridge Co., is president. I do not know who the other officers are.

The CHAIRMAN. Judge Gregg, perhaps you can answer as respects efforts that have been made which accompanied the writing of an N. R. A. code.

Mr. GREGG. Mr. Davis can give you that at the beginning. I can come in later, Senator.

The CHAIRMAN. That is all right.

Mr. Davis, you were chairman of the code committee, were you?

Mr. DAVIS. Yes, sir.

The CHAIRMAN. From a memorandum which is before me, I take it that on March 22, 1934, a proposed code of fair competition for the small arms and ammunition manufacturing industry was approved by the National Recovery Administration. Is that true, Mr. Davis?

Mr. DAVIS. Yes, sir.

The CHAIRMAN. In approving the code the administrator deleted certain articles from the proposed code?

Mr. DAVIS. Yes, sir.

The CHAIRMAN. Those articles were articles 16 and 18?

Mr. DAVIS. Yes, sir.

The CHAIRMAN. Article 16 was as follows:

> By presenting this code, those assenting hereto are not thereby waiving any of their constitutional rights which might be infringed by any of the provisions of the National Industrial Recovery Act.

Article 18 was as follows:

> By presenting this code, the members of the industry do not thereby consent to any modification thereof, and they hereby reserve the right to object individually or jointly to any such modification.

An N. R. A. memorandum declares:

> In deleting these two articles, the Administration is denying the small arms and ammunition industry the right to object, either individually or jointly, to any modification of this proposed code, also the Administration is asking this industry to waive its constitutional rights insofar as they might be infringed by any of the provisions of the National Industrial Recovery Act.
>
> Because of these deletions more than 90 percent (from the standpoint of numbers and dollar volume of sales) of the small arms and ammunition industry, including 100 percent of the ammunition manufacturers, have informed the Administration that the proposed code is not acceptable.

Mr. WOHLFORTH. Mr. Chairman, I want to state here that I understand this undated memo, which was secured from the files of the Remington Co., is a statement of the industry rather than a statement——

The CHAIRMAN. Rather than the National Recovery Administration?

Mr. WOHLFORTH. Yes.

Is that correct, Mr. Davis?

Mr. DAVIS. That is right.

The CHAIRMAN. Mr. Davis, how were you advised, or in what form were you advised, of the decision of the N. R. A. regarding the code?

Mr. DAVIS. We received the order of approval. Prior to that we had received a telephone call from the Deputy Administrator, Harry

O. King, telling us that these two articles would be deleted and numerous other changes made in the code.

I would like to say at this time, Senator, that we held our first meeting on July 21, 1933, in connection with the formulation of our code, at which meeting there were 22 members of the industry. They appointed a committee to draft the code. We worked day and night and Sundays between that date and July 26. We drafted a code, presented it to the industry. It was approved unanimously by them. The draft of the code contained wage and hour provisions that were similar to the President's blanket code. In fact, they were the same.

The CHAIRMAN. This memorandum which I have just read expresses the attitude of the National Recovery Administration, does it?

Mr. DAVIS. I would like to go on, if I may, Senator.

The CHAIRMAN. Certainly.

Mr. DAVIS. At that meeting on July 26 the industry voted to send a telegram to the Administrator, Gen. Hugh Johnson, advising him that in an effort to cooperate with the Administration and knowing that there would be a delay in the approval of our code, we would immediately, on August 1, 1933, adopt the wage and hour provisions of our code.

We received no reply to that telegram, but the industry did adopt those provisions.

From that time until the hearing, open hearing on September 27, there were a number of changes made in the code. After the hearing there were quite a number of changes made. Finally we filed a code on December 21, 1933. This code was unanimously approved by all of the manufacturers, and we were given verbal assurance that the code would be approved by the end of the year.

However, it dragged on until just prior to March 22. We were then advised by the Deputy Administrator, Harry O. King, that those articles would be deleted.

Now, as far as our company is concerned, we accorded our employees the same wage and hour provisions as specified in the code from before the effective date of the code, which was April 16, 1934, and since June of last year, when the du Pont Co. acquired control of the Remington Arms Co., we made an upward adjustment of wages and salaries of approximately 10 percent, in July last year, and it has been our policy to increase wages since that time, in order to keep them at a level at least equal to the average of the district in which our plants were located.

In addition to that, we have accorded our employees a 1-week vacation with pay, which is costing the company about $100,000 annually, and as the result of all this the Remington Arms Co. is paying in 1934 in wages and salaries $1,000,000 more than it did in 1933.

Mr. WOHLFORTH. At this point, Mr. Chairman, I would like to offer as an exhibit a table entitled "Weekly Earnings of Factory Employees in the Small Arms and Ammunition Industry, August 1933." That was before the adoption of the code. Is that correct?

Mr. HANDY. Yes, sir.

(The table referred to was marked "Exhibit No. 1348" and is included in the appendix on p. 4370.)

Mr. Wohlforth. Since that time you say the wage level has increased approximately 10 percent?

Mr. Handy. No, sir; ours. I am speaking only for Remington and not for the industry.

Mr. Davis. No, Mr. Wohlforth, it has increased more than that, because we gave all salaried and wage employees 10 percent increase in July 1933, and since that time we have been increasing our wages and lower salaries in order to keep them in line with the average in the districts in which our plants are located. There has been a much larger increase.

Mr. Handy. It has been greater than 10 percent.

Mr. Wohlforth. This was secured from the N. R. A. code authority that has the proposed small arms and ammunition manufacturing industry code in charge. The source is data computed from questionnaires distributed to the industry.

It shows in August 1933, an average weekly wage per employee of $18.78, total number of employees 7,488, 63 percent of whom were making less than $20 per week at that time.

I offer that for appropriate number.

The Chairman. Mr. Davis, on May 29, 1934, following your understanding that the Administration was not going to accept the code with the two articles deleted, did you propose any amendment to the code? Did you propose a reservation?

Mr. Davis. On May 29, 1934, Assistant Deputy Administrator Wilson Prichett, in an effort to end the impasse existing between our industry and the N. R. A. Administration, suggested an exchange of letters between the code committee and the Administrator, which would virtually guarantee our constitutional rights. He submitted two letters, one a suggested letter for us to send to the Administrator, and the other one that the Administrator would send to the code committee. These were approved by a majority of the industry, and our own company approved it. On two different occasions we sent representatives to Washington and they spent several days on each occasion in an attempt to have these letters signed and the exchange made.

To date——

The Chairman. We are a little ahead of the story there. As respects this letter of May 29, that was your proposal to accomplish acceptance at that time?

Mr. Davis. No, sir; that was the proposal of the Assistant Deputy Administrator, Wilson Prichett. I have a letter here that I might read. It is dated May 29, 1934, to Mr. C. Stewart Comeaux, secretary code committee.

The Chairman. I have here the letter of the code committee addressed to General Hugh S. Johnson.

Mr. Davis. I think I can explain that, Senator.

The Chairman. All right.

Mr. Davis. The letter which I was going to read was a letter from Wilson Prichett, to which he attached a copy of the proposed letter from the code committee.

The Chairman. The one to which I referred?

Mr. Davis. Yes, sir. That was a sample letter and was a letter from the Administrator to the code committee.

We have not been able to effect this exchange as yet, and we are anxious to do it.

The CHAIRMAN. Let the letter of the code committee addressed to General Johnson be made an exhibit.

(The letter referred to was marked "Exhibit No. 1349" and is included in the appendix on p. 4370.)

Mr. DAVIS. I would like to read Mr. Prichett's letter to Mr. Comeaux [reading]:

> DEAR MR. COMEAUX: Referring to our various telephone conversations of today I enclose herewith copy of suggested letter to be signed by the code committee of your industry.
>
> The matter has been discussed with our legal division, Deputy Administrator Craig, and Division Administrator Glancy.
>
> On receipt of this letter signed by your code committee I will prepare a letter for the signature of the Administrator following verbatim the letter of May 14, 1934, which we discussed, and believe that I can obtain his prompt signature thereto.
>
> With thanks for your cooperation, I am
>
> Sincerely yours,
>
> WILSON PRICHETT,
> *Assistant Deputy Administrator.*

The CHAIRMAN. Mr. Davis, during this time were members of your industry having difficulty with the Government in the matter of purchases under contract?

Mr. DAVIS. Yes, sir; we were.

The CHAIRMAN. Difficulties growing out of the fact that you had not accepted the code?

Mr. DAVIS. That is correct. In order to obtain any orders from the Government during this time it was necessary to signify compliance to the code, in other words, that we had signed the code, which was not the case.

The CHAIRMAN. I have before me a copy of a letter addressed to the Remington Arms Co., by J. E. Munroe, colonel, Ordnance Department, United States Army, from Frankford Arsenal, indicating that it was interested at about this time in an order for supplying 100,000 rounds of shotgun shells, 12 gage, loaded with smokeless powder and no. 7½ chilled shot. The letter says in part [reading]:

> You will recall that you declined to execute the bid affidavit furnished with this advertisement. This matter has been referred to the Secretary of War, who, in turn, communicated with the Administrator for Industrial Recovery to learn whether or not in this case an exception should be made and the certificate waived.

What was the bid affidavit? The N. R. A. compliance?

Mr. DAVIS. That has reference to a statement that we were complying with the code, which we had not, of course, signed.

The CHAIRMAN. Further on in the letter I find this language [reading]:

> In view of the refusal of the Administrator for Industrial Recovery to grant an exception in this case, information is requested as to whether or not you will execute the certificate on the inclosed form.

Mr. HANDY. I think that Colonel Munroe took it up with the Administrator, Senator. We did not.

The CHAIRMAN. I see. You do not know that the Administrator had not refused, then, to make an exception?

Mr. HANDY. No; I do not; but I have the impression that Colonel Munroe had discussed it with the N. R. A. Administration, because I talked with Colonel Munroe on the telephone regarding it.

Mr. Davis. I think I can explain that, Senator. Inasmuch as 100 percent of the ammunition manufacturers had not assented to the code and, therefore, could not sign the compliance, it was necessary in order for the War Department to obtain certain materials to secure exceptions in certain emergency cases.

The Chairman. Let Colonel Munroe's letter of May 22, 1934, be made an exhibit.

(The letter referred to was marked "Exhibit No. 1350" and is included in the appendix on p. 4371.)

The Chairman. You have outlined the attempt subsequent to that time to effectuate the adoption of the code?

Mr. Davis. Correct. I might say, Senator, that some of this confusion and delay unquestionably has been due to changing organization in the N. R. A. I think there were eight different Deputy Administrators who handled our code.

The Chairman. Mr. Davis, the Remington Arms Co., under date of May 24, 1934, responded to this letter of Colonel Monroe by quoting to him the exact language embodied in that memorandum which was taken from your files, and which was read at the opening of the hearing on this particular phase. Is that not true?

Mr. Davis. Yes, sir; that is correct.

Mr. Handy. I think you are probably confused, Senator. I was going to get back to that. This memorandum to which you referred is not a memorandum that was used by the industry. It is our own memorandum.

The Chairman. I think that is understood now.

Mr. Handy. I do not know what type of memorandum the rest of the industry used, but this is our own.

The Chairman. But it is this memorandum which was covered in this letter of May 24?

Mr. Handy. That is right.

The Chairman. Let the letter of the Remington Arms Co. to Col. J. E. Monroe, dated May 24, 1934, be made an exhibit and afforded an appropriate number.

(The letter referred to was marked "Exhibit No. 1351" and is included in the appendix on p. 4371.)

Mr. Davis. Senator, I wonder if I could read my letter to Stewart Comeaux from myself, in reference to this exchange of letters? It is dated June 8, 1934.

The Chairman. Identify Mr. Stewart Comeaux.

Mr. Davis. Mr. Stewart Comeaux is secretary of the Sporting Arms & Ammunition Manufacturers Institute, and he was serving also as secretary of the code committee of the industry. [Reading:]

Mr. Stewart Comeaux,
Secretary, Sporting Arms & Ammunition Manufacturers' Institute,
New York City.

CODE OF FAIR COMPETITION—SMALL ARMS AND AMMUNITION INDUSTRY

Dear Stewart: I wish to acknowledge your letter of May 31 on the above subject, to which was attached letter from Mr. Wilson Prichett, Assistant Deputy Administrator, together with copies of suggested letters to be exchanged between the code committee and the Administrator for the purpose of harmonizing the views of the industry and the N. R. A. with reference to our code.

In our opinion, and that of our legal department, such an exchange of letters would be satisfactory to our company, as we believe our constitutional rights and our rights to object to any modification of the code would be fully safeguarded.

I assume, of course, that Mr. Matthews is in accord with this plan and that it has the approval of General Johnson's office.

Very truly yours,

C. K. Davis,
President and General Manager.

The Chairman. What is the date of that letter?

Mr. Davis. June 8, 1934.

The Chairman. The committee has before it a letter dated August 23, 1934, with a notation that a copy went to Mr. W. S. Gregg, outlining a proposed exchange of letters between the industry and the Administrator regarding deletion of articles XVI and XVIII from the code.

Do you have a copy of that before you, Mr. Davis?

Mr. Davis. Yes, sir; I have that.

The Chairman. You can identify that, then?

Mr. Davis. Yes, sir.

The Chairman. This letter is offered as an exhibit, to be given an appropriate number.

(The letter referred to was marked "Exhibit No. 1352" and is included in the appendix on p. 4372.)

The Chairman. What is the status of the code at the present time, Mr. Davis?

Mr. Davis. There has been no change in the status. A new Deputy Administrator was recently appointed, only a few weeks ago, and he is reviewing the whole case and will advise the industry what he thinks we better do next.

The Chairman. Are you striving to comply with the provisions of the proposed code?

Mr. Davis. We have accorded our employees the same wage and hour provisions.

The Chairman. Are there not other provisions in the code?

Mr. Davis. There are certain trade-practice provisions in the code. I believe, so far as Remington Arms are concerned, we are complying with those 100 percent.

The Chairman. Article VIII, paragraph 3, of the proposed code, is a provision defining "commercial bribery" and making it an unfair practice. Is Remington adhering to this regulation, Mr. Davis?

Mr. Davis. Yes, sir; not because of the code, but because we believe it is good business ethics.

The Chairman. Do you consider that the code applies to your export business as well as your domestic business?

Mr. Davis. No, sir; it does not.

Mr. Handy. No, sir.

The Chairman. So that provision as respects bribery or commissions does not relate to the foreign trade as it does to your domestic trade?

Mr. Davis. It certainly does—not the provisions of the code.

The Chairman. Not the provisions of the code.

Mr. Davis. But our policies are the same.

The Chairman. Under the definition, Mr. Davis, as embodied in the code, a commission paid to an official of a foreign government or the splitting of a commission by one of your agents with an official of a foreign government would be an act of commercial bribery, as defined, would it not?

Mr. DAVIS. Would you please restate that?

The CHAIRMAN. A commission paid to an official of a foreign government or commissions split between agents and officials of foreign governments would be an act of commercial bribery?

Mr. DAVIS. We do not pay any commissions to officials of foreign governments.

The CHAIRMAN. Do your agents?

Mr. DAVIS. I cannot answer that. I do not think so.

The CHAIRMAN. Have you advised your agents of the provisions of the code?

Mr. GREGG. Abroad or here?

Mr. DAVIS. No; because it did not apply to our foreign business, and there was no need to do it.

Mr. WOHLFORTH. Do you not want to correct that statement, Mr. Davis? We put into the record last week that you formerly had several officials of the Brazilian War Department on your monthly pay roll and, as I recall it offhand, in previous years your agents paid two officials of the Mexican war department a certain amount to secure import permits. We were just wondering about that.

Mr. DAVIS. I do not remember anything about that at all. I am not familiar with it.

Mr. WOHLFORTH. Mr. Monaghan testified to that, I think, Mr. Chairman.

Mr. DAVIS. I do not recall that in the testimony at all.

The CHAIRMAN. Mr. Davis, paragraph 8 of article VIII of your proposed code of fair competition provides, under the heading, "False invoicing", as follows [reading]:

> To withhold from or insert in an invoice anything which would make the invoice a false record, wholly or in part, of the transaction in question, or make any arrangement which would contemplate payment or settlement contrary to the face of the invoice.

I want to ask you, Mr. Davis, for an explanation of the meaning of that particular paragraph.

Mr. DAVIS. I would like Mr. Handy to answer that.

Mr. HANDY. Senator, this code is not intended and does not apply to export business. This refers to the invoicing of commercial business, sporting shotguns, ammunition, and so forth. It very clearly states exactly what it means.

The CHAIRMAN. And that does not apply to foreign or to export trade?

Mr. HANDY. No, sir.

The CHAIRMAN. Why is it not made to apply to export business as well as your domestic business?

Mr. HANDY. I did not know any codes were intended to do that.

Mr. DAVIS. I do not think any codes apply to export business.

The CHAIRMAN. Why would they not? Is it not considered that national recovery is dependent somewhat upon restoration of our foreign trade?

Mr. DAVIS. I think that is true, but I cannot answer why.

The CHAIRMAN. Why would there not be fair competition in gaining foreign trade as there is fair competition in gaining domestic trade?

Mr. Davis. I feel that is a question which the administration would have to answer. We could not.

The Chairman. Again in article VIII, but in paragraph 12, is a provision, Mr. Davis, making secret rebates, and so forth, an unfair trade practice. Will you explain the meaning of this?

Mr. Davis. Will you do that, Mr. Handy?

The Chairman. I read the paragraph:

> To pay or allow secretly, rebates, refunds, commissions, or discounts, whether in the form of money or otherwise, except such as are obligatory under existing agreements, but in no case shall any agreement apply to any transactions or shipments on and after the effective date of this code.

Mr. Handy. Senator, when we wrote this code, I think the language there indicates that prior to du Pont taking control of Remington there had been more or less the practice in this industry of allowing secret rebates. As I said, I think the language in the code indicates that. So that this code was intended to eliminate that practice insofar as domestic business was concerned.

Now I can say to you that so far as Remington is concerned on the domestic end of our business we have no secret rebates, no allowances of any description.

The Chairman. Why should not that apply to export business as well as to domestic business?

Mr. Handy. Perhaps it should, but, as I said before, I did not understand that any of these codes did, and we did not write the code with a view to applying it to the export business.

The Chairman. This code which I am offering for the record is indicated as having been approved, Approved Code No. 354, as approved on March 22, 1934. What is the meaning of that?

Does that mean that it has been approved by the N. R. A.?

Mr. Davis. Yes, sir; by the Administrator of N. R. A.

The Chairman. Have you accepted it?

Mr. Davis. We have not.

The Chairman. Has the institute accepted it?

Mr. Davis. The industry, and not the institute, has not accepted it.

The Chairman. Yet, so far as Remington is concerned, Mr. Davis, are we to understand that you are trying to conform to that code?

Mr. Davis. We have accorded our employees the same wage and hour provisions. We are complying with section 7 (a), and I believe that we are complying 100 percent with the trade-practice provisions of the code.

In fact, we have accorded our employees a great deal more than the benefit that they would have derived under the code.

(The code referred to was marked "Exhibit No. 1353" and is included in the appendix on p. 4373.)

Mr. Davis. Senator, I do not know whether you saw article XI. During the public hearing on September 27 in Washington, the Department of Justice asked the industry if they would cooperate in the sale of machine guns and submachine guns and requested us to put this paragraph in the code, which we did. It is article XI, page 361.

The Chairman. Please read it, Mr. Davis.

Mr. Davis (reading):

ARTICLE XI

Members of the industry shall have the right to sell or otherwise dispose of machine guns or submachine guns or parts therefor only to the United States Government, any State, Territory, or possession of the United States, and political subdivision thereof and the District of Columbia; provided that with the consent of the United States Attorney General they may be disposed of to National, State banks or to corporations or other business associations having regularly organized police departments, and to manufacturers of ammunition in the United States for testing purposes; *Provided further*, That such members shall have the right to sell machine or submachine guns or parts thereof for export under such rules and regulations as may be promulgated by the United States Secretary of State.

So far as Remington is concerned, we are living up to that request.

Mr. WOHLFORTH. I understand you are adhering to these articles describing fair and unfair trade practices, so far as your domestic business is concerned. Is that correct?

Mr. DAVIS. That is correct. We are doing it as a matter of good business policy.

Mr. WOHLFORTH. Can you show me anything in this code where it says that these trade practices do not apply to export business?

Mr. GREGG. Export business is not mentioned in the code, except in that article relative to machine guns.

Mr. HANDY. There is not anything in the code, Mr. Wohlforth, on that.

Mr. WOHLFORTH. Then you follow the articles of the code so far as your domestic business is concerned and your own policy so far as export business is concerned? Is that correct?

Mr. HANDY. Yes, sir.

Mr. DAVIS. Here is a paragraph in the code, page 361, paragraph 3 under article X:

Except as may be subsequently set forth in a specific or supplementary export code for the industry, the provisions of this code now or hereafter adopted with regard to prices, discounts, deductions, allowances, extras, commissions, or methods, and/or terms of sale, are not to apply to direct export sales or to sales in course of export (i. e., sales destined ultimately for export) or to sales of materials used in the manufacture of products for export.

The CHAIRMAN. Is the committee to draw this conclusion: That the struggle for export business is a struggle for a kind of business that calls for different ethics than are called for in competition to gain domestic business?

Mr. DAVIS. I do not think that is true, Senator.

The CHAIRMAN. You make exception, then?

Mr. DAVIS. As a matter of fact, this indicates that the industry was planning at a later date to propose to have a supplementary export code.

The CHAIRMAN. Where is there anything in the code to indicate that was contemplated?

Mr. DAVIS. It says:

Except as may be subsequently set forth in a specific or supplementary export code for the industry * * *.

The CHAIRMAN. Have you given consideration to a code as respects the exporting industry?

Mr. DAVIS. Not as yet, because we are waiting for the approval of the domestic code first.

The CHAIRMAN. If it takes as long to accomplish approval and concurrence of a code affecting export business as it is taking to get together on this code affecting domestic business, agreement is a long way in the future, is it not?

Mr. DAVIS. The delay has not been due to the industry, Senator.

The CHAIRMAN. Are there peculiar situations confronting your business in the export field that could not be met by a code destined to meet needs of fair competition in the domestic field?

Mr. DAVIS. It is pretty hard to answer that on the spur of the moment. I think it might be possible.

Mr. HANDY. Not necessarily so, although there may be, Senator.

The CHAIRMAN. I am anxious to know why you would except the export business from the provisions of this code.

Mr. DAVIS. Because, as I said before, Senator, none of the codes, as I understood it, included export business. That is true, I think. They apply only to domestic business.

Mr. GREGG. I do not know of any code, Senator, that included export, unless it had a provision in the code that export business was included.

Senator POPE. Does that mean other kinds of business, other industries?

Mr. DAVIS. Yes, sir; other industries, all codes.

The CHAIRMAN. You think that all codes contain a paragraph excepting export business from the provisions of the code?

Mr. GREGG. I would say that they do not, Senator.

Mr. DAVIS. Some of them do and some of them do not.

Mr. GREGG. Some of them may, but I would say not all of them.

Mr. DAVIS. But I think they all apply to domestic business.

Senator, I would like to read this telegram also, which was sent to Stewart Comeaux, secretary of the code committee, on January 2, 1934. This had reference to the code as finally drafted on December 21, 1933, and is practically the same as this code, with the exception of the changes made at the time the code was approved by the Administrator on March 22 [reading]:

JANUARY 2, 1934.

Mr. C. STEWART COMEAUX,
New York, N. Y.:

We acknowledge receipt copy code of fair competition for small-arms ammunition industry as revised and dated December 21, 1933, and authorize code committee for industry to approve and submit same to National Recovery Administration for its approval and to accept same as so revised, and we hereby accept said revised draft of code and will operate under the provisions of the same.

REMINGTON ARMS CO., INC.,
By C. K. DAVIS, *President.*

The CHAIRMAN. Mr. Davis, has there been any resistance within the industry to provisions of this code?

Mr. DAVIS. I think not.

The CHAIRMAN. Have there been any complaints filed concerning failure of the industry to comply with provisions of the code?

Mr. HANDY. Not that we know of.

Mr. DAVIS. I do not know of any.

The CHAIRMAN. The committee would like now to hear Mr. Rosenblatt.

TESTIMONY OF SOL A. ROSENBLATT

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Will you state to the committee your full name and your connection with the N. R. A. at the present time?

Mr. ROSENBLATT. My full name is Sol A. Rosenblatt. I am compliance and enforcement director of the National Recovery Administration.

The CHAIRMAN. Mr. Rosenblatt, a communication was addressed to you by the chairman of this committee a few days ago. Will you read that communication?

Mr. ROSENBLATT. Yes. The communication is dated December 13, 1934, addressed to Mr. W. Averill Harriman, National Recovery Administration.

> DEAR SIR: Will you kindly furnish the committee with statistics as to the number of complaints received by the Compliance Division of N. R. A. with regard to (1) paying less than code wages, (2) sales at less than minimum prices fixed by the code. We would like these figures covering the whole period for which they are available. We would also like to have them broken down by codes.
>
> We will appreciate your cooperation in this matter.

Signed by yourself, Senator Nye.

The CHAIRMAN. Yes.

Mr. Rosenblatt, are you prepared this morning to advise the committee in connection with this inquiry?

Mr. ROSENBLATT. I should like to make the following observations to the committee.

The CHAIRMAN. Thank you. If you will, Mr. Rosenblatt.

Mr. ROSENBLATT. I am in receipt of a memorandum from the Chief of the Compliance Division, Mr. L. J. Martin, who acknowledges receipt of the communication and states that—

> the figures are, of course, available for the whole period during which the N. R. A. has been in existence. Every one of our field officers—

I may state that there are 54 throughout the United States—

> has on hand a tremendous amount of raw material for a tabulation of the kind desired, consisting of case records of all cases that it has handled since it began to function.
>
> I estimate, however, that it will require the services of 54 persons, or 1 person in each of our field offices, for a period of 10 days, in order to collect and tabulate the figures and put them into shape for transmittal to Washington. A further period of time will be required after the material reaches the Compliance Division, for assembling it for submission to the Senate committee.

I want to advise the committee, Mr. Senator, that for approximately 3 months past our field officers have been sending to Washington a so-called " face sheet carbon ", of which I have a type here present, covering each case which they have handled. As you will note, this sheet indicates the name of the code which is alleged to have been violated, the name of the alleged violator, the name of the complainant, the nature of the complaint—that is, the number of the article and section of the code alleged to have been violated—and a notation as to whether the complaint involves " labor " or " trade practice " provisions. These sheets do not, however, state specifically the nature of the alleged violation. For example, it is impossible to tell from their faces whether the complaint involves payment of less than code wages, in " labor " cases, or whether it involves sales at less than code prices, in " trade practice " cases.

As I have indicated, the practice of sending these sheets to the Washington office was inaugurated only a little over 3 months ago. The information desired by the Senate committee, as I understand their request, covers compliance operations over a period of 18 months.

We can, of course, prepare from our Washington files a report which will present a broad picture of the general nature of violations under the various codes during the past 3 months, if that would be satisfactory to the Senate committee. Specific compliance with Senator Nye's request, however, will require considerable time, since most of the work will have to be done in the various field offices.

In order that I may issue proper instructions to the field offices for inaugurating this rather comprehensive survey, I would appreciate information from the committee as to the form in which you desire the statistics to be submitted and whatever special purposes you seek to achieve, so that I can prepare an intelligent and comprehensive survey for you.

The CHAIRMAN. Mr. Rosenblatt, if there had been complaints concerning failure of industry to comply as respects these particular features, your offices here in Washington would have been quite apt to have become aware of it by this time, would they not?

Mr. ROSENBLATT. Oh, yes; oh, yes.

The CHAIRMAN. Then what are we to conclude from the situation that exists at this time?

Mr. ROSENBLATT. Your request was as to the number of complaints received by the Compliance Division with regard to (1) paying less than code wages, and (2) sales at less than minimum prices fixed by codes.

There is a tremendous number of complaints which are filed in the local offices throughout the United States and which are disposed of, and the records never come to Washington at all.

The CHAIRMAN. Do you know of such complaints in this particular industry?

Mr. ROSENBLATT. I had no indication until now that you were referring to this particular industry. I can easily secure any facts or data with respect to this particular industry and then get you a break-down later. I will be glad to do that. I will get you any kind of information on complaints, Government contracts, or anything else that you want.[1]

The CHAIRMAN. Mr. Rosenblatt, I believe the committee had best take the question under advisement, and it will then notify you definitely as to what information is wanted and to what extent you need go in getting it for us.[1]

Mr. ROSENBLATT. Yes, sir. I just want to say this: That the facilities of the Compliance and Enforcement Division in all of its branches—that is, the three branches, the Compliance Division strictly, the Litigation Division, and the Government Contracts and Purchasing Division—are entirely open to your inspection. Any data that you want will be furnished on request, not only from me but any of the chiefs of these Divisions.

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[1] Information supplied by the Compliance Division of the N. R. A. in response to a request for figures giving some indication of the extent of price violations covering codified industry as a whole, is appended to a memorandum on Price Control which was entered into the record as "Exhibit No. 1406." See text, p. 4334, appendix, p. 4457.

The CHAIRMAN. Thank you.

Mr. DAVIS. I would like to ask Mr. Rosenblatt if he does know of any cases of noncompliance or any complaints.

The CHAIRMAN. That is as respects the small-arms industry?

Mr. DAVIS. The small-arms industry, and the Remington Arms Co. in particular.

Mr. ROSENBLATT. I do not know of any. May I ask the Chief of the Compliance Division who is here present, Mr. Martin, if he knows of any?

The CHAIRMAN. Yes; if Mr. Martin has information.

Mr. L. J. MARTIN. I know of no specific complaint against the small-arms industry or the Remington Arms Co. I do not want to certify that there has been none, but there has been none called to the attention of the Chief of the Compliance Division.

Had there been a flagrant violation in any way, I would have known of it.

Mr. ROSENBLATT. And I would have directed prosecution.

The CHAIRMAN. Yes. Mr. Rosenblatt, the industry has not itself accepted the code as yet. Do you understand that to be the case?

Mr. ROSENBLATT. I do not understand that to be the case for this reason: That so far as our records would indicate, all of the manufacturers to whom this code is applicable are apparently complying with its provisions, or otherwise we would have complaints.

The CHAIRMAN. So whether or not they have accepted it, your offices are considering this code, approved March 22, 1934, as in effect?

Mr. ROSENBLATT. In full force and effect.

The CHAIRMAN. And all of its provisions therein are enforceable?

Mr. ROSENBLATT. That is correct.

The CHAIRMAN. All right.

Mr. HISS. Mr. Chairman, may I ask just one question?

Do you consider that in force and effect under 4 (d), namely, as a compulsory code, or under the section providing for voluntary codes?

Mr. ROSENBLATT. I could not tell unless I saw the actual signatures to the code as presented to the President.

Mr. HISS. Do you know whether the industry has formally signed a code indicating their acceptance of it?

Mr. ROSENBLATT. I could not tell you that unless I actually saw the signatures which went over with the code to the President.

The CHAIRMAN. The Chair would like to ask the reporter if the code for the small-arms and ammunition-manufacturing industry was made an exhibit?

Mr. WOHLFORTH. Yes.

The CHAIRMAN. There was also an amendment, Amendment No. 1, approved of March 29, 1934, which ought to be marked "Exhibit A" to whatever number was given the main code.

(The amendment referred to was marked "Exhibit No. 1353–A", and is included in the appendix on p. 4383.)

Mr. ROSENBLATT. The amendment would also show whether it is a voluntary or imposed code. I do not know of any imposed code, so I assume this must be a voluntary code.

The CHAIRMAN. Will you look at the amendment, Mr. Rosenblatt?

Mr. ROSENBLATT. This is the type of amendment which would not show, because it is a mere stay of a provision.

The CHAIRMAN. A mere what?

Mr. ROSENBLATT. A continuance of a stay that was contained in the original order of the President approving the code. That is a mere administrative order.

The CHAIRMAN. A stay? For what purpose?

Mr. ROSENBLATT. It stays the original order of approval which requires, under the provision of section 3, on article 7 of the code, allowing a waiting period prior to the effective date after the filing of revised schedules. That provision is to be stayed for a period of 60 days from the effective date of the code, or after the completion of a study of open-price associations now being conducted by the National Recovery Administration.

The CHAIRMAN. It has no effect on the original code?

Mr. ROSENBLATT. No; unless that provision which is in the original code, which required a certain waiting period before filing schedules—I assume that is a price provision.

The CHAIRMAN. In that case it would affect only that single provision?

Mr. ROSENBLATT. That is correct. It would not affect the general code at all.

The CHAIRMAN. Thank you, Mr. Rosenblatt.

(Witness excused.)

Mr. WOHLFORTH. Mr. Davis, you have received an order from the War Department, and the certificate of compliance was waived in regard to that order, was it not? Am I correct in that?

Mr. DAVIS. I cannot answer that.

Mr. WOHLFORTH. Can you answer that, Mr. Handy?

Mr. HANDY. I do not know. What did it refer to?

Mr. WOHLFORTH. I think it was an order for some .22-caliber ammunition. Are you familiar with that?

Mr. DAVIS. When was that order?

Mr. WOHLFORTH. I think it was within the last 2 or 3 months. This is only my recollection.

Mr. HANDY. Was it not for .22 empty shells?

Mr. WOHLFORTH. I think so.

Mr. DAVIS. Blanks.

Mr. HANDY. Blanks. I think that is what it was.

Mr. WOHLFORTH. You were granted an exception from complying with the certificate of compliance?

Mr. HANDY. I presume so, although we were not notified to that effect. We just got the order.

Mr. WOHLFORTH. You just got the order?

Mr. HANDY. That is right. I do not recall that we had any notice whatever.

Mr. GREGG. Mr. Chairman, might I make a statement in connection with the deletion of articles 16 and 18, which seem to be the bone of contention with respect to this code.

Article 16, which you read a while ago, states that—

> By presenting this code, those assenting hereto are not thereby waiving any of their constitutional rights which might be infringed by any of the provisions of the National Industrial Recovery Act.

Article 18 provides:

> By presenting this code, the members of the industry do not thereby consent to any modification thereof, and they hereby reserve the right to object individually or jointly to any such modification.

I had considerable to do with codes from the time of the passage of the National Industrial Recovery Act. So far as I know, the President has not imposed a single code, as he has a right to do under the act. These constitute under the act voluntary applications for a code.

The courts have held, including the Supreme Court of the United States, that if you voluntarily apply for authority to do business under an act, and by that voluntary application you are granted authority to do business under an act, you cannot later take advantage of or present any defense that any provision of the act is unconstitutional; in other words, that you have waived that right.

For that reason, so far as our company was concerned, I advised them that it was essential to have this reservation in the code. My position in that matter was later borne out in the *Weirton Steel case*, which was recently tried at Wilmington, Del. In that case the Government took the position that in view of the fact that the Weirton Steel Co. had participated in an application for a code and had accepted the code, they could not in any way raise any question that any part of the National Industrial Recovery Act was unconstitutional. The Government devoted 9 or 10 pages of its brief to that point, and also made a point of it in oral argument.

As to article 18, under the National Industrial Recovery Act, the President is given the right to make modifications to codes, and the only purpose of article 18 is that the members of the industry are merely stating that by applying for this code they are not formally consenting to a modification thereof, and they reserve the right to object individually or jointly to any such modification. In other words, they do not want to be put in a position when they apply for a code and the code is approved that the administration may then come along and practically rewrite the entire code, imposing more onerous provisions than provided in the approved code, and they then have no right to object to any such modification of the code.

The CHAIRMAN. Major Casey, or whoever of the du Ponts might be in position to answer, how do prices at which your powder is sold domestically and abroad compare?

I will frame the question another way:

Do you sell powder cheaper abroad than you do to the Army and Navy?

Mr. CASEY. In no case.

The CHAIRMAN. In no case?

Mr. CASEY. Our price to the Government is our minimum price.

The CHAIRMAN. For the purpose of the record, who is Mr. O'Gorman?

Mr. CASEY. He was my assistant. He is now dead.

The CHAIRMAN. He was your assistant on August 15, 1929?

Mr. CASEY. Yes.

The CHAIRMAN. I refer to a memorandum sent by him to N. E. Bates, Jr. on August 15, 1929. Again, for the record, who was Mr. Bates?

Mr. Casey. He was one of my associates, looking after export matters.

(The memorandum referred to was marked "Exhibit No. 1354", and appears in full in the text.)

The Chairman. In this memorandum I find him saying, after quoting prices to the Army and Navy of the United States on military powders:

> The above prices are frequently lowered in quoting on European prospects.

Mr. Casey. It might be if it were a different type of powder. The type of powder governs the price. In other words, you cannot say it is the price of powder, you must consider the type.

The Chairman. Here in his memorandum as respects prices to the Army and Navy of the United States, rifle powder is quoted at 87 cents per pound f. o. b. Carneys Point.

> The minimum prices which we have quoted, c. i. f. European port, are as follows:
>
> Rifle powder, 71 cents per pound.

Mr. Casey. I think that referred to the old Pyro D. G. .30 caliber.

The Chairman. No; Pyro is quoted here at 53 cents a pound.

Mr. Bradway. That is cannon powder.

Mr. Casey. Cannon powder.

The Chairman. Let us read the entire memorandum ("Exhibit No. 1354"):

> Standard sales prices to the Army and Navy of the United States on military powders are as follows:
>
> Rifle powder, 87 cents per pound f. o. b. Carneys Point.
>
> Pyro cannon powder, 53 cents per pound f. o. b. Carneys Point.
>
> FNH or NH, 77 cents per pound.
>
> TNT, 17½ cents per pound, f. o. b. Barksdale.
>
> Tetryl, $1 per pound, f. o. b. Repauno.
>
> The above prices are frequently lowered in quoting on European prospects.

He says "the above prices", and I expect he refers to the same commodity.

Mr. Casey. But the fact remains, Senator, no matter what O'Gorman might have written at the time, we have never sold at less than the price we sold to the Government.

The Chairman. Let us read on:

> The minimum prices which we have quoted, c. i. f. European port, are as follows:
>
> Rifle powder, 71 cents per pound.
>
> Cannon powder, 61 cents per pound.
>
> TNT, 22 cents per pound.
>
> Manufacturing cost:
>
> The total manufacturing cost of Pyro cannon powder is 36 cents per pound and the out-of-pocket cost is approximately 30 cents per pound. This is based upon a quantity of 2,000 tons of cannon powder being manufactured at Carneys Point within a year. From this you will see that with a minimum sales price, f. o. b. Carneys Point, of 56 cents per pound, it is necessary to get more than 50 percent of said price before we can repay ourselves the out-of-pocket cost. In general, there is a similar relation between the out-of-pocket cost and the sales prices of military powders manufactured by us.
>
> Insofar as China is concerned, the following are the minimum sales prices, c.i.f. Chinese port, exclusive of commission:
>
> On quantities of not less than 100 tons:
>
> Rifle powder, 85 cents per pound.
>
> Cannon powder, 61 cents per pound.
>
> TNT, 24 cents per pound.
>
> W. H. O'Gorman.

Mr. O'Gorman was making it clear to Mr. Bates that frequently there was a lower price quoted to European prospects.

Mr. Casey. I do not think the prices he gives at all indicate that.

The Chairman. What does he mean when he says that "The above prices are frequently lowered in quoting on European prospects?"

Mr. Casey. I might add this:

In our general arrangement with the Ordnance Department on prices, we have what you might call a sliding scale of prices based on production within a year. When we make a sale, or if we have a prospect of a foreign sale sufficiently in advance, we promptly lower the price to the United States Government, because we consider that added production to a foreign country gives us a little more manufacturing capacity and because of that capacity we want to give the Government every advantage we can along that line.

You can see from these figures we are talking of a different kind of rifle and cannon powder from what we are supplying the United States Government. You take this question of the manufacturing cost. He says here clearly 36 cents on over 4 million pounds of cannon powder in the one year. Since the World War, with the possible exception of 1 year, we have never manufactured 4 million pounds of all our military powders combined. So therefore we have never been able to reach that cost figure.

At this point, Senator, I would like to give you an illustration of just what this thing looks like in a picture prepared for the Ordnance Department as an indicating guide. I think I have enough copies here so I can give each one of you a copy.[1]

When we decided to stay in the powder business at the request of the Government, our position was this:

We use every endeavor we can to stay in the business, being advised, however, that the reason the Government wanted us in the business was because of our potential ability to improve the quality of military powder. I believe, as I stated before, the Ordnance Department had something like 270-odd problems that they wanted solved in connection with military propellants and high explosives.

The position we take in this matter is this:

We are willing to go as far as we can. We have this old question, however, of trusteeship to our stockholders. It is not fair to our stockholders to ask them to pay taxes, both company taxes and individual taxes, a part of which is for national defense, and then expect the du Pont Co. because of tradition and family pride to likewise pay taxes by maintaining facilities and doing experimental work, which really means a double tax on the company.

In this set up—this is, I think, the second chart we have submitted, this one being dated March 1, 1931—we indicate to them that we must have a sufficient volume of business to maintain a skeleton organization to be familiar with manufacturing methods and likewise to prove out any experiments that have been conducted. You may notice there is a vertical line on those charts indicating a point below which we can not go and maintain even a skeleton organization.

The Chairman. The figure here as to production is in pounds.

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[1] Chart showing effect of production on selling price of military propellants entered in record as "Exhibit No. 1357." See text, p. 4199, appendix, facing p. 4385.

Mr. Casey. In pounds. It does not mean pounds of each type of powder, but pounds of all powders combined.

The Chairman. Your chart then shows that, as respects rifle powder, when you are producing 7½ million pounds, you can produce for 61 cents, approximately.

Mr. Casey. Lower than that.

The Chairman. Your chart shows 61.

Mr. Casey. Yes. I say, this is a chart not of actual fixed prices, but as an indication of the effect of production on selling prices.

The Chairman. When your production is down to 300,000 pounds, it puts it at a cost of approximately $3.60.

Mr. Casey. In order to get the return of 10 percent on investment.

Mr. Hiss. This is the selling price, cost plus 10 percent on the investment?

Mr. Casey. That is right.

So you see, as far as we are concerned, the Government can order within this chart. Assuming that these are the high prices in the different periods, not necessarily the fixed prices, they can decide on how much powder they want and keep us going. The less they order the higher the price.

Now, there is an interesting point right at the present time. You take our selling prices. You have just read 71 cents at the present time on rifle powder, 60 cents on FNH. cannon powder. That means an annual sale of 3,900,000 pounds. We are actually selling at the present time between two and two and one-half million. If we were applying the prices of 2½ million, it would be about 80 cents on rifle, and—what is it on FNH.? That is the second line.

Mr. Hiss. Sixty-six; something like that.

Mr. Casey. So you see we are selling below. We must consider not the question of a profit on an individual transaction, but what it means on the investment for the year. It can be readily worked out that we might have a smaller order on which we might make 1,000 percent profit, and at the end of the year we would be in the red.

Senator Pope. In your foreign sales, competition of foreign competitors has to do with it, with what you sell it for?

Mr. Casey. But we never go below our Government price.

Senator Pope. In foreign sales?

Mr. Casey. Yes.

But if we feel that we cannot get a sufficiently large Government order—this has not occurred, but it might occur—suppose we got an order for 2,000 tons over 2 years. We would add that to what we would expect to get from the Government. We then go to the Government immediately and say, "We believe next year you can lower your price 5 cents a pound."

I am doing my best to get the price to the Government as low as possible. I believe we should do it. The Government appreciates that they are in this fix themselves. If they give us more business, then they take it away from the arsenal. It means the manufacturing cost to the arsenal goes up. So they try to maintain a state of equilibrium. I do not know what their costs are, but I imagine our selling prices must be comparable to their costs, otherwise they could not give us the business.

The CHAIRMAN. Do you know of any instance where powder has been sold to foreign customers cheaper than you sell it to the Government?

Mr. CASEY. I do not know of any. I think there was an instance of a small lot of about 5 or 10 tons, where we were trying to get the powder introduced. I think it was slightly less. But we could have given the powder away and have had the same effect. It was really a demonstration lot. That is the sole exception I know of. That was not with the idea we were going to sell it at that price at all, but we could not even get them to consider it.

I might give you as an illustration, there is sometimes a price made where very valuable experimental work has been conducted, such as where the Army has been experimenting with their boat-tail bullet. They had on hand tremendous quantities of Pyro D.G. .30 caliber. They were striving as a result of Major Wilhelm's experimental work to get a velocity to give them an extreme range of approximately 5,500 to 6,000 meters. That meant a certain velocity. They could not get it with Pyro powder. They could get it with IMR. They said, however, " The price of IMR is 90 cents a pound. That puts it out.

I said to General Williams, " Look here. You are buying 10,000-pound lots, at a time, and you are paying the regular loading company price, 90 cents. If you will give us an order for 100,000 pounds which we can run through in a month's operation, we will say, then we will get an idea of what it is actually going to cost on a peacetime production basis, and I will take a chance and give you a price which I think will eventually be our sale price."

So I gave him a price of 70 cents a pound. General Williams got together his requirements, and found that their program called for only something like 83,000 pounds.

I drew his attention to this, that by buying a hundred thousand pounds at 70 cents it would cost them less than buying 83,000 pounds at 90 cents. So he decided to go through with it. We afterward found out, approximately the time we were limited in production, that that price was too low. Later on it was raised. But it showed our guess was pretty near right, because today the price is 71 cents.

Incidentally, Senator, I might at this point introduce something that we have been trying to get in here, and I am going to ask Mr. Bradway if he won't read it, please.

The CHAIRMAN. What is the nature of the communications to which you are referring?

Mr. CASEY. This is this agreement with General Williams of 1919, when we were considering going out of the powder business.

PRICES QUOTED TO FOREIGN COMPANIES BY DU PONT COMPANY COMPARED TO PRICES TO UNITED STATES GOVERNMENT—TESTIMONY AS TO EFFECT OF CONSCRIPTION OF CAPITAL

The CHAIRMAN. Before we get to General Williams, let us continue our consideration of this matter of price quoting abroad.

Mr. CASEY. Will you allow us to put this in then?

The CHAIRMAN. Yes; we will get to that, but let us have a connected record here as respects the matter we have been discussing.

On June 30, 1932, Major Casey, you wrote a letter to Col. William N. Taylor in Paris concerning a prospective order in Esthonia, where bids were requested on 15,000,000 cartridges, delivery specified in the autumn of 1933.

> The competitive prices quoted by I.C.I. and Bofors disrupt our price schedule and make a noticeable differential in favor of the competitors insofar as made-up ammunition is concerned. You have advised that our maximum prices must be $1.40 per kilogram c.i.f. England insofar as I.C.I. is concerned which price includes 3 percent commission and $1.50 per kilogram c.i.f. Belgium on sales to Fabrique Nationale, which price includes 5-percent commission.
>
> Our cablegram has authorized you to quote these prices, and, naturally, since they are considerably below our usual export schedule they must be considered our minimum figure. You must realize that our price schedule on rifle powder sales to the United States Government is 71 cents per pound f. o. b. Carneys Point, excluding boxes. The prices you have quoted figures, in the instance of sales to England, a gross selling price f.o.b. Carneys Point, including boxes, of 54½ cents and in the instance of Belgium a price of 57.6 cents, thereby reflecting a noticeable reduction.
>
> Since our sales to the United States total approximately 700,000 pounds of rifle powder annually, we cannot take the chance of this reduced figure being divulged. Therefore, you must arrange some plan in submitting your proposal so that you will be absolutely satisfied that the prices quoted will be regarded with the utmost secrecy. We wish to make ourselves very emphatic on this point and, in the event you cannot work out the required arrangement or feel that our idea cannot be accomplished, then we must advise you not to quote.

Major Casey, are we to conclude that what you have discussed with us is the practice that prevails, providing secrecy prevails?

Mr. CASEY. I don't think that is a fair statement, Senator.

Colonel Taylor was endeavoring to get this business and he was up against foreign competition. He was trying to force us in a position that was distasteful. You may notice there is a distinction there between the I. C. I. and Belgium, the answer being that at this time I. C. I. could have made that powder themselves, because it was the type of powder such as made by the old 303 British during the war. But here he was trying to get this business.

Now, if the business did not go through and these prices were made public, then we were in bad. If it had gone through it would have enabled us to give a lower price to the Government.

The CHAIRMAN. Did it go through?

Mr. CASEY. I don't believe it did. Did it Mr. Bradway?

Mr. BRADWAY. No.

Mr. CASEY. It never went through.

The CHAIRMAN. It could have gone through if Taylor could have arranged so there would not have been any revelation of the discrepancy?

Mr. CASEY. I do not think so, not at those low prices. That was going too far.

The CHAIRMAN. Why didn't you tell him in your letter that it just simply could not be done?

Mr. CASEY. Taylor was in a position where he was trying to get this business and he was really talking ahead of himself.

The CHAIRMAN. Were you helping him to talk ahead of himself?

Mr. CASEY. No. Trying not to.

Senator POPE. What was the reason for secrecy there?

Mr. CASEY. Just as I stated. If we made a sale today to a foreign country at a certain price, the price at which we would make the sale to the foreign country would be promptly given to the Government, because if we got an order right now for 2,000 tons from a foreign country, the United States Government would immediately, as soon as we had that contract established, get a lower price.

The CHAIRMAN. Let that communication be identified as the next exhibit.

(The letter referred to was marked "Exhibit No. 1355" and is included in the appendix on p. 4384.)

The CHAIRMAN. Mr. Irénée du Pont, do you entertain any fears about the ability of industry to respond in the event there should be conscription of wealth and industry in time of war?

Mr. IRÉNÉE DU PONT. I cannot say that I may voice the position of the du Pont Co., because I have never discussed the subject with anyone. I think if we are going to have war, we are going to have a hell of a time, no matter what route we take. There is only one way to really wage war, and that is to have an absolute monarch at the head. Caesar found that out, and Napoleon.

The CHAIRMAN. Has Mr. Simons ever discussed the matter with you?

Mr. IRÉNÉE DU PONT. Who?

The CHAIRMAN. Mr. Simons.

Mr. IRÉNÉE DU PONT. Not that I recall. I do not recall ever having mentioned the subject to him. I may have and forgotten about it, because I do entirely too much talking anyhow.

The CHAIRMAN. Then you have not discussed it with Colonel Simons?

Mr. IRÉNÉE DU PONT. Not that I recall.

The CHAIRMAN. Major Casey, have you discussed it with Colonel Taylor or Colonel Simons?

Mr. CASEY. No; I have not. That is something I felt we had nothing to do with. It was a matter that the Government would decide itself at the proper time, and as Americans we would subscribe.

The CHAIRMAN. The reason I ask is because of the conclusion of a memorandum written by Aiken Simons written on June 13, 1929, following, it appears, Mr. Simons' conference with Colonel Taylor. Was Colonel Taylor here in 1929?

Mr. CASEY. I believe he was

The CHAIRMAN. This memorandum declares:

> Colonel Taylor also spoke of the German belief that the present French law for conscription of men, women, and wealth in the next war will enable Germany, with an army not exceeding 400,000 men, to defeat and destroy France, since this law will take away all initiative and will set back the production of munitions at least 6 months.

Do you consider that the conscription of industry and of wealth would set back the production of munitions?

Mr. CASEY. Isn't that Colonel Taylor giving a viewpoint that he apparently picked up in Europe? It does not reflect Colonel Taylor's viewpoint.

The CHAIRMAN. What is your view of that, Major?

Mr. CASEY. I have no view.

Senator POPE. Do you see any reason why it should delay the production of munitions?

Mr. CASEY. If I could talk, I could tell any number of possible reasons where it might interfere.

The CHAIRMAN. He added in his memorandum:

> All of Colonel Taylor's remarks were much appreciated and will be given further study by the interested authorities.

Mr. Casey. Military and Naval Intelligence.

The Chairman. That is who he meant by "interested authorities"?

Mr. Casey. Yes.

The Chairman. That is who you think he meant?

Mr. Casey. I think I have tried to explain that; that we feel in duty bound to report everything. I believe Senator Pope certainly got it in his questioning of me the other day. By the way, Senator, before we forget, will this chart be introduced in the record and given an appropriate number?

The Chairman. Yes. First let this memorandum be marked as an exhibit.

(The memorandum referred to was marked "Exhibit No. 1356" and appears in full in the text on p. 4198.)

The Chairman. Now let the chart which the Major has offered be entered as an exhibit, if this be the appropriate place in the record.

(The chart referred to was marked "Exhibit No. 1357" and is included in the appendix facing p. 4385.)

Mr. Casey. I think we have enough copies so that every Senator will get one.

Mr. Irénée du Pont. Mr. Chairman, would like to enlarge my remark that we are going to have a hell of a time in war if we have one. I believe we should prepare in advance for time of war. That is, in time of peace prepare for war. In other words, you are going to have a hell of a time in any event.

The Chairman. Aren't we going to have a hell of a time no matter how well we are prepared?

Mr. Irénée du Pont. No. If we are well enough prepared, we will never have a war.

Senator Pope. What about Germany in 1914; was not she well prepared?

Mr. Irénée du Pont. She was extremely well prepared then.

Senator Pope. And we had a war anyway.

Mr. Irénée du Pont. Yes.

Senator Pope. She started it.

Mr. Irénée du Pont. She started it; yes. She is an aggressive nation. Remember the words, "Der Tag" that you read from Europe all the time. That was in contemplation of world conquest.

Senator Pope. She was the best prepared nation for starting a war.

Mr. Irénée du Pont. Yes; that is the point, for the purpose of starting a war not for the purpose of self-defense. I do not think the United States will ever attempt world conquest, no matter how well prepared.

The Chairman. Mr. du Pont, referring again to "Exhibit No. 1356", do you think that the conscription of industry in time of war will set back the production of munitions by months?

Mr. Irénée du Pont. Senator, I am not competent to answer that question. I think that there will be a terrible amount of lost motion and confusion if such a movement was started. This economic structure is so complicated and complex that it seems to me it would be hopeless for newcomers to start out on it in a short space of time. That is my opinion offhand.

The Chairman. Let us suppose our colleague here, Senator Clark, a service man, was to be commissioned at the time of the next war and was to make his entry into your offices and factory and say, "You are now drafted and conscripted, and I am delegated to be here to supervise the production of powder, with your cooperation, which I invite." Do you think that that would slow up the production of the munitions that the country needed?

Mr. Irénée du Pont. If you could select just the right man for each job, it would be fine, but how on earth can they be selected under those conditions?

The Chairman. In Senator Clark's case——

Mr. Irénée du Pont. We have trouble enough to select the right man for the right job in the du Pont Co., where we know the men and have known them for years. How can newcomers pick out the right man to enter on propositions of that kind? In the last war we had Mr. Jackling, who had never seen powder made, put in charge of a powder factory. He may have been a fine man and he is a fine man, but it seems to me that on the face of it, it is wrong.

You might as well ask me to take surgeon's tools and go over and repair people who are wounded. I would make a mess of it. I think we must depend on the expert. I have a good deal more faith in taking an expert and taking chances on his honesty than in putting somebody in who cannot know enough to be dishonest but who, I feel, will bungle the job.

The Chairman. I fear we are getting into something that we won't get out of today if we don't stop.

Senator Pope. Mr. du Pont, you made two statements awhile ago that interested me. One was that you thought that in order to wage war successfully we should have an absolute monarch.

Mr. Irénée du Pont. I think that is correct.

Senator Pope. Yes.

Mr. Irénée du Pont. The aggressive wars have been mostly waged by absolute monarchs. I never heard of a democracy or a republic properly waging a successful war.

Senator Pope. You made another statement, that in time of peace prepare for war.

Mr. Irénée du Pont. Yes.

Senator Pope. Would you suggest we establish an absolute monarch now in time of peace in order to be prepared for war?

Mr. Irénée du Pont. No, sir; not at all. I think we are too close to that already.

Senator Pope. Just what do you mean by that statement? You mean to establish an absolute monarch when we get into war?

Mr. Irénée du Pont. I think if you are going out for world conquest you must have an absolute monarch, and if you want to prepare to resist an attack you must prepare in advance.

Senator Pope. Then you think we ought to be prepared?

Mr. Irénée du Pont. To resist any attack that may be made upon this country.

Senator Pope. And then you think we must establish an absolute monarch in order to be prepared for war?

Mr. Irénée du Pont. No, sir. I am talking about the defense of the United States; not going out for world conquest.

Mr. Casey. Senator Pope, would you consider that Kaiser Wilhelm was an absolute monarch?

Senator POPE. Yes; I think so.

Mr. CASEY. I think in 1915 he announced that President Wilson had more power than he had.

Senator POPE. Well, it doesn't make any difference what he announced.

The CHAIRMAN. Major, have you now the material ready that you wanted to present?

Mr. CASEY. Yes. The examiners have drawn this material and therefore we will just read the first letter from General Williams and the ultimate agreement, but the others will be introduced in the record.

The CHAIRMAN. All right; make it as brief as you can.

Mr. BRADWAY. I will read fast.

The first is a letter from General Williams, chief of ordnance at the time, June 11, 1919, to the president of the E. I. du Pont de Nemours & Co.

Subject: Military explosives.

1. Some days ago I had a conference with Major Casey of your company concerning the future activities of the du Pont Co. in relation to military explosives.

2. From my point of view it would be a very serious loss to the Ordnance Department to have the du Pont Co. decrease its activities in the research and development of propellants and high explosives, and I am writing this letter with a desire to impress upon you the desirability from the Government's point of view of the du Pont Co. continuing its activities along military explosives lines.

3. I have nothing definite to offer in the way of giving business to the du Pont Co. on explosives, for, as you know, the Ordnance Department at this time is very heavily stocked with all kinds of military explosives. But at the same time, I feel that there is room for improvement in propellants, propellant ignition, and similar subjects.

4. It is highly desirable from a military point of view to develop in this country a nonhygroscopic, flashless propellant. Considerable work has been done along these lines by both the Ordnance Department and the du Pont Co., but a satisfactory solution has not been reached, and it is felt that a large field is open to develop such a propellant.

5. There is also some doubt as to the efficiency of the present ignition system for propelling charges, and it is believed that improvements can be effected in ignition. Many other problems of a similar nature connected with the general subject of explosives can be more quickly solved with the assistance of the du Pont Co. Indirectly, such improvements, in my opinion, will result in a few years in giving to the du Pont Co. considerable business along production lines.

6. As stated above, nothing definite as to finances, or giving business to the du Pont Co., can be stated at this time. It is not even definitely known that experimental work can be paid for by the Government, but I would like very much to have an expression from you as to the future policy of the du Pont Co. with reference to this most important subject.

7. I feel sure that, even though the financial outlook is not particularly bright along the explosives line, the du Pont Co. will, for various reasons, seriously hesitate before abandoning this work in which they have so particularly distinguished themselves in the past.

8. Please let me hear from you as early as convenient with reference to your feeling in this matter.

That is offered for the record.

The CHAIRMAN. It may be marked.

(The letter referred to was marked "Exhibit No. 1358", and appears in full in the text.)

Mr. BRADWAY. That letter was answered under date of June 14. I will not read that letter.

The CHAIRMAN. You are offering it for the record?

Mr. Bradway. Yes.

The Chairman. Very well.

(The letter referred to was marked "Exhibit No. 1358–A" and is included in the appendix on p. 4385.)

Mr. Bradway. A further letter of August 26, 1919, by General Williams, in answer to Irénée du Pont's letter of June 14, is offered but not read at this time.

(The letter referred to was marked "Exhibit No. 1359" and is included in the appendix on p. 4385.)

Mr. Bradway. Then we have a reply to the last letter, this reply being dated September 9, 1919, from the president of the company to Major General Williams, which will also be offered for the record.

(The letter referred to was marked "Exhibit No. 1359–A", and reads, as follows:)

September 9, 1919.

C. C. Williams,
Major General, Ordnance Department, United States Army,
Chief of Ordnance, Washington, D. C.

Dear Sir: In further reply to your letter of August 26, I beg to advise that on the date of my communication to you of September 3, Major Casey, directory of military sales, accompanied by Mr. Burnside, Mr. Bradway, Mr. Henning, Mr. Woodbridge, and Mr. Crane, visited Washington and had a conference with Colonel Harris at which were present Colonel Miles, Lieutenant Colonel Davis, and Major Hunter. After discussing the proposition of experimental work in connection with the development of a nonhygroscopic flashless propellant, it was mutually agreed as follows:

(1) That E. I. du Pont de Nemours & Co. will undertake such experimental work as it deems advisable, to attempt to improve our military propellant to make it nonhygroscopic and flashless with equal ballistics to the present propellant. M. D. cordite is considered to represent what is meant by a nonhygroscopic propellant.

(2) The Ordnance Department will supply the du Pont Co. with such informatiotn as they now have on hand of work done with propellants as well as information secured from the "other side", in order that we may avoid a repetition of what has already been done.

(3) The du Pont Co. will make no charge to the United States Government for conducting this experimental work. All firing tests, however, to be made by the Government, the Government supplying the guns, projectiles, and other material necessary for such tests.

(4) Should the Ordnance Department deem it advisable to make a firing test which would require the use of a quantity of propellant larger than the experimental sample, such propellant is to be ordered and paid for at the prevailing Government price for propellant.

(5) Should the experimental work result in success and the resulting propellant be adopted, the du Pont Co. will give the Government all information regarding the manufacture of the propellant.

(6) The du Pont Co. will permit the Government to manufacture in its own arsenals, such propellant as it may require for its own consumption, or will sell the powder to the United States Government without any charge being made for royalties, on any patents of employees of the company. Beyond this the du Pont Co. will have all rights for the manufacture and sale of this propellant.

(7) The du Pont Co. will give the name to the propellant and all propellant, whether manufactured by the United States Government or the du Pont Co. will bear that name.

(8) In order to avoid any misunderstanding as to who was responsible for such development, the du Pont Co. will undertake this experimental work independently of any of the Government arsenals or plants.

Will you kindly acknowledge receipt of this letter.

Yours very truly,

——— ———, *President.*

Mr. Bradway. The proposition resulted in an agreement under date of September 25, 1919, letter from General Williams to the du Pont Co.:

[Exhibit No. 1360]

Subject: The development work on flashless nonhygroscopic propellant.

Sir: (Please disregard my letter of Sept. 1, 1919, on the above subject and substitute therefor the following.)

1. Your letter of September 9, 1919, in which you set forth the position of the du Pont Co. with reference to the development of a more satisfactory propellant has been received and has been carefully analyzed. This office feels that the proposition of the du Pont Co. in connection with the development work is praiseworthy, and we are in agreement as to the fundamental conditions for carrying on this work.

2. In order that there may be no misunderstanding as to the position of each party, I will set forth in succeeding paragraphs my understanding of the various conditions enumerated in your letter. You state as follows:

"(1) That E. I. du Pont de Nemours & Co. will undertake such experimental work as it deems advisable, to attempt to improve our military propellant to make it nonhygroscopic and flashless with equal ballistics to the present propellant. M. D. cordite is considered to represent what is meant by a nonhygroscopic propellant."

I understand from the above that the du Pont Co. will energetically prosecute experimental and development work to improve the present military propellant to make it nonhygroscopic and flashless with equal ballistics to the present propellant, and that the reference to cordite is that it may be accepted as a guide in what defines the quality "nonhygroscopic."

"(2) The Ordnance Department will supply the du Pont Co. with such information as they now have on hand of work done with propellants as well as information secured from the 'other side', in order that we may avoid a repetition of what has already been done."

The above paragraph is understood to mean that we will give to the du Pont Co. all the information that is now available in this office, or that we shall receive from abroad. It is the understanding that no formal interchange of information is to be maintained between Picatinny Arsenal and the du Pont Co.'s experimental station.

"(3) The du Pont Co. will make no charge to the United States Government for conducting this experimental work. All firing tests, however, to be made by the Government, the Government supplying the guns, projectiles, and other materials necessary for such tests."

No amplification needed in this paragraph.

"(4) Should the Ordnance Department deem it advisable to make a firing test which would require the use of a quantity of propellant larger than the experimental sample, such propellant is to be ordered and paid for at the prevailing Government price for propellant."

No amplification needed in this paragraph.

"(5) Should the experimental work result in success and the resulting propellant be adopted, the du Pont Co. will give the Government all information regarding the manufacture of the propellant."

It is believed that this paragraph should be worded to state that when experimental work has proceeded to the place where it is submitted for firing trial, the du Pont Co. will give to the Government all the information regarding its manufacture.

"(6) The du Pont Co. will permit the Government to manufacture in its own arsenals such propellant as it may require for its own consumption or will sell the powder to the United States Government without any charge being made for royalties on any patents of employees of the company. Beyond this the du Pont Co. will have all rights for the manufacture and sale of this propellant."

It is my understanding that this paragraph means that the Government is permitted to manufacture in its own arsenals without paying either for the privilege of this manufacture, or for royalties on any patents of employees of the du Pont Co., and that the du Pont Co. will further agree to sell to the United States such quantities of powder as are needed without charge for royalties. By this is meant that no royalties can be collected on any patents which have been taken out by employees of the du Pont Co. during such employ, or on any patents which have been assigned to the du Pont Co. by employees of the company. Information is desired as to whether in time of war this authority would be further extended to enable the Government to have manufactured by concerns other than the du Pont Co., this propellant without payment for such authority or payment for the royalties. It is also considered that no sale of such a propellant should be made to other governments without prior notice being sent to Ordnance Department, United States Army.

"(7) The du Pont Co. will give the name to the propellant and all propellants, whether manufactured by the United States Government or the du Pont Co., will bear that name."

This paragraph is clear, but I believe that we should mutually agree that a properly descriptive name should be given to the propellant, rather than a number or trade name, but that it is entirely right that the name should have characteristics which would definitely acknowledge the origin of the development.

"(8) In order to avoid any misunderstanding as to who was responsible for such development the du Pont Co. will undertake this experimental work independently of any of the Government arsenals or plants."

With reference to this paragraph, it is understood that after the start is made, that no data will be furnished by either Picatinny Arsenal or the du Pont Co. for the benefit of the other.

3. Will you please inform me if the above is in agreement with the conditions of your offer to carry on the development work?

(The letter referred to was marked "Exhibit No. 1360" and appears in full in the text.)

Mr. Bradway. That was followed by a letter to General Williams under date of October 2.

The Chairman. What year was that, again?

Mr. Bradway. 1919.

(The letter referred to was marked "Exhibit No. 1361" and is included in the appendix on p. 4386.)

Mr. Casey. I might add to this, Senator, that the Navy likewise agreed to this arrangement a little later. It is interesting to note as to the powder made by the Government at Picatinny Arsenal, that it is marked on the box, "du Pont FNH", or "du Pont NH, powder manufactured by Picatinny Arsenal." That is the powder they are making.

Senator Pope. Just why do they put those in boxes?

Mr. Casey. That is a part of the agreement.

Mr. Bradway. It is the name of the powder.

Mr. Casey. But they make no payments of any sort. In fact, we help them to make it. They make it the same way we do. In other words, it is a standard powder made by Picatinny Arsenal and ourselves.

The Chairman. Mr. du Pont, you offered for the record this morning a statement indicating Lieutenant Colonel Williams' holding of stock. Was it debentures or stock? [1]

Mr. Irénée du Pont. That is stock, debenture stock, of the du Pont de Nemours Co. The record does not call him lieutenant colonel. It calls him William Williams. I have the transcript.

The Chairman. What was this stock worth in 1915?

Mr. Irénée du Pont. I suppose somewhere a little below par. I am not certain.

Mr. Irénée du Pont. 100.

The Chairman. Was it not considerably above par in 1915?

Mr. Irénée du Pont. No, sir; I don't think so. It hung around 100. Today it is worth more. It has been going up since the spread of low returns on investments. It is a fixed-return investment, 6 percent, and I believe now it is up to about 125, the corresponding stock.

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[1] See text, p. 4167.

The CHAIRMAN. The committee has been advised that it is about 128 today.

Mr. IRÉNÉE DU PONT. I have not looked it up in the last week or two.

The CHAIRMAN. Major Casey, back on April 23, 1924, it is evident that you and Mr. Porter and Mr. Henning—C. I. B. Henning—who was Mr. Henning?

Mr. CASEY. He was one of my assistants, looking after technical matters.

The CHAIRMAN. You were in Washington at that time discussing with Majors Crain, Hardigg, Simpson, and Wilhelm, also Messrs. Storm and Addelman certain experimental and development work. What was that experimental and development work?

Mr. CASEY. Have you a copy of the letter? Maybe that will help.

The CHAIRMAN. Yes. There is reference in the second paragraph to hastening the program of projected erosion tests in the 75-millimeter field gun. Perhaps that may explain it.

Mr. CASEY. This was in connection with this experimental work brought about by this agreement we just have read.

The CHAIRMAN. This was brought about by that agreement?

Mr. CASEY. Yes; and this referred to the erosion test and also the possibility of using a double base powder and certain other things that would naturally go through an experimental period.

The CHAIRMAN. Would the results have been rather fatal to the du Ponts if this program had not gone through?

Mr. CASEY. It was more to the interest of the Government of the United States.

The CHAIRMAN. Would it have been fatal to the du Ponts if it had not gone through?

Mr. CASEY. In what way? I don't see how it could have hurt us.

The CHAIRMAN. Did not the adoption of a program afford a little better prospect for the du Ponts?

Mr. CASEY. Before the Government could adopt a powder they would have to go through these tests. They would be guilty if they accepted a powder merely because it looked good. The Government will not take a proposition of that sort until they know all about it. I think Colonel Harris can answer that better than I.

The CHAIRMAN. Major, what do you consider good years and lean years in business, good times and lean times?

Mr. CASEY. I think in the military game it depends almost entirely on what Congress is appropriating, because that is our mainstay. If it was not for the Government, we would not be in the business.

The CHAIRMAN. In this memorandum, of which you have a copy and which the committee has no intention of making a part of the record, there is this reference:

> It becomes more evident that decisive developments in the way of improved powder are needed to rescue us from extinction during the "lean period" in munitions requirements.

Mr. Casey. Immediately after the war was certainly a lean period; we were getting no business, and we were tiding over that lean period.

Senator Pope. Then you are very much interested in how much the Government appropriates for preparedness?

Mr. Casey. Surely. Of course, Senator, realize this: We have a plant that is a minimum-sized plant, below that you cannot build a plant, but we feel that it is only fair to note that the Government wants us to maintain it and that they must favor its maintenance and not ask, as I said before, for double taxation.

The Chairman. Let the memorandum to which we have been referring be identified as a committee exhibit, that being the memorandum of April 23, 1924. It is not to be printed.

(The memorandum referred to was marked for identification as "Exhibit No. 1362" and is on file with the committee.)

Mr. Hiss. Mr. Bradway, have you a copy of the letter you just read?

In the letter from Major General Williams, from which you read, Mr. Bradway, you will note under the sixth point which you read——

Mr. Bradway. Which one?

Mr. Hiss. The sixth point in the letter from Major General Williams. Have you got the letter?

Mr. Bradway. September 9?

Mr. Hiss. September 16, 1919. The letter from which you read, the sixth point, after the quoted part, reads, in part [reading "Exhibit No. 1360"]:

> Information is desired as to whether in time of war this authority would be further extended to enable the Government to have manufactured by concerns other than the du Pont Co., this propellant without payment for such authority or payment for the royalties.

Then you also read the reply dated October 2, 1919, introduced as "Exhibit No. 1361." Where in that letter is there an answer to that request of the Government?

Mr. Casey. I do not think there was the slightest misunderstanding as to our intention in the matter. The Government thoroughly understood it. Therefore, it was very much to my surprise, several years later, when we got a letter, I believe from General Ruggles, in which he wanted a clear statement on that one point.

Mr. Hiss. That was not referred to in your reply of October 2, 1919?

Mr. Casey. We accepted the proposition exactly as written. If du Pont FNH or NH powder is the standard propellant, the Government can get all they want, which they can get us to make, and, if they want other manufacturers to make the powder which the Government wants, they can get it without the payment of any royalty.

DEVELOPMENT OF SMOKELESS POWDER

Mr. Hiss. Mr. Bradway, what is the major military powder, in point of volume, now produced by the du Pont Co.? Smokeless powder?

Mr. Bradway. The major one? Repeat the question.

Mr. Hiss. It is smokeless powder, is it not?

Mr. BRADWAY. Yes, sir; military powder. In reference to what?

Mr. HISS. From the point of view of volume.

Mr. BRADWAY. Yes; military smokeless powder.

Mr. HISS. Going back some years to the original development of that smokeless powder, are you familiar with the name of Mr. Charles E. Munroe, who was chief chemist at the naval torpedo station at Newport?

Mr. BRADWAY. I am not familiar with him personally.

Mr. HISS. Have you heard of his name?

Mr. BRADWAY. Yes.

Mr. CASEY. I have met him once.

Mr. HISS. What was the general opinion of the industry as to Mr. Munroe's ability as a chemist?

Mr. BRADWAY. I cannot answer that. It is before my time, going back that far.

Mr. HISS. Do you know, from general knowledge in the industry, whether Mr. Munroe played any part in the development of smokeless powder?

Mr. BRADWAY. No; I cannot say that.

Mr. HISS. This memorandum, which I offer as an exhibit, was prepared, apparently, in the publicity bureau of the du Pont Co., the subject being "History of smokeless du Pont powder."

(The memorandum referred to was marked "Exhibit No. 1363" and is included in the appendix on p. 4386.)

Mr. HISS. The first paragraph says:

> It was about 1893 that Francis G. du Pont and Pierre S. du Pont invented a smokeless powder—"dead-shot powder."

Was that a military powder at that time?

Mr. BRADWAY. No.

Mr. HISS. That was not a military powder?

Mr. BRADWAY. I assume not, from the name "dead-shot powder."

Mr. CASEY. That was a shotgun powder.

Mr. HISS. At the bottom there is the date "1893." [Reading:]

> Professor Munroe resigned as chief chemist of the Newport Naval Torpedo Station and was succeeded on February 1, 1893, by H. F. Brown. H. F. Brown continued to work for a satisfactory powder under the direction of Admiral G. A. Converse and Lt. J. G. Bernadou.

Going back to the first page again [reading]:

> One of the earliest of the formulas in this country was that to produce "indurite" first made by Charles E. Munroe, chief chemist at the Naval Torpedo Station at Newport. This powder was finally abandoned because it showed a tendency to decompose when kept in storage for any length of time.
>
> The Ordnance Bureau officials furnished the du Ponts about this time with specifications for a powder closely resembling the French B. N. powder which was called "Naval smokeless powder."

Was this period in 1893 the period of research, invention, and original development of smokeless powder to a satisfactory stage?

Mr. BRADWAY. You are taking me back a long ways. It is really beyond my recollection. Maybe Mr. Felix du Pont can answer it.

Mr. A. FELIX DU PONT. I know something about it. It was.

Mr. HISS. On the second page of this memorandum, opposite the date 1895 it states [reading]:

> In 1895 these officers took out a patent for a smokeless powder closely resembling Vieille's powdre B. which had been adopted by the French Government

> In 1898 the International Smokeless Powder & Chemical Co. was formed.

Down at the bottom of the page [reading from "Exhibit No. 1363"]:

> The International Co. then turned to H. F. Brown and in 1900 engaged him as chief chemist. On his recommendation the company purchased the Bernadou-Converse patent. A plant was erected under Mr. Brown's direction in the spring of 1901 when manufacturing began. * * * The powder turned out was superior quality and the Government gave the company large orders.
>
> 1903: The capacity of the plant was doubled and in 1903 the company had orders for more powder than it could manufacture even though it worked a double shift of men and produced 7,000 pounds a day.
>
> 1904: On February 4, 1904, the control of the International Co. passed to the du Ponts.

Was the International Co. acquired by the du Pont Co. at or about that time, Mr. Felix du Pont?

Mr. A. Felix du Pont. I think that it was about that time.

Mr. Hiss. Mr. H. F. Brown came from the International Co. to the du Pont Co., did he?

Mr. A. Felix du Pont. Yes.

Mr. Hiss. He is now in what capacity with the du Pont Co.?

Mr. A. Felix du Pont. He is a director in the company and retired.

Senator Pope. Mr. Hiss, who prepared this history?

Mr. Hiss. This was prepared in the publicity bureau of the du Pont Co.

Mr. A. Felix du Pont. May I call attention to an error on the first page, right at the beginning of "Exhibit No. 1363." [Reading:]

> It was about 1893 that Francis G. du Pont and Pierre S. du Pont invented a smokeless powder "dead-shot powder."

That is incorrect. They called it "du Pont powder" and "dead shot" was the powder made by a competitor.

Mr. Hiss. Was the powder to which you just referred, Mr. Felix du Pont, a military powder or sporting powder?

Mr. A. Felix du Pont. You mean what I just referred to now?

Mr. Hiss. What you just referred to now.

Mr. A. Felix du Pont. That was a sporting powder.

Mr. Hiss. Is Mr. H. F. Brown also a vice president of the company?

Mr. Irénée du Pont. Yes.

Mr. Hiss. He acted in the past as chief chemist?

Mr. Irénée du Pont. He was the head of the smokeless powder department during the World War.

Mr. Hiss. Mr. Felix du Pont, in your opinion, was the research done at the Newport Naval Station by Mr. Munroe, by Mr. Brown, by Admiral Converse, and Lieutenant Bernadou, while they were in Government service, an important factor in the development of smokeless powder?

Mr. A. Felix du Pont. I consider it was very important, yes.

Mr. Hiss. Was the du Pont Co. also working, as the first paragraph of this indicates, on the same problem?

Mr. A. Felix du Pont. Yes, and working in complete cooperation with the Newport Torpedo Station.

Mr. Hiss. They were, therefore, informed of the development work which was being carried out by the Government?

Mr. A. Felix du Pont. Yes, sir.

Mr. Hiss. In quoting prices to the Government on smokeless powder, from the time that the company began to produce it, on, has any allowance been made for any cost of research or any of the inventions made by the Government?

Mr. A. Felix du Pont. I could not say except negatively. That is, where the research of the Government saved money expended by the du Pont Co., it resulted finally in the Government getting their powder at a less price than they would have if the du Pont Co. had carried on all the research.

Mr. Hiss. Is Mr. Davis, of the Remington Co., still here?

Mr. Davis. Yes, sir.

Mr. Hiss. Mr. Davis, I have before me a letter dated March 5, 1928, signed Remington Arms Co., by the general sales manager, whose initials appear to be "H. J. S." Can you identify him?

Mr. Davis. Harry J. Strugnell.

Mr. Hiss. Addressed to Col. W. G. Tschappat, Ordnance Department.

This letter may have been introduced previously, and, if so, it need not be numbered again.

(The letter referred to was marked "Exhibit No. 1364" and is included in the appendix on p. 4387.)

Mr. Hiss. That letter reads, in part, as follows [reading]:

> You wrote to us on February 9 in reference to the semiautomatic rifle which the Government wished to develop either through the Ordnance Department or a commercial concern. You, of course, appreciate that the development of a rifle of this type, which is entirely new, would entail a very heavy expense, and unless we were reimbursed for this expense it would not be possible for us to give any consideration to the proposition. * * *
>
> The development of a rifle such as described is undoubtedly of great importance to the Government and it is our feeling and thought that the Government should be perfectly willing to pay for any experimental work in connection with the development of an arm of this type. If the Government do not feel that they can spend money in the development work, we will be unable to proceed, because we do not know what this would amount to and we feel that we are entitled to compensation for any work of this kind just as we would expect if we were doing it for some individual or a commercial firm.

Is that still the policy of the Remington Co., with respect to development work?

Mr. Davis. I think that is true. I would like to say to develop a rifle of that kind and tool up for it would cost in the neighborhood of $125,000 to $150,000, I judge. Is that right?

Mr. Casey. More than that. Just to tool up, after you get your design, it would cost over $1,000,000.

Mr. Hiss. Prior to the letter of March 5, 1928, there was a short letter of January 6, 1928, to Mr. Strugnell. Who was the author of that letter, signed "N", president, initials being "S. N."? Can you identify him?

Mr. Davis. Saunders Norvell, former president of the Remington Arms Co.

Mr. Hiss (reading "Exhibit No. 1365":)

> I think we should write a letter to General Williams and make the statement that to design such a gun as required by the Government would be exceedingly expensive. Ask them if any appropriation has been made by the Government to cover such an expense; that otherwise we would not care to undertake the work.

That appears to be the official position of the company and not only of the sales manager at that time.

Mr. Davis. I think Mr. Hadley will have something to say along that line. He was there at the time.

Mr. Hadley. I think that conclusion is very decidedly justified, and although some discussion was given the matter, it was never carried very far. The fact is that there was but little encouragement from any of the ordnance people, when it came to a question of an appropriation that might be made. I think that they in the case of semiautomatic rifles had at some time or other, perhaps on several occasions, tested a number of guns which had been offered.

In other words, there have been a number of semiautomatic rifles, and I do not think that they felt that the time was appropriate for them to consider any further appropriation of such a sort as that suggested.

(The letter referred to was marked "Exhibit No. 1365" and appears in full in the text.)

Mr. Hiss. Colonel Harris, when the War Department purchases equipment, the development expense of which has been borne entirely or partly by the Government, is there any policy that that fact should enter into the computation of the prices paid by the Government for the product?

Lieutenant Colonel Harris. That fact should be reflected in an advantage to the Government.

Mr. Hiss. As a practical matter, do you know whether it is possible to reflect that advantage?

Lieutenant Colonel Harris. Without knowing the specific case to which you refer, I think that should reflect the advantage.

Mr. Hiss. Referring specifically to the development of smokeless powder and to the exhibits [1] already introduced by the chairman, as to prices or quotations to certain customers other than the United States Government, at not in excess of the United States Government price, and apparently less, in some cases, than the Government price—to that extent it would appear that in the case of smokeless powder no such reflection has been made in the price quoted to the Government.

Lieutenant Colonel Harris. I do not think I am clear on just what you mean, Mr. Hiss.

Mr. Hiss. The part that the Government played in the development of smokeless powder, as to which there has been some testimony, does not seem to have been reflected in any price made to the Government since that time.

Lieutenant Colonel Harris. The statement was just made by Mr. Felix du Pont, as I understood, that the Government was given the benefit of a lower price on account of that.

Mr. Hiss. I was referring to specific instances in which it appears that lower prices have been quoted to foreign purchasers than to the Government.

Lieutenant Colonel Harris. If such sales were consummated, the Government would not.

Mr. Casey. Mr. Hiss, I think you are getting a little confused there. This agreement clearly indicates that all the research and development work in connection with du Pont FNH and NH had to be borne by the du Pont Co., entirely independent of any Government agency.

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[1] "Exhibits Nos. 1354 and 1355." See text, pp. 4193 and 4198.

Mr. Hiss. As to that particular powder.

Mr. Casey. That is what we are talking about.

Mr. Hiss. We were also talking about smokeless powder.

Mr. Casey. That has been put out of the picture entirely.

Mr. Hiss. For a long time it was the only military powder sold.

Mr. Casey. Yes; but Mr. du Pont explained that was reflected in the price.

Mr. Hiss. Are you prepared to state if FNH and NH powder are improvements on smokeless powder or are they a totally new type of powder?

Mr. Casey. A new type, using some of the basic principles, of course.

DISPOSITION OF SURPLUS WAR MATERIAL AT END OF WAR

Mr. Hiss. Colonel Harris, as a part of the industrial mobilization plan, has consideration been given to the problems of surplus material arising upon termination of war?

Lieutenant Brannon. Going back to the point which you brought up this morning, if that is what you have in mind, the contract provides a method of settling for materials in the hands of contractors.

Mr. Hiss. May I interrupt just a moment? Before you get to that, in addition to whatever material contractors may have in their hands, is it not inevitable that the Government itself will have large surplus stocks in its own hands at the termination of any war?

Lieutenant Brannon. I think so.

Mr. Hiss. Was that not true at the end of the World War?

Lieutenant Brannon. It was.

Mr. Hiss. I call your attention to a statement appearing in the Graham report ,and I offer a memorandum of excerpts from that report.

The quotation is at page 11, at the bottom.

(The report referred to was marked "Exhibit No. 1366" and is included in the appendix on p. 4388.)

Mr. Hiss. I read a quotation at the bottom of page 11:

> After the signing of the armistice it was determined that there was approximately 100,000,000 pounds of copper in the hands of the War Department that could be counted as surplus copper and was not needed by the Government for war purposes, and it was evident that some disposition must be made of it, either by a sale of it to the public generally or in some other manner.

That was true of other items as well as copper? Large quantities were held by the Government?

Lieutenant Brannon. That is true.

Mr. Hiss. Has the War Department given consideration to the plan of how the Government will dispose of its surplus stocks at that time?

Lieutenant Brannon. I do not think so.

Lieutenant Colonel Harris. Let me answer that. That would be a question of national policy and more for the administration to decide rather than for the Ordnance Department to decide, because the dumping of large stocks of material on the market would have a very demoralizing influence. So that I would say that would be a question for the administration to decide rather than for the Ordnance Department to decide.

Mr. Hiss. Colonel Harris, referring now specifically to the contract provisions which Lieutenant Brannon has mentioned, do the contract forms, as now drawn, not provide for an increase of whatever surplus the Government has, a likely increase, since the Government agrees either to pay the difference between cost and salvage value or to take over materials at cost?

Lieutenant Colonel Harris. I will ask Lieutenant Brannon to answer that.

Lieutenant Brannon. I do not quite get what the implication is, Mr. Hiss.

Mr. Hiss. The question is, to restate it, lieutenant: Colonel Harris has stated that he considers the disposition of surplus Government supplies at the end of a war as an important problem of national economy. I am asking if, under the present forms of contracts proposed to be used in the event of another war, it is not true that the surplus held by the Government at the end of the war will be augmented by considerable additional supplies, in all likelihood, taken over from contractors.

Lieutenant Brannon. No doubt there will be additional surplus in the hands of the contractors.

Mr. Hiss. A large part of which will, in all probability, be taken over by the Government?

Lieutenant Brannon. I presume so. I believe it says there will be settlement at salvage value, if taken over. The matter of salvage could be extended to that surplus.

Mr. Hiss. May I call your attention to a statement appearing at page 2 of this memorandum? This is from page 81 of the Graham report on ordnance [reading from "Exhibit No. 1366"]:

> On the signing of the armistice many contracts, executed only in part, were canceled. So enormous had been the number of contracts made that there were in the factories of contractors over the country almost inconceivable quantities of raw materials and partly finished products of all kinds. It is probably not an exaggeration to say that the greater part of all the manufactured products of the country had been withdrawn from the civilian population and were in Government warehouses or private factories awaiting Government orders.
>
> Immediately after the cancelation of the myriads of contracts, the Government was confronted with the choice of either taking these materials, raw and partially finished, which had not already been delivered, and reselling the same to the public or permitting the contractors to keep them at an agreed price.

That same problem will have to be faced and also settled by the present form of contract. Is that not correct?

Lieutenant Brannon. That is correct.

Mr. Hiss (continuing reading from "Exhibit No. 1366"):

> The War Department adopted as its fixed policy in every case possible the plan to permit the contractor to keep the materials. Repeatedly throughout the hearings appears the testimony showing that the policy of the Secretary of War was to protect the market of the contractor by preventing any of his manufactured products from being sold to the public by the Government in competition with the product of such manufacturer.

That, as Colonel Harris has indicated, will be a serious question of national policy at that time [Continuing reading:]

> Therefore we find everywhere one of two things happening, either the raw materials and partially manufactured products sold back to the contractor at

salvage prices, fixed only by the comparative honesty of the contractor, or such product taken by the Government and withheld from the market by failing to declare the same, surplus.

At what rate was material purchased by contractors against contracts, but not used, taken over at the time of the armistice?

Lieutenant BRANNON. I do not think you can set one rule for all cases, Mr. Hiss. They had all kinds of materials.

Mr. HISS. What is the plan under the present contract? What prices are specified, and what method of computing prices is specified?

Lieutenant BRANNON. I will have to look at that. I do not remember that it is specified.

Mr. HISS. I think it is cost less salvage value, it it not?

Lieutenant BRANNON. I mean, for determining the salvage value. That is correct.

Mr. HISS. I do not think any method for determining salvage value is given. That will be a matter of appraisal at the time, will it not, Lieutenant?

Lieutenant BRANNON. There will be two classes of materials, Mr. Hiss. One will be the raw materials and one will be partially finished products.

Mr. HISS. I am limiting myself for the moment to the raw materials.

Lieutenant Colonel HARRIS. I think the answer is "yes" to your question.

Mr. HISS. Apparently the War Department feels that the risk of termination must be borne by the Government rather than by the contractor. Is that correct?

Lieutenant BRANNON. The contract provides that the contractor will not be paid any anticipated profits. In other words, he will be paid a price for the goods to be delivered, but no anticipated profit. If he is to be paid no anticipated profits, then it is only fair that he should be fully reimbursed for his expenses.

Mr. HISS. Does not that mean that the Government as a whole bears the cost which comes out of it, generally speaking, rather than any risk being borne by the contractor?

Lieutenant BRANNON. Yes; in other words, the Government attempts to make him whole for the cost which he has incurred, but not to pay him any profit, so that he loses his profit on the part of his contract which is canceled, but is reimbursed for the expenditure which he has made.

Mr. HISS. Lieutenant, is that termination provision also found in the fixed-price contract?

Lieutenant BRANNON. In the fixed-price contract the contract price applies, which is a fixed price subject to variation for cost of labor and materials. That provision is included.[1]

Mr. HISS. It is in article XIII, section (c)?

Lieutenant BRANNON. Article XIII.

Mr. HISS. It says [reading]:

> The cost of material on hand, purchased for a necessary part of the contract less salvage value.

Lieutenant BRANNON. That is right.

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[1] Contract for Supplies, introduced as "Exhibit No. 1226-D." Hearings, Part XV, p. 3625.

Mr. Hiss. In the event of the fixed-price contract, where the Government is not already paying the cost, is not the risk on the cost of materials to some extent on the contractor?

Lieutenant Brannon. The risk is to some extent. I believe this provides that the Government only pays an increase where the increase is ordered through some superagency which may be set up.

Mr. Hiss. That is my understanding.

Lieutenant Brannon. Yes, sir.

Mr. Hiss. Therefore, to some extent, there is a risk borne by a fixed-price contractor.

Lieutenant Brannon. There is.

Mr. Hiss. Why would it not be proper to try to translate back the fixed price into raw materials, instead of the Government bearing the risk of the cost? In other words, if the contract had been completed and the contractor had made a bad guess as to cost, he would have suffered whatever loss was involved, but, in the event of termination under the present contract, the Government saves the contractor harmless, regardless of his judgment, by paying him the cost of the materials. Is not that correct?

Lieutenant Brannon. I think it is.

Mr. Hiss. I show you a memorandum dated July 27, 1919, signed by Mr. William Coyne, on the subject of " Yields ", which I offer for appropriate number.

(The memorandum referred to was marked " Exhibit No. 1367 ", and appears in full in the text.)

Mr. Hiss. That reads:

> To: Irénée du Pont, J. P. Laffey, J. B. Broad, and B. L. Ward:
>
> You will be glad to know that at a conference Saturday morning, July 27, in Philadelphia between Messrs. J. C. Jones, Colonel Delifield, Mr. Rothermel, Maj. J. J. Johnson, and W. S. Gregg, E. C. Britton, and the writer, the Government's representatives advised that yield figures would not be used for the purpose of either figuring price adjustment on finished product delivered under our contracts, or to determine the quantity of raw materials it would have to take back from us, on canceled contracts.

Apparently the same general method adopted in the present draft of the fixed-price contracts was followed in this instance.

Lieutenant Brannon. It would appear so.

Senator Pope. Just one question. Colonel Harris, I understand that most of this surplus war material on hand at the close of the war has been disposed of.

Lieutenant Colonel Harris. Practically all. In fact, you might say all surplus property left over from the war has been disposed of at this time.

Senator Pope. What would you say about the method of disposing of it, Colonel?

Lieutenant Colonel Harris. Each commodity was treated according to the conditions existing in the trade and was disposed of in a manner that seemed least likely to disrupt market conditions.

Senator Pope. Did you have some machine guns on hand at the time?

Lieutenant Colonel Harris. Yes, sir, we did.

Senator Pope. How were they disposed of?

Lieutenant Colonel Harris. I should prefer to refresh my mind on that. I do not recall that.

Senator POPE. Do you know to whom they were disposed? [1]

Lieutenant Colonel HARRIS. No, sir; but I can find out and put it in the record. I will give you that information later.[1]

Senator POPE. All right.

Lieutenant BRANNON. Mr. Hiss, before you continue, may I make one remark in connection with this, in reference to this particular thing?

Mr. HISS. Yes, sir.

Lieutenant BRANNON. Some of the contracts during the war had termination clauses and some did not, so that when you speak of a particular case, it may have been that there was some kind of termination clause under which it was settled.

Mr. HISS. And the present view of the War Department is that that cost must be borne by the Government rather than attempting to get some yield compensation?

Lieutenant BRANNON. Yes, sir. It would be a very intricate matter there. The cost might have been much higher in the initial stage of the contract than it would have been if he had continued with it.

Mr. CASEY. Mr. Hiss.

Mr. HISS. Yes, Major.

Mr. CASEY. On the subject of yields, in the summer of 1918 the Government was very much disturbed, particularly in the case of TNT, about the available supply of raw materials, and they were endeavoring at that time to make contracts where the contractor would agree not to use more than a certain quantity.

I informed them at the time: " It won't bother us, but if you want TNT and then try to limit an inefficient contractor in his yield, you won't get the TNT, because you say you cannot use more than a certain quantity."

So, therefore, they decided, at least in our case, they would put in this possible reservation, but it simply established a basis of allowance which was to be used for determination.

Mr. HISS. In this particular case they did not do it, apparently.

Mr. CASEY. I do not know about this particular case. I was referring to the situation in general.

Mr. HISS. Lieutenant Brannon, one further question:

Will you turn to page 13 of the adjusted compensation contract;[2] article 9, paragraph 1, page 13, provides, does it not, that expenditures made by the contractor among other things for accounting services for determination of payment settlements are to be paid by the Government?

Lieutenant BRANNON. That is correct.

Mr. HISS. Do you not feel that that is an extremely liberal provision that whatever, referring to their own accounts, contractors must do in order to determine their claims shall be borne by the United States Government?

Lieutenant BRANNON. Mr. Hiss, this is really the form of cost-plus contract in which the Government undertakes to pay the cost. During the process of the work accounting costs, of course, would be paid either as direct labor or in the form of overhead. After the contract has terminated, of course, we do not continue to pay any salaries of contractors' forces, except such as are necessarily kept on the work to clear it up, for protection of the Government property, and so forth, and the actual accounting force necessary to wind up the work of the contractor.

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[1] Under date of March 29, 1935, the War Department answered this query as follows: " Following the World War, surplus machine guns were disposed of as follows: 95 Lewis aircraft machine guns to Mexico; 64 Lewis aircraft machine guns to China; 12 Lewis aircraft machine guns to Brazil; 21 Browning aircraft machine guns to Mexico; 50 Lewis machine guns to Honduras; 200 Browning machine guns to Nicaragua."

[2] Introduced as " Exhibit No. 1226–A", Hearings, Part XV, p. 3625.

Mr. Hiss. With reference to the accounting required in making settlements and determining the amount of claims, it seems to refer rather to personal services of the contractor. The average man who has a claim against the Government does not begrudge the time spent in computing it.

Lieutenant Brannon. That is true, Mr. Hiss, but as I say, this is a form of contract where we have attempted to limit the contractor's profit by paying him what we consider a very nominal fee, but the Government paying the cost. This accounting is one of the few costs that necessarily must continue for a time beyond the termination of the contract.

Mr. Hiss. Will you turn to page 24 of the memorandum I have introduced as "Exhibit No. 1366"?

At the close of the war, the surplus which the Government did dispose of was in almost in every case disposed of at a considerable loss to the Government, was it not?

Lieutenant Brannon. I do not know.

Mr. Hiss. Again quoting from the Graham report:

> On March 15, 1920, 15,000,000 pounds were sold to Belgium for export at 15 cents a pound. On April 10, 1920, 30,000,000 pounds were declared surplus. Fully one-half of this was sold to the packers, while the rest went to the country, through municipal stores and other similar agencies. What was sold to the packers netted the Government only 10½ cents a pound, less 1½ percent.
>
> Some of the officers who had charge of this surplus meat testified that it could have been sold with great ease at the price they received from the general public, namely, from 13 to 15 cents a pound.

Then on page 28, again quoting from the Graham committee:

> Your committee is convinced that there was a continued effort from the date of the signing of the armistice to the time of making the United States Harness Co.'s contract, to wit, September 24, 1920, to prevent the surplus leather equipment of the Army from being placed on the market in competition with leather products of manufacturers.

That sort of fear of competition on the part of the industry will be inevitable wherever the Government has large stocks which it feels it must dispose of?

Lieutenant Brannon. Colonel Harris mentioned that a moment ago.

Mr. Hiss. When the armistice was signed, the general price level was considerably inflated, was it not?

Lieutenant Brannon. Compared to what we ordinarily call normal times.

Mr. Hiss. The pre-war level. A large part of that inflation was due to purchases by the Government on up the line as the price level rose, was it not?

Lieutenant Brannon. I think it was.

Mr. Hiss. So that the inflation and incerased prices cost the Government money, is that not correct?

Lieutenant Brannon. That is true.

Mr. HISS. And yet at the conclusion of the armistice, when the Government had large stocks purchased at inflated prices, we find strong pressure on the part of those industries who had received that high price to have the high price maintained for their protection, and to have the Government dispose of it in such way as not to affect an inflated price structure caused by the Government purchases.

Lieutenant BRANNON. That is a question really beyond the province of the War Department, Mr. Hiss.

Mr. HISS. Turn to page 33 of " Exhibit No. 1366 "; referring again to leather, the committee stated:

> The probabilities are that the Government will not receive to exceed 15 percent of the cost value of its surplus leather goods.
>
> * * * * * * *
>
> The whole affair from the time of the armistice seems to have been a concerted movement of all the leather men, both inside and outside the War Department, to protect the leather interests at the expense of the Government, until the time came when those inside the Government, having full control of the situation, and seeing their opportunity to realize great profits, deserted their former colleagues, and secured the contract of September 24, 1920, to the consternation of their former associates.

Then on page 38 the Graham committee refers to an agreement through Gen. R. E. Wood, Quartermaster General, entered into with the Canners' Association that some 200,000,000 cans of canned vegetables would be kept off the market during the season. This agreement was subsequently extended by an order of the Quartermaster General.

Then, on page 40, according to the records of the Graham committee, Lieutenant Brannon, a cost plus 7 percent of cost contract was entered into with a company known as the " Siems-Carey-Kerbaugh Corporation " for supplying spruce for airplanes. Director of aircraft production, Mr. John D. Ryan, who became Second Assistant Secretary of War in August of 1918—and he was apparently at that time an executive of the Anaconda Copper Co.—wrote to the Secretary of War in respect to this contract [reading from " Exhibit No. 1366 "]:

> Carey stated at the beginning of the negotiations in which I had part, that they did not expect to ever secure profit from the contract except to the extent that they were able to amortize and reduce the cost of the plan to the Government and take it over on an appraisal that would enable them to engage in the lumber business. That was, I believe, the chief incentive in their making the contract and never disguised, as far as I know.

The problem of selling to a contractor or paying a contractor for his own surplus supplies means settlement at an appraisal basis of the salvage value, does it not?

Lieutenant BRANNON. I do not think you can bring in the case of selling a plant back to him. This is not a case of scrap or salvage material. It is the case of the plant, as I understand it.

Mr. HISS. Look at page 41, a schedule of property accounts. You will see that the total construction material cost $23,000,000, that the estimated salvage value was only $3,900,000, approximately $4,000,000—an example of a very severe shrinkage that had to be borne by the Government.

One further point, Lieutenant Brannon: In settling contracts of this sort I assume that there must be need of great speed in order to clear up the great number of such contracts remaining.

Lieutenant BRANNON. It is desirable, I think, to get them straightened out as rapidly as possible.

Mr. HISS. If you will look at page 42, the Graham committee makes this estimate [reading from " Exhibit No. 1366 "] :

> Those claims were going through the claims boards at the rate of about 35 a day, aggregating millions of dollars. Therefore, little time was given to their examination. The process was largely mechanical. In most cases, also, the contractors were shrewd business men, well versed in their line and were more than a match for the comparatively inexperienced members of the settling boards, most of whom knew nothing at all—and so admitted to the committee—about the business they were dealing with.

The CHAIRMAN. The committee will be in recess until 2 o'clock.

(Thereupon, at 12:40 p. m. a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The committee reconvened, pursuant to the taking of recess, at 2 p. m., Senator Gerald P. Nye (chairman) presiding.

The CHAIRMAN. The committee will be in order. You may proceed, Mr. Hiss.

TESTIMONY OF IRÉNÉE DU PONT, LAMONT DU PONT, A. C. NIELSEN, F. W. BRADWAY, C. T. HARRIS, E. M. BRANNON, AND W. S. GREGG

Mr. HISS. Colonel Harris, we were referring to the problem of surplus at the end of the war, just before the close of the morning session. Are you familiar with the amount of surplus powder on hand at the conclusion of the war?

Lieutenant Colonel HARRIS. I have not the figures. There was quite a large quantity.

Mr. HISS. I call your attention to the testimony of Maj. Gen. C. C. Williams on October 10, 1919, before the Graham committee, at which time he estimated there were 200,000,000 pounds of smokeless powder on hand at the conclusion of the war.

Does that sound approximately correct to you?

Lieutenant Colonel HARRIS. It seems so.

Mr. HISS. Do you know where the most of that powder was stored after the war?

Lieutenant Colonel HARRIS. It was stored in various Government establishments, but the greater portion was stored at the Old Hickory powder plant.

Mr. HISS. Do you know how much of that powder that was then stored still remains in Government possession?

Lieutenant Colonel HARRIS. I do not know how much remains. A great deal of it does not.

Mr. HISS. Are you familiar with a fire that occurred at Old Hickory, Colonel Harris?

Lieutenant Colonel HARRIS. I have a recollection of it; yes.

Mr. HISS. Do you recall approximately how much powder was destroyed at that time?

Lieutenant Colonel HARRIS. I would hate to say. Something like 35,000,000 is in my mind. I don't know whether it is right or not.

Mr. HISS. Something like 35,000,000 pounds?

Lieutenant Colonel **Harris**. I don't know whether that is right or not, but that figure is in my mind.

Mr. **Hiss**. Are you familiar with the various experiments made in storing that powder, trying to prevent its deterioration?

Lieutenant Colonel **Harris**. Are you referring to under-water storage?

Mr. **Hiss**. Yes.

Lieutenant Colonel **Harris**. Yes; I am generally familiar with that.

Mr. **Hiss**. Can you describe generally what occurred in that connection?

Lieutenant Colonel **Harris**. We were faced with the task of taking care of this tremendous amount of powder, which was a great fire hazard, and in endeavoring to reduce the cost of maintenance of storage at Old Hickory—there had been some French tests of storing powder under water—there was developed and put into operation a scheme of storing this powder under water at the Old Hickory powder plant.

Mr. **Hiss**. How did that work out, do you remember?

Lieutenant Colonel **Harris**. It did not work out very well.

Mr. **Hiss**. It was not a successful method of preserving powder?

Lieutenant Colonel **Harris**. It was not.

Mr. **Hiss**. Do you recall how much powder there was stored in that way, approximately?

Lieutenant Col. **Harris**. I cannot remember.

Mr. **Hiss**. I call your attention to a letter of April 30, 1929, signed by W. H. O'Gorman, assistant director. It comes from the files of the du Pont Co. I will ask that that be marked with the appropriate exhibit number.

(The letter referred to was marked "Exhibit No. 1368" and is included in the appendix on p. 4408.)

Mr. **Hiss**. I will read from the third paragraph:

> The War Department has in storage at Old Hickory more than 20 million pounds of smokeless powder, which at present is stored under water. Ballistic tests on samples of this powder indicate that it is ballistically unstable. It is, therefore, useless to the War Department. The Ordnance Department has decided to dispose of a portion of the 20 million pounds this year. It is estimated that five to six million pounds will be placed on the market in exchange for FNH. The balance, or upwards of 15 million pounds, will also be disposed of, but the Ordnance Department has not stated as to the approximate date when the greater portion of the powder will be made available for exchange.

What is the reference to "exchange" there?

Lieutenant Colonel **Harris**. There is a law on the statute books that authorizes the Ordnance Department to exchange deteriorated ammunition for renovated or new ammunition.

Mr. **Hiss**. How is that exchange carried out, as a practical matter?

Lieutenant Colonel **Harris**. First, after public notice of desiring bids, bids are received, and a contract is entered into with the successful bidder. The method of bidding was that they were to give so many pounds for so many pounds.

Mr. **Hiss**. So many pounds of good powder for so many pounds of bad powder?

Lieutenant Colonel **Harris**. Yes; give so many pounds of good powder for so many pounds of bad powder.

Mr. HISS. Do the specifications in the bids require certain types of new powder?

Lieutenant Colonel HARRIS. Yes; the specifications in the bids required the powder that we wanted.

Mr. HISS. Mr. Bradway, do you know whether in connection with this exchange the du Pont Co. has at times participated in such bidding?

Mr. BRADWAY. Yes; they have.

Mr. HISS. Have other bidders than the du Pont Co. bid on the basis of securing powder from the du Pont Co. in order to comply with their bids? In line with that let me refer again to this last exhibit, the letter of April 30, 1929:

> Other advices given to you were to the effect that the Peters Cartridge Co. were anxious to buy one or two million pounds of powder at 8 cents per pound and that the Western Cartridge Co. would most likely bid on scrap powder. Both of these companies use scrap cannon powder as a basis for making shotgun powder, which is used in cheap-priced shot shells. They could readily afford to pay as high as 10 cents to 15 cents per pound and as their present stocks of cannon powder are low, it would not be surprising if they submitted a higher price to the Government on the next exchange of smokeless for FNH powder.

Mr. Bradway, what uses does the du Pont Co. have for the deteriorated powder which it acquires in this manner?

Mr. BRADWAY. They use it in some of their commercial products, like lacquer, and to some extent in some fabric coatings.

Mr. HISS. Is there recovery of nitrocellulose from the powder?

Mr. BRADWAY. Yes; nitrocellulose. The powder has to be treated to recover the nitrocellulose of the powder, so that it can be used in some other materials.

Mr. HISS. Colonel Harris, in relation to the amount of powder which was stored under water, which was estimated at 20 million pounds in this last letter, on September 24, 1929, we have a memorandum signed by Mr. Aiken Simons on the subject of "Deteriorated smokeless powder at Old Hickory", which I will offer for the record for appropriate exhibit marking.

(The memorandum referred to was marked "Exhibit No. 1369" and is included in the appendix on p. 4408.)

Mr. HISS. This memorandum contains the following:

> The Ordnance Department, United States Army, was instructed by the General Staff to put in a formal request for permission to sell the deteriorated powder in under-water storage at Old Hickory, amounting to approximately 25,000,000 pounds.

Does that estimate or change of estimate from 20 million pounds in the first letter to 25 million pounds in the second letter strike you as being correct?

Lieutenant Colonel HARRIS. I do not recall how much was stored under water, so I am unable to say.

Mr. HISS. Mr. Bradway, I have here a statement supplied to me by you, headed, "Deteriorated smokeless powder purchased by the du Pont Co. from the United States Government", showing that in 1928, 3,700,000 pounds were purchased; 1930, 4,000,000 pounds; in 1931, nearly 2 million pounds; in 1932, over 2 million pounds; in 1933, over 1 million pounds; in 1934, 2 million pounds, making a total of 16,643,279 pounds, at a cost of $704,389, which is an average of 4.2 cents per pound.

That powder, Colonel Harris, of course, had cost the Government somewhere between the 47½-cent price and some of the higher prices that have been referred to, didn't it?

Lieutenant Colonel HARRIS. Within that range.

Mr. HISS. The location of the powder referred to shows 5,000,000 pounds purchased from Old Hickory, that is, stored at Old Hickory, and the other purchased from various storage places.

I offer that as an exhibit for the purposes of the record.

(The statement referred to was marked " Exhibit No. 1370 ", and is included in the appendix on p. 4409.)

Mr. HISS. Mr. Bradway, has the du Pont Co. purchased deteriorated powder from other sources than the United States Government?

Mr. BRADWAY. It has.

Mr. HISS. Do you recall a purchase made in 1921 from the Bethlehem Chemical Co. of 33,000,000 pounds?

Mr. BRADWAY. Yes.

Mr. HISS. This agreement, which I offer in evidence, is dated June 1, 1921, between the Bethlehem Chemical Co. and the du Pont Co.

(The agreement referred to was marked " Exhibit No. 1371 " and is included in the appendix on p. 4410.)

Mr. HISS. This agreement is for 33,000,000 pounds of smokeless powder. Please turn to page 4, Mr Bradway, where the purchase price is stated to be 23,000,000 pounds at 1½ cents a pound, which includes 10 cents for each container in which the powder is packed and 10,000,000 pounds at 3 cents per pound, which includes 10 cents for each container in which the powder is packed.

In addition to the amounts indicated in the first exhibit, that is, the exhibit introduced just before this one, and to the 33,000,000 pounds purchased from Bethlehem Chemical Co., do you know whether the company may also have purchased additional amounts of deteriorated powder?

Mr. BRADWAY. Yes; we have purchased additional amounts.

Mr. HISS. The June 1, 1921, contract just referred to recites that the seller—namely, the Bethlehem Chemical Co.—had acquired the 33,000,000 pounds which it was selling to du Pont, from the United States Government.

Mr. Gregg, have you with you a copy of the contract, dated December 1, 1923, between the United States of America by Maj. Charles R. Baxter of the Ordnance Department and the du Pont Fibersilk Co.?

Mr. GREGG. I have. I would like to go back to the Bethlehem contract, if I may do so.

Mr. HISS. Surely.

Mr. GREGG. The 33,000,000 pounds under that contract with the Bethlehem Chemical Co. were at the rate of a cent and a half a pound and the 10,000,000 pounds were at the rate of 3 cents a pound, under that contract.

Mr. HISS. That is just what I said.

Mr. GREGG. Oh, did you say that? I beg your pardon. Yes, I have a copy of that contract that you asked about.

SALE OF OLD HICKORY VILLAGE TO DU PONT FIBERSILK CO.

Mr. Hiss. What was the du Pont Fibersilk Co., Mr. Gregg?

Mr. Gregg. The du Pont Fibersilk Co., which is now the du Pont Rayon Co., was engaged in the manufacture of rayon. It had a plant at Buffalo, N. Y.

Mr. Hiss. That is a hundred percent subsidiary of the du Pont Co.?

Mr. Gregg. It was not at that time, but is now.

Mr. Hiss. Do you know what the interest of the du Pont Co. was in the du Pont Fibersilk Co. at this time?

Mr. Gregg. I know the du Pont Co. had majority control.

Mr. Nielsen. It was about 60 percent. That is approximate.

Mr. Hiss. I offer this contract in evidence for appropriate exhibit marking.

(The contract referred to was marked "Exhibit No. 1372", and is included in the appendix on p. 4413.)

Mr. Hiss. The first recital clause on page 1 of the contract reads as follows:

> Whereas on November 22, 1920, the United States of America, by Dwight K. Shurtleff, major, Ordnance Department, United States Army, acting under the authority of the Secretary of War, entered into a certain contract with the Nashville Industrial Corporation, a corporation organized and existing under the laws of the State of New Jersey, for the sale and delivery to said Nashville Industrial Corporation of the United States Smokeless Powder Plant and facilities (generally known and hereinafter referred to as the Old Hickory powder plant) located at Jacksonville, Tenn.

The next recital clause states that on July 25, 1923, the United States instituted a proceeding in equity against the Nashville Industrial Corporation praying that the contract referred to before be declared fraudulent and void.

Do you know, Mr. Gregg, what the outcome was of that particular proceeding?

Mr. Gregg. Because this is leading up, I assume, to the purchase of the land and buildings down there by the du Pont Fibersilk Co. at that time. I might say my first knowledge of this matter and of the Nashville Industrial Corporation is when the du Pont Fibersilk Co. came to me with a contract—well, it was not a formal contract; it was merely an exchange of letters, as I recall it—under which they had agreed to purchase and the Nashville Industrial Corporation had agreed to sell certain land and buildings—and the buildings were principally the village—at the Old Hickory powder plant.

Mr. Hiss. Do you remember the date of that, Mr. Gregg?

Mr. Gregg. I cannot recall the exact date that they came to me with that.

Mr. Hiss. There are certain exhibits attached to this, which may fix the date, directly after the contract as printed, which would be the page following page 8.

Mr. Gregg. Of the contract?

Mr. Hiss. Of the contract, according to the copy I have. There is a letter of August 16, 1923, addressed to Messrs. B. P. Morse and William P. Smith, receivers for Nashville Industrial Corporation, signed by the du Pont Fibersilk Co., by L. A. Yerkes, president.

Is that the letter to which you referred, or is that one of the letters to which you referred?

Mr. Gregg. I think it is, Mr. Hiss.

Mr. Hiss. Had there been any negotiations prior to August 16, 1923?

Mr. Gregg. I assume that the du Pont Fibersilk people had been in negotiation.

Mr. Hiss. Do you know over how long a period of time negotiations were carried on?

Mr. Gregg. That I do not know. I do know this, and I might say this, that the du Pont Fibersilk Co. had investigated several sites for an additional rayon plant prior to making this offer to the Nashville Industrial Corporation.

Mr. Hiss. Will you turn to article 1 of the contract, entered as "Exhibit No. 1372", on page 6 of the copy that I have. I am reading from the clause following the semicolon:

> The United States will sell and convey the spur-line railroad and switching yards above referred to to the Tennessee Central Railway Co. for a consideration of one dollar, upon the condition that the Tennessee Central Railway Co. will give to the du Pont Fibersilk Co. a guaranty in writing that it will permanently operate and maintain said spur-line railroad and switching yards, and establish Nashville freight rates or better at the Old Hickory Powder Plant property.

Has that part of the contract been carried out?

Mr. Gregg. I think so.

When the du Pont Fibersilk Co. came to me with this proposal that they had made to the Nashville Industrial Corporation, I told them that I had heard for some time that the Government contemplated instituting suit against the Nashville Industrial Corporation, on the ground that there was some collusion or fraud between the representatives of the Nashville Industrial Corporation and the Government representatives who entered into that contract with respect to the sale of this property to the Nashville Industrial Corporation.

I advised the du Pont Fibersilk Co. that under those conditions, if the Government should bring a suit and the court should hold that there was fraud in connection with this contract and set the contract aside, they would not have a clear title to the property.

I then came to Washington. I took the matter up with the War Department and with the Department of Justice. They both had investigated, or at least the Department of Justice had investigated the conditions surrounding the sale to the Nashville Industrial Corporation.

I told the representatives of the Government here in Washington that we would not make that purchase unless the War Department and the Department of Justice would approve the contract, any contract between the du Pont Fibersilk Co. and the Nashville Industrial Corporation.

I was advised by the Department of Justice, by Mr. Seymour, who was then, as I recall it, assistant to the Attorney General, that the Department of Justice would not recognize and would not approve any contract that the du Pont Fibersilk Co. might make with the Nashville Industrial Corporation, but that the Government would sell us the property.

My reply to that was that I could not consider that proposal, because the Government had made a contract or the War Department had made a contract with the Nashville Industrial Corporation, under which they had sold the property to the Nashville Industrial Corporation, and I said, "If you do institute proceedings the court may hold that this contract between the Government and the Nashville Industrial Corporation is a valid contract. Therefore, we would be in trouble so far as title is concerned."

Mr. Seymour said: "Well, we consider the price of $650,000 that the du Pont Fibersilk Co. has offered for this property a fair price."

Mr. HISS. Is that the price finally paid, Mr. Gregg?

Mr. GREGG. In connection with this purchase, Mr. Hiss, so far as I can recall.

Mr. HISS. Yes.

Mr. GREGG (reading):

> And we would like to make the sale to you for that reason.

I then said to Mr. Seymour, "Well, I have heard it said several times that you were going to institute a suit against the Nashville Industrial Corporation, and, while I am not asking you to institute suit against anyone at all, you say that you consider this a fair price for the property. Now, if you contemplate bringing proceedings against the Nashville Industrial Corporation and if you wish to institute such proceedings, why don't you do it now and have receivers appointed for the property during the pendency of the suit? In that way we could get a deed from the receivers for the Nashville Industrial Corporation and we would also be in a position to get a deed from the clerk of the court for the property."

While I was in his office he called up the War Transactions Section that had this Nashville Industrial Corporation in hand, and asked them whether they were in position to institute proceedings. I assume the reply that he got over the phone was to the effect that they were, because he then turned to me and said, "That suit will be instituted within the course of a few days."

They did institute a suit in equity. Receivers were appointed to take over the property during the pendency of the suit, and I believe that about that time they also had an indictment in connection with the matter pending in the Supreme Court of the District of Columbia.

Following the appointment of the receivers, we went ahead with the negotiations, with the result that we got a quitclaim deed from the War Department. I won't be positive, but I think it must have been a quitclaim deed from the Nashville Industrial Corporation, represented by the two receivers, and a deed from the clerk of the United States District Court at Nashville.

With those various deeds I felt we were protected as far as title was concerned.

Mr. HISS. Mr. Gregg, do you know the final outcome of the suit to which you referred which was instituted by the United States?

Mr. GREGG. My recollection is that there was a consent decree entered in that case—of course, I had nothing to do with that; I am just giving it from memory now—that there was a stipulation and a consent decree under which the Nashville Industrial Corporation agreed to pay a certain sum of money to the Government in connection with that property which, as I recall now—I do not want to be positive about this—but, as I recall, it was a somewhat larger sum than was agreed upon in the original contract between the War Department and the Nashville Industrial Corporation.

Mr. Hiss. Colonel Harris, could you secure for the committee the amount of the original price and whatever final amount was paid?[1]

Lieutenant Colonel Harris. I will try to.

Mr. Hiss. Mr. Gregg, referring again to this contract, "Exhibit No. 1372", article 1, the part I have read, that—

> The United States will sell and convey the spur-line railroad and switching yards above referred to to the Tennesee Central Railway Co. for a consideration of $1 upon the condition that the Tennessee Central Railway Co. will give to the du Pont Fibersilk Co. a guaranty in writing that it will permanently operate and maintain said spur-line railroad, and switching yards, and establish Nashville freight rates or better at the Old Hickory Powder Plant property—

You believe that was carried out?

Mr. Gregg. To the best of my recollection.

Mr. Hiss. Article 2 reads:

> In order that the du Pont Fibersilk Co. may enjoy the use of the concrete road running through the Old Hickory Powder Plant property and the use of the suspension bridge over the Cumberland River at the end of said road, the United States will convey said road and said bridge to Davidson County, in the State of Tennessee for the benefit of the public, upon the condition that Davidson County accept the same as one of its county roads.

If you will turn to "Exhibit A", schedule of property, rights and privileges, under parcel A, page 2——

Mr. Gregg. Appendix A you are referring to now?

Mr. Hiss. It is listed as "Exhibit A." No; it is appendix A.

Mr. Gregg. Appendix A; yes.

Mr. Hiss. There are two documents marked "Appendix A"; one is the letter and one is the schedule.

Mr. Gregg. That is correct.

Mr. Hiss. Appendix A of "Exhibit No. 1372", marked "Schedule of property, rights, and privileges", page 2, after referring to the property described as parcel A, in the last paragraph it says:

> All of the permanent village within the bounds of parcel A, consisting of 346 permanent houses, including all replacements of plumbing, heating, and lighting fixtures in good usable condition that may have been removed from said permanent homes. Said replacements of fixtures to be delivered to the buildings by the receivers at their expense and to be installed by Du Pont Fibersilk Co. at its expense.
>
> In addition to the said permanent houses, the following houses within the bounds of parcel A are to be included:
>
> One hundred and sixty-six so-called "6-room temporary bungalows", which are frame structures covered with either rubberoid or tar paper, including all of the plumbing and lighting fixtures in same. Replacements parts in good usable condition to replace any of the fixtures which have been removed are to be delivered to the buildings by the receivers at their expense and to be installed by the Du Pont Fibersilk Co. at its expense.

In addition:

> Sixty 2-story, 6-room, 6-apartment houses which are frame structures covered with rubberoid or tar paper, including all plumbing and lighting fixtures.

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[1] Under date of March 29, 1935, the War Department submitted the following information to the committee:

The records of the Ordnance Department show that the purchase price of the Old Hickory plant contained in the contract of Nov. 22, 1920, with the Nashville Industrial Corporation was $3,503,000. The following were excluded:

Property sold prior to July 12, 1920, valued at	$2, 800, 000
Property previously transferred to other Government departments, valued at	2, 700, 000
Other property specifically reserved by the Government, valued at	1, 800, 000
Total exclusions and deductions	7, 300, 000

Replacement fixtures in good usable condition to replace such fixtures that have been removed are to be delivered to the buildings by the receivers at their expense and to be installed by the Du Pont Fibersilk Co. at its expense.

Nineteen 1-story, 4-room, 6-family apartment buildings, of frame construction covered with rubberoid or tar paper, including all plumbing and lighting fixtures. Replacement fixtures in good usable condition to replace such fixtures as have been removed will be delivered to the buildings by the receivers at their expense and to be installed by the Du Pont Fibersilk Co. at its expense.

A brick building known as the "Percy House."

Police headquarters.

Soda storehouse no. 5 (excepting contents).

Y. M. C. A. with the equipment.

Y. W. C. A.

Hotel, including 2 dormitory or rooming-house buildings, and 1 dining-hall building.

Two-bed hospital with all equipment.

Post office with all equipment.

Fire house and equipment, including one Broadway hose truck and one Ford chief's car.

Retail-store building occupied by the H. G. Hill Grocery Co., together with adjoining building, and such equipment located therein as does not belong to H. G. Hill Grocery Co.

Dry-goods store.

Paint shop.

Garage.

Drug stores.

Commissary store.

Bank building.

Farm house near the Hill store.

Swimming pool and bath houses.

Three community garages in village and other garages and maids' quarters on property—

And a list of additional buildings—

all of which are indicated on map U.S.N. No. 10, exhibit no. 1.

All railroad tracks now located on parcel A, together with the tracks and right-of-way for same connecting said tracks with the classification yard and main railroad spur, and the right to construct new railroad spur across the railroad right-of-way and road right-of-way to connect such additional tracks as the du Pont Fibersilk Co. may find it necessary to install on parcel A with the main railroad spur and classification yard.

All pipe lines of any nature above or below ground within the limits of parcel A together with valves and fire hydrants and manholes, inlet boxes, et cetera, on sewers, all pole lines, electric transmission lines, telephone lines, fire alarm, and all other signal lines within the limits of parcel A.

* * * * * * *

Included with the pump house are two 8,500-g.p.m. pumps—

Gallons per minute is that?

Mr. Gregg. Where is that?

Mr. Hiss. Page 5, under parcel B [reading from "Exhibit No. 1372"]:

Included with the pump house are two 8,500-g.p.m. pumps.

Is that gallons per minute?

Mr. Gregg. That is right.

Mr. Hiss (continuing reading):

With motors, together with all of the equipment, piping, electrical equipment, wiring, conduits, and switchboard inside of the building.

Again on page 8 [reading]:

On the 100-acre factory site of parcel A said 100-acre tract being marked "AA"—

Is that in addition to the village described, Mr. Gregg?

Mr. Gregg. What article is that?

Mr. Hiss. This is not an article. It is under "Rights-of-way" in this appendix.

Mr. Gregg. Page 8?

Mr. Hiss. Page 8 [reading]:

> On the 100-acre factory site of parcel A said 100-acre tract being marked AA on exhibit 1 the du Pont Fibersilk Co. purchases of the improvements on this factory site only the following—

That was in addition to the village to which you have already referred, was it not, Mr. Gregg?

Mr. Gregg. That is my understanding. I tell you what I would like to do: I have some of my files here, and I would like to check this. I assume that what is listed here, which was apparently the appendix to the proposal made by the du Pont Fibersilk Co. prior to the institution of suit, and so forth, but I would like to ascertain whether that makes reference to the same property.[1]

Mr. Hiss. Could you just ascertain that and let us know subsequently, Mr. Gregg?

Mr. Gregg. Yes, sir; I will. I would like to check that though.

Mr. Hiss. The village described in this contract is the village that was constructed by Mason & Hanger Co., is it not, Mr. Gregg?[2]

Mr. Gregg. I think the Mason & Hanger Co. did construct the village; yes, sir.

Mr. Hiss. In addition to that there was a 100-acre factory site referred to, with certain equipment on the site?

Mr. Gregg. That is correct.

Mr. Hiss. The amount paid to Mason & Hanger for the construction of the village was $20,000,000, was it not?

Mr. Gregg. No, no; not for the construction of the village. That was $21,000,000, as I recall it, for all the work Mason & Hanger did.

Mr. Hiss. In addition to the village, what did Mason & Hanger do under their agreement?

Mr. Gregg. They built the railroad into the plant. I think there might be someone here who can give you more detail on that.

Mr. Hiss. Referring to the railroad, Mr. Gregg, under this contract the railroad spur track was conveyed to the railway company for $1 by the Government, in order that it be kept open into the plant and the Nashville freight rates be guaranteed?

Mr. Gregg. That is correct.

Mr. Hiss. And in addition to the village site was the 100-acre factory site?

Mr. Gregg. That is correct, if that checks with what was eventually conveyed to us.

Mr. Hiss. The total amount paid by the du Pont Fibersilk Co. for whatever it has acquired on the Nashville site was $600,000, was it not?

Mr. Gregg. To the best of my knowledge. That is, in connection with that purchase.

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[1] Under date of Apr. 18, 1935, Mr. Gregg notified the committee that the items in question are a part of the village and not an addition thereto. See appendix, p. 4496.

[2] Additional data regarding Mason & Hanger Co. on p. 4254.

LEGISLATIVE ACTIVITIES OF DU PONT OFFICIALS

The CHAIRMAN. Mr. Irénée du Pont, I want to state a request here that is somewhat involved, having to do with a request for information which we would like to have you furnish the committee.

We would like to have a list showing the names of all company officials, officers, employees, representatives, publicity agents, or lawyers who have been engaged in any character of legislative work for the company, that is E. I. du Pont de Nemours & Co., from 1920 to 1934 inclusive, together with a showing of their salaries by years, and such other income from the company or association and affiliated companies as might have been theirs.[1]

Also we would like to be supplied with the names of all officers or officials or representatives, publicity agents, or lawyers of various organizations to which the company contributed, directly or indirectly, during these years, and who engaged in legislative work of any character for the societies or for the company, and any of its affiliated companies, together with the total amounts of their salaries and their incomes during these years.[1]

If you would like, the Chair will have this request repeated in a letter and dispatch it to you at Wilmington.

Mr. IRÉNÉE DU PONT. I wish you would repeat that in a letter, but I should think that there is certainly some of that that would be utterly impossible for me to obtain, and I doubt if the company could obtain it.

What authority have we got to go to an organization, of which we may be only members, and secure from them, without your authority or specific subpena to them to bring "duces tecum" information. We cannot possibly do it.

The CHAIRMAN. Could you not request such association or organization to supply the committee with that information?

Mr. IRÉNÉE DU PONT. I do not know how long it would take, to go over 14 years of correspondence, because I do not know just what you mean by some of that. Of course, I have not had a chance to think about this, and I have not had your letter yet. Perhaps when I get your letter I can "stew" something more out of it.

The CHAIRMAN. With that understanding, we will try to make it a little clearer in the letter just what is wanted. If difficulty arises in furnishing any of that, of course you can apprise the committee of that difficulty.

Senator CLARK. Mr. Chairman, while you are asking for information, I would like to have an exhibit prepared by the company showing how much, if any, the du Pont Co. itself, or the same list of officials as to whom information was furnished on campaign contributions, contributed to the National Economy League.[2]

The CHAIRMAN. Mr. du Pont, have you had anyone detailed to Washington during this period from 1920 to 1930 to handle legislative matters for the company?

Mr. IRÉNÉE DU PONT. I do not know just what you mean. I was detailed to come down here in 1919, and came down about 6 or 7 days, and I think I saw pretty nearly everybody here. I do not mean everybody in this room, but anybody who had any influence with the legislation, that I could find.

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[1] For du Pont response to above requests, see appendix, p. 4497.

[2] Under date of Apr. 18, 1935, the du Pont Co. furnished information regarding contribution to the National Economy League. See appendix, p. 4498.

There were other members of the du Pont Co. down here at the same time.

The CHAIRMAN. Have you employed anyone, outside of your own official staff, to do legislative work in Washington?

Mr. IRÉNÉE DU PONT. I do not recall anyone, but it is quite possible we may have. My recollection is hardly elastic enough to say.

The CHAIRMAN. Did Joseph Tumulty do any legislative work for you in Washington?

Mr. IRÉNÉE DU PONT. Not to my knowledge.

The CHAIRMAN. The record reveals that he was paid, Mr. du Pont, for services rendered your company, but they were ostensibly, or they were evidently, for services quite alone in New Jersey.

Mr. IRÉNÉE DU PONT. I do not recall.

Mr. NIELSEN. That is correct, Mr. du Pont. I saw the voucher. He did some work in New Jersey for us.

Senator POPE. What sort of work? Legal work?

Mr. NIELSEN. Legal work.

The CHAIRMAN. It had to do with tax matters?

Mr. NIELSEN. Tax matters; yes, sir.

The CHAIRMAN. And some legislation which was pending, perhaps?

Mr. NIELSEN. I cannot tell you that.

The CHAIRMAN. Mr. R. R. M. Carpenter.

TESTIMONY OF ROBERT R. M. CARPENTER

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Mr. Carpenter, have you given the reporter your full name?

Mr. CARPENTER. Yes, sir.

The CHAIRMAN. You are a retired vice president of the du Pont Co., are you not, Mr. Carpenter?

Mr. CARPENTER. Yes, sir.

The CHAIRMAN. In what various capacities or at the heads of what departments did you serve during your time with the du Pont Co.?

Mr. CARPENTER. May I refer to a memorandum, Senator?

The CHAIRMAN. Yes, of course, you may.

Mr. CARPENTER. I think I made a memorandum on it. How far back would you like to go, Senator?

The CHAIRMAN. When did you become a vice president?

Mr. CARPENTER. March 23, 1916.

The CHAIRMAN. Let us go back to that time.

Mr. CARPENTER. All right. On April 1, 1917, I was in charge of the development department. That was a department which was looking into new industries which the company might go into, and any other matters of that nature. In the year 1919 I was a member of the finance committee; from April 1919, to September 1921, I was a member of the finance committee.

From September 1921, to July 1922, I was the general manager of the cellulose department.

From February 1923, to August 1923, I was general manager of the pyrolene department.

From April 1925, to March 1931, I was a member of the executive committee.

I can explain, probably, Senator, why there were so many of those changes. I specialized more or less in the company on personnel and on organization matters. My reason for going into these different departments more or less frequently was purely an organization matter until those departments were reorganized, at which time I retired from that department, and probably was inactive for a while, and then went into some other department.

My work was mostly personnel and organization work.

The CHAIRMAN. When did you retire from the vice presidency of E. I. du Pont de Nemours & Co.?

Mr. CARPENTER. I still have that title. although inactive, as it is the custom of the company when any of the vice presidents retire and remain a director, they retain their title as complimentary, you might say.

The CHAIRMAN. When did you become a vice president retired?

Mr. CARPENTER. March 1931.

The CHAIRMAN. Have you continued in any capacity at all under this retirement? Have you maintained any connection at all?

Mr. CARPENTER. As a director, and at times in some advisory capacity, as someone requests, or if anything comes to my attention that I wish to call to the attention of any other department or official of the company, why, naturally, I do so, whether I happen to be in Wilmington or some place else.

The CHAIRMAN. Where do you maintain offices, Mr. Carpenter?

Mr. CARPENTER. I have an office in the du Pont Building.

The CHAIRMAN. Do you term that your headquarters?

Mr. CARPENTER. Yes, sir.

Mr. LAMMOT DU PONT. Mr. Chairman, I think Mr. Carpenter is entirely too modest as to his activities since retirement. He is frequently consulted on personnel and organization matters.

The CHAIRMAN. I, too, have been inclined, Mr. du Pont, to think that he was overmodest in connection with his continuing service.

Mr. Carpenter, were you, during your active vice presidency, engaged specifically in legislative work for the company?

Mr. CARPENTER. No, sir; Let me qualify that, Senator, if you will. I do not say that I did not have the same interest that other members of the executive committee had or any other vice president had, and possibly a half a dozen times I might have or I did interview someone with whom I was acquainted, or probably at the request of the president, but, as for being in charge or having any active position in legislative work, no, sir; to answer your question specifically.

The CHAIRMAN. It is not the case, then, that all legislative matters were referred to you yourself, when they arose during the time of your service as vice president?

Mr. CARPENTER. No; they were not. There have been times when men who might have reported to the executive committee through me, such as Mr. Weston, our policy being that on a small department or small division like a publicity division, that he had to contact with the executive committee, the contact being generally through the vice president on the executive committee.

Senator Clark. Mr. Carpenter, we had an exhibit here last week, being a memorandum from Major Casey to yourself, in which he used this language:

> We believe this matter comes under the heading of "Unfavorable Legislation by the United States Government."

I thought that was an unusual procedure. He said that it was in the ordinary course to refer anything to you that had to do with "unfavorable legislation."

Mr. Carpenter. May I see that letter? I still insist I had no jurisdiction over legislative matters, but I would like to see the letter.

The Chairman. We shall come back to the letter, which is a matter of record.

Speaking of contact, did the Du Pont Co. during your service there maintain a so-called "legislative" contact man?

Mr. Carpenter. You mean over a period of years?

The Chairman. For a day or for a period of years.

Mr. Carpenter. I think that was in the hands of the legal department, all legislative matters.

The Chairman. Who was retained as legislative contact man?

Mr. Carpenter. I think that Judge Laffey at that time was head of the legal department. As to who his employees were, I am not sure.

The Chairman. We were not terming the judge as having been the legislative contact man.

Mr. Carpenter. I do not know that we ever had a legislative contact man officially; not to my knowledge. I do not say that we did not, because I was not particularly interested in it.

The Chairman. Who in the company would you feel was the contact man on legislative matters, so to speak?

Mr. Carpenter. All legislative matters were referred to Judge Laffey, as I remember.

The Chairman. Mr. Carpenter, I have before me a letter written at the Wardman Park Hotel in Washington on December 4, 1919, by Weston, and addressed to you. Who is Weston?

Mr. Carpenter. May I go back a year or so and explain the situation?

Mr. Weston was employed by me when I was in the development department, during the war, as what we call a publicity man. There were a great many articles going in the papers which we thought detrimental, both to the interests of ourselves and the interests of the Government, and we decided that we would employ a man who could govern those questions through the newspapers and send them true information.

Mr. Weston, as I say, reported to the executive committee through me. And if he happened to be away at some other city, and had a matter that referred to a legislative matter, for example, if that is what you are bringing up, he might send that letter, as a matter of course, through my office, addressed to me, and it would be referred to whomever was concerned.

May I glance at that letter, Senator?

The Chairman. Just what was Weston's capacity?

Mr. Carpenter. His title was publicity manager.

The CHAIRMAN. This is a letter which has already been introduced into the record and is known as "Exhibit No. 1059."[1]

Let us read it. I think it has not been read in full as yet [reading]:

> DEAR MR. CARPENTER: T. C.—

who is T. C.?

Mr. CARPENTER. I judge Mr. Coleman du Pont.

The CHAIRMAN (reading):

> T. C. and King—

who is King?

Mr. CARPENTER. I do not know unless it means John King.

Senator CLARK. Is that John T. King?

Mr. CARPENTER. I guess it was; was it not? John T. King.

Senator CLARK. One of the national committeemen from Connecticut?

Mr. CARPENTER. I think that is probably who is meant. I do not think I ever met him but once.

Senator CLARK. He died while under indictment for frauds in connection with the Alien Property Custodian office?

Mr. CARPENTER. I do not know anything about that.

The CHAIRMAN (reading):

> T. C. and King can help with Senate subcommittee. Curtis, of Kansas, is the party whip and always goes regular. The national committeeman, urged on by T. C. and King, either directly or through Hays, could manage him.
>
> Senator McLean, of Connecticut, ought to be easy for King to reach.
>
> Can't you get the wires or phone busy on King? He is due here early in the week for a national committee meeting—expected to arrive on Sunday—and could help this cause without inconvenience.
>
> We have all kinds of "dope" about Watson, of Indiana. The disquieting report is that he has been busy in behalf of importers and is not friendly to us. We thought Landis had him fixed and still hope that is true.

Who is Landis?

Mr. CARPENTER. I suppose that refers to Mr. Landis who I think at that time was in Washington representing Colonel Buckner.

Senator CLARK. He was a former Congressman from Indiana?

Mr. CARPENTER. Yes, sir.

Mr. IRÉNÉE DU PONT. He left the office before that time. The office in which Landis was during the war was closed the September previous, I think.

The CHAIRMAN (continuing reading):

> The diagnosis that we want to accept is that he will follow the Penrose lead and that Penrose picked him to put this thing over for us. According to all the political "wise men", this is the case—but you can't be sure that the political pull would not be wasted.
>
> Committee meeting was called at direction of Penrose, who wrote that action should not be delayed because of his illness. Evidently it is proposed to push the hearings through next week so that the full committee can act before Christmas holidays and have bill ready for Senate after first of year.
>
> Think Irènèe du Pont will have to come here Sunday for conference. There is a loud call for him from everyone. Garvan feels that he is worth more than all the others combined. I am to see Watson tomorrow and then we can complete our program. After that I will phone you or Mr. du Pont.
>
> Taken as a whole, the situation looks good to me, but I don't want to miss any tricks, hence the suggestion about T. C., King, and Hays.

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[1] Hearings, Part XII, p. 2767.

Senator CLARK. Is that the Mr. Garvan who says this committee is a dangerous outfit, engaged in State socialism, in a document put out 2 or 3 days ago?

The CHAIRMAN. Who is the Garvan referred to here?

Mr. CARPENTER. I am not particularly familiar with the letter, Senator, as the letter probably came into my office as a clearing house and was referred, I think, to Mr. Irénée du Pont, who was looking after the dye legislation.

Senator CLARK. Was it the Francis P. Garvan, Alien Property Custodian during the war, who took the dye patents and gave them to the Chemical Foundation, of which he is now the head?

Mr. IRÉNÉE DU PONT. Yes, sir.

The CHAIRMAN (continuing reading):

> I have the military situation in hand, Earle, Williams, et al. Shall not fail to meet you at the Willard Saturday night.

Here we find the expression to which there was some reference the other day "(duce tecum)." [Reading]:

> Yours,
>
> WESTON.

You say this was sent to your office merely as a clearing house?

Mr. CARPENTER. Yes, sir.

The CHAIRMAN. Why was it addressed to you?

Mr. CARPENTER. As I say, Mr. Weston reported to the executive committee through me, and if he wished to address the letter to the company he would naturally send it to me, and my office would refer it to whoever was interested in that particular subject.

Senator CLARK. Here is the letter, Mr. Carpenter, to which I referred a while ago.[1] It is dated at Wilmington, Del., July 10, 1920 [reading]:

> EMBARGO ON EXPORTS TO CHINA
>
> Mr. R. R. M. CARPENTER, *Vice President:*
>
> According to our best information obtainable here and through reports from Commander I. V. Gillis, our representative in China, we understand that there is a positive embargo on the shipment of arms and munitions of war from this country into China.
>
> He assures us that he believes he could do considerable military business were it possible to make shipments.
>
> We believe this matter comes under the heading of "Unfavorable legislation by the United States Government" and we ask that you investigate this proposition with the idea of determining how long such embargo is likely to last and whether it is possible to have this order rescinded.

I would call your attention to the fact that the phrase "Unfavorable legislation by the United States Government" appears in quotation marks.

Was it due course in the du Pont Co. to refer such matters to you, such legislative matters?

Mr. CARPENTER. What was the date?

Senator CLARK. July 10, 1920.

Mr. CARPENTER. I judge that that letter must have been sent to me for the same reason at the time; that Mr. Weston was on that kind of work, publicity in Washington. I think that letter was probably sent to me, and I still think it must have been forwarded to the publicity department, for the heading shows that is where the letter was found.

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[1] "Exhibit No. 861", Hearings, Part X, p. 2275.

Senator CLARK. Did you have a department in the du Pont Co. for unfavorable legislation by the United States Government, which this would seem to indicate?

Mr. CARPENTER. I do not think so. I would be practically willing to say no.

The CHAIRMAN. Mr. Carpenter, did you go to Florida in the early months of 1920 to see John T. King?

Mr. CARPENTER. No, sir; I was on leave of absence from January 1st of that year until April. I believe that I was introduced—I freshened my recollection on that, my memory, and I think I was introduced to John King, and although I do not recall the details of it, I wrote to Mr. Irénée du Pont—I think this is the letter to which you referred—and stated to him the statement which was made to me by Mr. King. That was the only time, I think, I ever saw John T. King. I did not go there for that purpose.

The CHAIRMAN. In that letter you do not refer to your talking with Mr. King as having been an introduction, but speak of it as being a long talk.

Mr. CARPENTER. As I say, I met him there, but never met him before or since.

The CHAIRMAN. On February 17, 1920, a letter was written from Palm Beach, Florida, signed "R." That is your letter?

Mr. CARPENTER. Yes, sir.

The CHAIRMAN. It is addressed to "Dear Buss." Who is Buss?

Mr. CARPENTER. Mr. Irénée du Pont.

The CHAIRMAN. That is a nickname?

Mr. CARPENTER. Yes, sir.

(The letter referred to was marked "Exhibit No. 1373" and appears in full in the text.)

The CHAIRMAN. The letter reads:

> I had a long talk with John King this morning.
>
> He says Penrose wants to put over the best legislation possible for dyes at this time, with the intention of improving it and giving us what we want later, as soon as their control is strengthened.
>
> He says he was in a meeting between Penrose, Watson, and himself, in fact he took Watson to Penrose, about 3 or 4 weeks ago, they being the first to see Penrose after his sickness. Penrose orders to Watson were: "Give Du Ponts what they want just as far as you possibly can without getting into a row, and will improve it later to meet their views."
>
> Penrose will be near here next week and King and I are going over to call on him.

Mr. CARPENTER. I wrote that to Mr. du Pont, and that is the last I ever heard of it.

The CHAIRMAN. You did not call on Mr. Penrose?

Mr. CARPENTER. No, sir.

Mr. IRÉNÉE DU PONT. Mr. Senator, if I might interrupt, I think I called on him. I recall going up to see Mr. Penrose at a place called Seward or Sewall, near Jupiter, Fla., where Mr. Penrose was wintering.

The CHAIRMAN. You were in Florida at this time?

Mr. IRÉNÉE DU PONT. No, I was not. I happened to go down there soon after. I have been in the habit of going every year, January, February, sometimes as late as March. I do not know what date this is.

The CHAIRMAN. 1920.

Senator CLARK. Was John King there when you saw Penrose?

Mr. IRÉNÉE DU PONT. I really do not recall. I have seen John T. King a number of times. He might have been there at that time or not. I would like also to say that Mr. Penrose did not give me the glorious opinion that the letter reflected by a whole lot. Maybe he was holding out on me. I do not know. And I would say that I tried to educate him the previous winter, 1919, very hard. I visited him several times.

The CHAIRMAN. As these letters are referred to, the reporter is requested to identify them with a number as exhibits in the record unless otherwise requested.

Mr. Carpenter, all of this seems to indicate more or less a large interest on your part in the legislative field so far as it related to the interests of the E. I. du Pont de Nemours & Co.

Mr. CARPENTER. I do not blame you for thinking that. Some of these letters certainly look it. But as they were spread over a period of about 12 years, I do not think they amount to that at all. I still repeat that I was not in any way in charge of legislation.

The CHAIRMAN. I read from a letter dated at Wilmington, July 10, 1920, addressed to you as vice president by K. K. V. Casey, director of sales, by S. Terrill.[1]

Who is S. Terrill?

Mr. CARPENTER. I do not know, sir. Do you know, Mr. Bradway?

Mr. BRADWAY. He was a man that used to be in the sales division under Major Casey.

The CHAIRMAN. Under Major Casey?

Mr. BRADWAY. Yes.

The CHAIRMAN. The note is written at the head of the letter, " Embargo on exports to China ".

Mr. CARPENTER. It is the same letter that Senator Clark referred to a moment ago.

The CHAIRMAN. Yes. The reference that was in this letter read by Senator Clark as to matters coming under the heading of " Unfavorable legislation by the United States Government " forces me to rather wonder now at your expression that you were not in charge of legislative matters, since this that came under the head of " legislative matters " was at once referred to you.

Mr. CARPENTER. I still say that I was not in charge of any legislative matters. It is not unnatural for a letter of that kind to come in to me. What is the date of that, Senator? 1920, again?

The CHAIRMAN. July 10, 1920.

Mr. IRÉNÉE DU PONT. Would it not be reasonable and fair to let Mr. Carpenter see the letter you are talking about? Remember, this thing is a good many years ago.

Senator CLARK. That is the one I read just a minute ago.

Mr. CARPENTER. I read this letter.

Mr. IRÉNÉE DU PONT. Oh, I thought it was something else.

Senator CLARK. I put it in the record last week.

Mr. CARPENTER. I think that very naturally might have come in to me. That was during the period I was on the finance committee, and occupied an office directly next to the president and handled a great many matters for the president.

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[1] " Exhibit No. 861 ", Hearings, Part X, p. 2275.

Mr. Irénée du Pont. Mr. Chairman, I would like to point out that this was the question, "Let us find out how long this embargo is going to be in force." I think a newspaper man would be just the fellow who could nose that thing out, especially in Washington. I do not think there is anything very serious about that letter.

The Chairman. These were more than matters relating to this embargo, of a legislative nature——

Mr. Irénée du Pont. That is quite correct.

The Chairman. Which seem to have been put up to Mr. Carpenter.

Mr. Carpenter. There probably were a dozen in a period of some years.

The Chairman. Here is a letter of March 17, 1920, addressed to Mr. Irénée du Pont, who at that time, it appears, was at Palm Beach, Fla.

(The letter referred to was marked "Exhibit No. 1375", and is included in the appendix on p. 4422.)[1]

The Chairman. On the second page, Mr. Carpenter, the new paragraph that starts there reads as follows:

> I do not believe you appreciate the situation on passports. You doubtless know we have no Secretary of State, and Ruly gives it as an opinion that there may not be a Secretary for a month or more.

Who is "Ruly"?

Mr. Carpenter. That is I; another nickname.

The Chairman. Here again, on a passport matter having to do with legislative or administrative affairs in Washington, it evidently was left pretty much to you to look after.

Mr. Carpenter. Not a bit. He simply says that I gave that as my opinion. He did not ask me in any way to go and get a passport for somebody.

Mr. du Pont calls my attention to the fact that at that time Major Sylvester was in our employ, and I think that passport work in Washington was done by Major Sylvester, he being familiar with Washington affairs.

Mr. Irénée du Pont. He was under you?

Mr. Carpenter. He reported to me.

That was another division, Senator. Major Sylvester was in charge of protection during the war and remained after the war.

Senator Clark. That is the former chief of police here in the District?

Mr. Carpenter. Yes, sir; that is the man. He reported to me, as a member of the executive committee, not to take orders from me, but reported to me when he had anything to report; and I reported it to the executive committee or the president.

The Chairman. On April 6, 1922, Mr. Irénée du Pont, as president, is writing you, Mr. Carpenter, as follows:

> Referring to your letter of March 30, of which I spoke to you yesterday: I think that our legislative proposition should be in the hands of Laffey——

Mr. Carpenter. That is the head of the legal department, whom I spoke to you about a few minutes ago.

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[1] There was no exhibit marked "No. 1374."

The CHAIRMAN (reading):

> because he is an attorney more skilled in matters of law than anyone else we could select.
>
> The confusion at Washington is doubtless due to the necessity of impressing everybody into the service to do what they could on behalf of the dye embargo. Asking the United States Government for such a proposition was almost unheard of. It has been in successful operation for 3 years; thanks to the efforts put on it. I think it will last a good many years longer if we maintain the effort. I doubt if any one man could have done it by the proper methods which have been used.
>
> IRÉNÉE DU PONT, *President.*

This was in continuation of the embargo matter, was it?

Mr. CARPENTER. I judge so; yes, sir.

(The letter referred to was marked "Exhibit No. 1376", and appears in full in the text.)

The CHAIRMAN. Again there is reference to the legislative proposition, which finds a memorandum concerning it being sent to you.

Mr. CARPENTER. Yes. At that time I was the general manager of the cellulose department. I think that probably something had come up, or somebody had spoken to me, and I referred that as a suggestion to the president of the company.

Mr. IRÉNÉE DU PONT. Mr. Chairman, would it not be fair to hand the letter to which that is an answer to Mr. Carpenter, to refresh his memory?

The CHAIRMAN. Do we have such a letter? The Chair has not seen such a letter.

Mr. IRÉNÉE DU PONT. You have taken that letter. It is one of the letters you pulled.

Senator CLARK. If you have a copy of it, you let him see it.

Mr. IRÉNÉE DU PONT. I will look it up, but I would rather read the letter. The gist of it was that certain Senators in Washington said we did not know how to go after legislation, by coming out in the open; we ought to have an undercover man in Washington and hide him in an office. I said, "We do not do business that way."

Senator CLARK. John T. King was pretty effective.

Mr. IRÉNÉE DU PONT. This was not John King that made the suggestion.

The CHAIRMAN. Did Mr. Carpenter ever make the suggestion to you that you ought to have representation in Washington?

Mr. IRÉNÉE DU PONT. He did not. He passed the letter along, somebody else's suggestion. Will you not please get out that letter? You have it. Perhaps I can get a duplicate for you.

Senator CLARK. Perhaps you can.

The CHAIRMAN. If Mr. du Pont feels that it is pertinent and of significance, and we have it, the Chair would ask that a number be reserved, to be afforded that letter as an exhibit, to be introduced at this point.

(The letter referred to was marked "Exhibit No. 1377" and is included in the text on pp. 4240 and 4241.)

Mr. IRÉNÉE DU PONT. Certainly Mr. Raushenbush has that letter, because as I understand it he went up to get the letter on a second visit to my office. He took out one of those letters and not the other, I believe. I am not sure that is the right letter. But he came back for one of them. Let me get at my copy.

The CHAIRMAN. Let us move along, and when you find that we will revert to it.

On January 27, 1931, Mr. Carpenter, you wrote Mr. Lammot du Pont as follows:

> Referring to my retirement on March 1, as verbally outlined to you, I would like very much to maintain a contact with the affairs of the company, especially along the lines of executive personnel work, remain on board of Grasselli Co., president's advisory contact on political matters which may arise, and be considered available for consultation and for any emergency which may arise.

In the fourth paragraph on this letter, continuing:

> Assuming above is satisfactory to you, I would of course, insist that my salary after March 1 be reduced to that of a retired vice president. I have selected the offices adjacent to yours, same not being in demand at this time, in order that I will be near to your office and available on above matters, as well as Delaware Realty, Christiana Securities, etc.

(The letter referred to was marked "Exhibit No. 1378", and is included in the appendix on p. 4423.)

The CHAIRMAN. We understand then that upon your retirement, Mr. Carpenter, you asked to remain there in a capacity which would let you assist in such matters as arose, as would have relation to political matters.

Mr. CARPENTER. I do not think that was ever carried out, except in a very high-spot way, and that I think referred mostly to political matters in Delaware.

The CHAIRMAN. You say "in a very high-spot way."

What do you mean by that?

Mr. CARPENTER. If he should ask any information in reference to any of the situations in Delaware, I would probably be able to tell him, as I was more or less familiar with the political situation in Delaware at the time.

The CHAIRMAN. But it had nothing to do with the political situation or legislative matters that might arise in a national way?

Mr. CARPENTER. I think not, sir.

The CHAIRMAN. September 15, 1931, finds you addressing a memorandum to Mr. W. S. Carpenter, Jr., a copy of which will be laid before you, Mr. Carpenter. I read the first paragraph of that letter:

> I am returning to you your development department report on the Remington-Winchester Consolidation. While I am not extremely enthusiastic over our getting mixed up in this way, my conclusion is that we are more or less at the parting of the ways and that we will be compelled to either consider that our smokeless powder business is on the wane or that we can put it back on its feet by going into this deal. I am more or less influenced by this opinion for the reason that if Western should take over the Winchester, our road would be pretty hard. I do not think there is very much in the thought that we should maintain our smokeless powder position for the Government in time of war as I believe if we ever had another war the Government would take over important industries the same as they did the railroads, which would not be a very pleasant experience as any of the railroad people will tell you.

(The letter referred to was marked "Exhibit No. 1379", and is included in the appendix on p. 4424.)

The CHAIRMAN. Here after your retirement, Mr. Carpenter, you evidently are maintaining a very large interest in the affairs of the corporation.

Mr. CARPENTER. As a director of the company I certainly did.

The CHAIRMAN. They refer to you the consolidation program for your consideration.

Mr. CARPENTER. No. That was wholly voluntary on my part. I knew they were considering investing some money in a proposed consolidation between the Winchester and the Remington Co., which I was rather opposed to, purely from a financial standpoint, being a stockholder.

The CHAIRMAN. What makes you believe, Mr. Carpenter, that in the event of another war the Government is going to take over the important industries?

Mr. CARPENTER. From listening to the testimony here I think so still more now.

The CHAIRMAN. You think so still more?

Mr. CARPENTER. Yes; I think they probably would.

The CHAIRMAN. Frankly, I am glad to hear you say that.

On May 6, 1932, you addressed a letter to Mr. Robert G. Houston, House Office Building, the Capitol, Washington, D. C.

Who is Mr. Robert G. Houston?

Mr. CARPENTER. I suppose that refers to the Congressman from Delaware.

(The letter referred to was marked "Exhibit No. 1380", and appears in full in the text.)

The CHAIRMAN. The language I read is the closing sentence in the second paragraph:

> To my mind what this country needs more than anything else is not more Federal legislation, but less Federal legislation and far more common sense in Congress.

Evidently you are interested in national legislation.

Mr. CARPENTER. Personally, yes, as everyone should be.

The CHAIRMAN. Mr. Carpenter, upon what stationery do you write these letters?

Mr. CARPENTER. I think these were all personal. While I could not swear to it, I think that this letter—it does not sound like my phraseology. I think that probably someone interested in this legislation asked me to write to Mr. Houston, but even that I cannot say. It does not sound like my writing.

The CHAIRMAN. Copies of this letter were evidently sent to Senator Hastings and Senator Townsend.

Mr. CARPENTER. Yes, sir; as being Delaware Senators. I think that Goldsborough bill was a banking bill, was it not?

The CHAIRMAN. Let us read your description of what it was.

Mr. CARPENTER. Not mine, but whoever wrote this letter.

The CHAIRMAN (reading "Exhibit No. 1380"):

> It has been called to my attention that on May 2 you voted in favor of the Goldsborough bill, which would require that the Federal Reserve Board and the Secretary of the Treasury shall restore and maintain prices at a level which is approximately 50 percent above present levels by controlling the volume of credit and currency. It is my further information that the President of the United States, the Secretary of the Treasury, and all responsible Federal Reserve officials are much opposed to this legislation and state that the aim of the bill is impossible and impracticable. Also, our own experts who have given most careful attention to the subject tell us that the bill is thoroughly unsound in principle, and that the only way to boost prices to the extent suggested would be to go off the gold standard and issue irredeemable paper money.
>
> Can't you realize that attempted legislation of this sort is doing more to shatter business confidence than anything else? Two or three months ago the country was getting ready for a sound business recovery. But just as soon as Congress began to suggest measures which would cheapen our currency, and

just as soon as they began to devise ways and means of putting heavier taxes on industry instead of cutting out the enormous wastes and extravagance of the Federal Government, immediately business began to slip rapidly down hill, and conditions have continued to grow worse. To my mind, what this country needs more than anything else is not more Federal legislation, but less Federal legislation and far more common sense in Congress.

If the Government will really reduce expenditures, keep our currency sound, and give us a breathing spell for a time, business will soon begin to work its way out of the present difficulties.

Mr. Carpenter, do you think that that was a letter that someone else wrote and asked you to sign?

Mr. Carpenter. I think parts of that letter were written for me by banking interests, probably in Philadelphia, where I had some banking connections, asking me to write to the Delaware Representatives and Senators in reference to the Goldsborough bill. Part of that may have been written from the other letter, because it does not sound like my writing. I do not say that I do not think that way, but I say I do not think that is my phraseology. But it makes no difference. I signed the letter and accept the responsibility. But it was purely personal.

The Chairman. Could the person that suggested that to you possibly have been Mr. Raskob?

Mr. Carpenter. I doubt it very much. I doubt it very much. I think probably it was someone in Philadelphia. But as I sent the letter, Mr. Senator, it is my responsibility. But it was purely personal, not in any way company.

The Chairman. Is that the letter? [Handing to Mr. Irénée du Pont a copy of "Exhibit No. 1377."]

Mr. Irénée du Pont. That is the same one. I just found that copy.

Senator Clark. That does not quite bear out your statement, does it Mr. du Pont?

Mr. Irénée du Pont. Perhaps I did not express it as clearly as I could have if I had had the letter, and I said so when I made my other remark.

May I read the letter into the record?

Senator Clark. Yes.

Mr. Irénée du Pont. This is the cellulose products department, E. I. du Pont de Nemours & Co. [Reading "Exhibit No. 1377":]

Mr. Irénée du Pont.

Dear Buss: Referring further to my conversation this morning on legislative matters, and in order that you do not overlook it before giving it further thought, I feel that the company is not handling their legislative question in the proper manner. Charlie Patterson I think also feels decidedly this way, in fact, my ideas are more from talks with him than original.

Senator Clark. Mr. Patterson was a director of the company, was he?

Mr. Irénée du Pont. He was at that time. He has since died. [Continuing reading "Exhibit No. 1377":]

There is no question but what Charlie is the best judge of this matter that we have in the company. He told me, among other things, that both Senator Frelinghuysen and Senator Watson, of Indiana, criticized our method of handling legislation very severely.

Our method of handling legislation was to go down and see everybody we could and tell them why. That is the point I was making. He criticized that method.

Senator CLARK. That was the point you were making, but it appears from this letter that the suggestion comes from Mr. Carpenter, with the approval of Mr. Patterson, who apparently agreed thoroughly with Senator Frelinghuysen and Senator Watson, because they then go on to discuss the proper men to install such a system.

Mr. IRÉNÉE DU PONT. Mr. Carpenter says [continuing reading "Exhibit No. 1377"]:

* * * criticized our method of handling legislation very severely, in fact, one of them said it was handled the worst of any corporation in the country. I would suggest that you make it a point to have a talk with Charlie Patterson and get his advice.

There has been some agitation among the industrial departments recently to have a Washington office simply as a sales proposition; that there is considerable difficulty in handling sales to the Government—one, that they only send out one inquiry and there is great danger of all divisions not hearing about it, and the other is they very often do not send out any, and many companies have representatives in Washington who make rounds each day or so of the bureaus in Washington, looking up these matters.

It takes rather a live man to handle it. It would seem to me that this same man in charge of the Washington office could be a man thoroughly capable of looking after legislation, in fact the sales office would be a good hiding place for the legislation if it were necessary to have one. At the moment, there are two people who come to my mind who might be able to fill this job—the best one, I should think, would be Charlie Meade, who has considerable experience now, and also is a pretty live wire. He could soon learn to handle this in a proper manner.

The second one I thought of, but whom I did not think would be as good as Charlie, would be E. N. if he were available.

The CHAIRMAN. Who is E. N.?

Mr. IRÉNÉE DU PONT. E. N., Mr. E. N. Carpenter, Mr. Ruly Carpenter's uncle.

I mention this on account of his very intimate relationship with Fletcher and he also has quite a broad acquaintance in Washington which might be of advantage to us, and he has also been in the political game some, having run for Congress.

The CHAIRMAN. Who is the Fletcher referred to?

Mr. IRÉNÉE DU PONT. That is the Fletcher who used to be our Ambassador to Chile. He has been a prominent man ever since, I think. Is he not a high light in the Republican Party now? [Laughter.]

I say that seriously. It is not a joke at all.

Senator CLARK. As a matter of fact, Mr. du Pont, I think he is one of your associates in the American Liberty League, is he not?

Mr. IRÉNÉE DU PONT. I have not seen the roster recently. I have been here for several weeks. He may have joined. I hope he has. He is not on the executive committee, I believe.

The CHAIRMAN. You have not read the concluding paragraph of Mr. Carpenter's letter.

Mr. IRÉNÉE DU PONT. Pardon me. [Reading end of "Exhibit No. 1377":]

I strongly recommend that you give this some thought.

My reply, which you read before,[1] was a reply to this letter and I stand on it today, and I think we did the right thing, and I think it has been successful. I think that I might take this opportunity of showing you whether the chemical industry of the United States has been true to the trust you gave them with that embargo and high tariff.

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[1] "Exhibit No. 1376." See text, p. 4237.

Senator Clark. Mr. du Pont, this letter does not indicate that the du Pont Co. and the officials of it drew their skirts quite as austerely aloof from this suggestion as your previous statement would have led one to believe, because at least two of the very important officials of your company were writing to you urging that that very thing be carried out and that a hiding place be established in Washington.

Mr. Carpenter. May I correct that word? I think that is purely a stenographic error. It meant "hiving." I personally would not say "hiding place." There was no reason why we should hide anything.

The Chairman. What would be a hiving place?

Mr. Carpenter. A place where he could have an office, or hold out; just a slang expression. It certainly would not mean "hiding."

Mr. Irénée du Pont. It reads "hiding place." That is what I understood it to mean. That is one reason I jumped on it.

But to get back on that dye legislation, I think you men know that we behaved in an absolutely frank manner about it. We sold the idea to everybody. I think we do not make any apologies for it.

Mr. Wilson, in his message of May 1919, came out and asked Congress to do just this thing. I read that into the record the other day. He repeated it again in December 1919, and again in December 1920, and he backed us up and the Democrats behind him backed the idea up. The people we had to sell were the Republican Senators that did not know any more about the chemical industry than the man in the moon. I went around and told them all I could about it.

I just want to point out one or two things which have happened in the chemical industry thanks to this protection. In the first place, dyes have declined by about 58 percent in cost since that time to the American public. American-made dyes, all of them, before that were depending on Germany.

In the second place, that means that about $100,000,000 a year is saved to the consumers of dyes in this country by that one advance in dyestuffs.

Second, take the subject of rubber accelerators and antioxidents, which are used to make the rubber tougher and last longer. A rubber tire will last double as long today by reason of that advance in the chemical industry from what it would at that time. We are using today about $300,000,000 worth a year of rubber tires on automobiles. If we had not had that advance in the chemical industry, we would have had to spend $600,000,000 a year, because a tire would have worn out twice as fast. That is a saving of $300,000,000 a year to the American people.

Take the case of Duco. It was a chemical experiment, worked out by a corps of trained men working as an organization. Duco has supplanted the old coach varnish which some of you remember. The old coach varnish would last only a comparatively short time, and you would have to repaint. It has also saved in the cost of producing automobiles. I think it is safe to say that every automobile owner in this country on the average saves $10 a year by reason of the Duco paint. There are 24,000,000 automobiles in this country. That means a saving to this country of $240,000,000 a year on that idea.

I do not know how many other things there are. There is waterproofed cellophane, which is saving countless dollars in store upkeep, maintaining goods in salable condition, and keeping your cigar from breaking in your vest. I saw somebody with three in his pocket here today. Those kinds of things are the result of what the chemical industry has done for this country, and it is purely the result of protecting that industry until it could get on its feet. I am proud of having had a little part in it, even going to see Senators.

The CHAIRMAN. I understand about the only thing that does not come wrapped in cellophane now is new-born babies.

Mr. IRÉNÉE DU PONT. I am getting a little bit old for that, Senator.

The CHAIRMAN. You are not prepared to testify as to that, are you?

Mr. IRÉNÉE DU PONT. I refuse to testify, by advice of counsel.

The CHAIRMAN. Mr. Carpenter, continuing this line that reveals your continuing interest after your retirement as vice president, we find on December 8, 1932, a letter written by you to Mr. John J. Raskob.

(The letter referred to was marked "Exhibit No. 1381", and appears in full in the text.)

The CHAIRMAN. In this letter you said [reading]:

> I was going to talk with you the first time I saw you, but I run across you so seldom I thought I would drop you a line on this subject.
>
> You know that Lammot Belin, Alice's brother, was appointed as Ambassador to Poland recently. This comes up for approval in the Senate, I think. I understand from what I hear and see in the papers that the Democratic Senate is not going to approve any of Hoover's appointments. I have thought that it might be sort of a slap at Pierre to have the Democratic Party throw out his brother-in-law after he has been for the past two campaigns such a strong supporter of the Democratic Party.
>
> I doubt very much whether Pierre would approve of my taking this up with you but I am going to take a chance as I know you will handle it as you think best. I am dropping you this line to put the idea in your mind.

Mr. CARPENTER. A purely personal letter, written on my stationery, taken from a private file of mine that had no connection whatever with the company.

The CHAIRMAN. We are not to conclude that it indicates any connection with the company as a legislative interest?

Mr. CARPENTER. Not a bit in the world.

The CHAIRMAN. You wrote again on January 5, 1933, to Mr. John J. Raskob, a letter which I will ask to have marked for appropriate reference.

(The letter referred to was marked "Exhibit No. 1382" and appears in full in the text.)

The CHAIRMAN. You said in this letter [reading]:

> I am returning to you Pierre's letter of January 3 with the enclosure. I am certainly glad to hear this news and I thank you for sending it to me to read.
>
> I also read your note on my letter of January 3 that you are out of politics. I hope you do not have as hard a time as I am having. I dropped it about 2 years ago but still find I am just in about as much trouble as ever, as everyone who wants a political job around these parts thinks I can get it for him. It is a thankless game at the best, which I guess you have found out as well as I.

Mr. Carpenter, on April 27, 1933, last year, you wrote a letter to Senator Marcus A. Coolidge, here in Washington, which seems to me reveals that you had not retired entirely or divorced yourself complete from interests which had been yours.

Mr. CARPENTER. Purely a personal letter, Senator, written to not altogether a Senator but an acquaintance, a distant relative through marriage. It had nothing whatever to do with company affairs. It is simply a personal letter, again taken from my personal file, not even in a company office.

The CHAIRMAN. You are especially well acquainted with Mr. Coolidge?

Mr. CARPENTER. I suppose I have talked to him four or five times. My acquaintance with him is that my first cousin married his daughter.

The CHAIRMAN. You are expressing to Senator Coolidge in this letter——

Mr. CARPENTER. Entirely personal opinion.

The CHAIRMAN (continuing). What you call your personal thought?

Mr. CARPENTER. That is all.

The CHAIRMAN. On the general run of the national program at that time?

Mr. CARPENTER. That was not being presented by the company. The company was not in any way responsible for it. It was merely an expression of mine as a private citizen.

The CHAIRMAN. That letter will be offered for appropriate marking.

(The letter referred to was marked "Exhibit No. 1383" and is included in the appendix on p. 4424.)

The CHAIRMAN. On March 16, 1934, you again addressed Mr. John J. Raskob, in a communication which I will offer for appropriate marking.

(The letter referred to was marked "Exhibit No. 1384" and is included in the appendix on p. 4425.)

Mr. CARPENTER. That letter I remember was of the same category exactly, a personal letter to a personal friend.

The CHAIRMAN. Let us read this:

> Some months ago you stated in directors meeting—

What directors?

Mr. CARPENTER. Of the du Pont Co.

The CHAIRMAN. You say directors of the du Pont Co.?

Mr. CARPENTER. Yes.

The CHAIRMAN. You are sure it was not General Motors?

Mr. CARPENTER. No; that was the du Pont Co.

The CHAIRMAN. This letter reads:

> Some months ago you stated in directors meeting that people as a whole should support the President. Many people are today at a loss to understand why the administration is doing many things. The majority of people I believe would like to think that the President is honest in his endeavors. People are unable to learn much of the truth for the reason that through some method unknown the President has strangled free speech both over the radio and by the daily papers. It has been a great mystery to me why someone close to the administration, if anyone is, other than Frankfurter and his ilk, has not attempted to determine the following:
>
> 1. Unless the administration is embarked on a campaign to buy the popular vote of the country through the C. W. A., the C. C. C., etc., together with the

gifts to certain classes, why should they compete with industry for labor, and put rates in farming districts way above what any farmer could compete with, and way beyond what such labor ever received? I mention a few cases I am familiar with:

An architect in town offered a position to a young draftsman recently at a fair salary. He turned down the job saying he had a position with the C. W. A. at $1.25 an hour.

Five negroes on my place in South Carolina refused work this spring, after I had taken care of them and given them house rent free and work for 3 years during bad times, saying they had easy jobs with the Government.

Planters in our vicinity were unable to get enough labor to harvest crops in the fall due to C. C. C. employment.

A cook on my houseboat at Fort Myers quit because the Government was paying him a dollar an hour as a painter when he never knew a thing about painting before.

If one person has had all this experience, how many thousands of men are leaving employment to accept easy jobs with the Government, paid for with the taxpayers' money and under the guise of relief? Many trades are on strike, being encouraged from Washington, and these same strikers employed by the Government and paid with the taxpayers' money.

2. Why should the administration, without trial, condemn a number of corporations, cancel their contracts, and leave them with blackened reputations, an act absolutely against the law, the Constitution, and common decency? In time, no corporation nor business could afford to have any dealings with a Government who has no respect for contracts entered into.

Then the closing paragraph of the letter:

A man like yourself, a supporter of his, and persona grata in Washington, could do a lot of good and set many minds at rest by getting the administration to answer these queries; that is, if you yourself are convinced that he is honest in his endeavors. As a loyal Democrat, I would appreciate your views a lot. Maybe you could set some of our minds at rest.

A personal letter, Mr. Carpenter?

Mr. Carpenter. A purely personal letter, written with the idea that I believe that Mr. Roosevelt's ideas or his intentions were correct. I had heard a great many reports from people who did not believe that, and I had written to a friend of mine who is in the Democratic party and prominent, and I thought it would be a good thing for the country at large for such a statement to come out. I still think so.

The Chairman. What did you mean by "setting our minds at rest"?

Mr. Carpenter. The public, I mean.

The Chairman. Is it fair to assume you were speaking for your associates there in the du Pont Co.?

Mr. Carpenter. No; not at all. I mean by our minds, the public as a whole. People thought that way. That still is a purely personal letter from me to a friend.

Senator Vandenberg. You can include my mind among those who would like some information on some of those subjects.

The Chairman. Mr. Raskob responded to this letter under date of March 20, 1934, which I offer for the record.

(The letter referred to was marked "Exhibit No. 1385" and is included in the appendix on p. 4426.)

The Chairman. I read the third paragraph of Mr. Raskob's letter to you:

You haven't much to do and I know of no one that could better take the lead in trying to induce the du Pont and General Motors groups, followed by other big industries, to definitely organize to protect society from the suffering which it is bound to endure if we allow communistic elements to lead the

> people to believe that all business men are crooks, not to be trusted, and that no one should be allowed to get rich.
>
> There should be some very definite organization that would come out openly with some plan for educating the people to the value of encouraging people to work; encouraging people to get rich; showing the fallacy of communism in its efforts to tear down our capital structure, etc.
>
> The reason I say that you are in a peculiarly good position to do this is that you are young enough to undertake the work, you have the time, you are wealthy enough to not have to depend upon a job or salary for a living and are in a position to talk directly with a group that controls a larger share of industry through common-stock holdings than any other group in the United States. When I say this, I mean that I believe there is no group, including the Rockefellers, the Morgans, the Mellons, or anyone else that begins to control and be responsible for as much industrially as is the du Pont Co.

Now, Mr. Carpenter, did you take this up with the du Pont Co. after the suggestion had been made to you?

Mr. CARPENTER. I did not. I was not looking for any more trouble.

The CHAIRMAN. Did you make any suggestions to the du Pont Co. at all concerning Mr. Raskob's suggestion to you?

Mr. CARPENTER. I think not, sir.

The CHAIRMAN. Who is Mr. E. E. Lincoln?

Mr. CARPENTER. I beg pardon, Senator?

The CHAIRMAN. Mr. E. E. Lincoln, who is he?

Mr. CARPENTER. He is an employee of the du Pont Co.

The CHAIRMAN. You addressed a communication to him on June 5, 1934, which I offer for the record.

(The letter referred to was marked "Exhibit No. 1386" and appears in full in the text.)

The CHAIRMAN. You say to Mr. Lincoln [reading]:

> I have your memorandum of the 31st. I am sorry I have been so slow in getting in touch with you but I have been away almost continually for a week or two and yesterday I had to be in New York.
>
> While, if necessary, I am willing to attend this conference with Theodore Roosevelt, I am not at all anxious to get into the political arena in any way. I have been trying to divorce myself entirely from this as it got on my nerves to such an extent when I was in it that I did not come very far from blowing up and I do not wish to get back into it again. If necessary, I am willing to attend and listen but take no active part.

Mr. Carpenter, what have been your party affiliations?

Mr. CARPENTER. Republican; regular.

The CHAIRMAN. Never been disputed?

Mr. CARPENTER. Pardon me?

The CHAIRMAN. Never had that regularity disputed?

Mr. CARPENTER. Oh, plenty of times.

Senator CLARK. In other words, you belong to the Penrose-King wing of the party, don't you?

Mr. CARPENTER. No; that is before my time.

The CHAIRMAN. Mr. Carpenter, who is Charles Ten Weeges?

Mr. CARPENTER. He is the president of the News Journal Co. in Wilmington.

The CHAIRMAN. You have an interest in that paper?

Mr. CARPENTER. It is owned by the Christiana Securities Co.

The CHAIRMAN. Who owns that?

Mr. CARPENTER. Several stockholders. I suppose a hundred.

The CHAIRMAN. Who owns the controlling stock?

Mr. CARPENTER. Eight or ten different people, I think.

The CHAIRMAN. Are the du Ponts interested in that paper?

Mr. CARPENTER. Yes, sir.

The CHAIRMAN. They are?

Mr. CARPENTER. You mean in the Christiana Securities?

Senator CLARK. The Christiana Securities is a du Pont enterprise is it not?

Mr. CARPENTER. It is a holding company.

Senator CLARK. That is the one you mentioned in your letter to Mr. du Pont as one of the duties you should keep on after your retirement from connection with the du Pont Co.

Mr. CARPENTER. It is an affiliated company.

The CHAIRMAN. Are you interested in that paper in any way?

Mr. CARPENTER. I am on the board of the News Journal Co., representing the owners' interest.

The CHAIRMAN. Do you have any voice in shaping the policies of that paper?

Mr. CARPENTER. No, sir. I have so stated to the editor, that his policy is his own and no one else's.

The CHAIRMAN. Here is a letter dated August 15, 1934, to Mr. Ten Weeges by yourself, which I will ask to have marked appropriately as an exhibit.

(The letter referred to was marked "Exhibit No. 1387", and appears in full in the text.)

The CHAIRMAN. This letter reads:

> DEAR CHARLEY: I sent you today a copy of letter I wrote Mr. Mapel—

Who is Mr. Mapel?

Mr. CARPENTER. Managing editor.

The CHAIRMAN (continuing reading):

> —in order to help him set his policy and to straighten out the question, that as to contact with owners of paper, he was responsible on policy to me, and not to everybody in the building.

Mr. CARPENTER. That means policy referring to anything in the du Pont Co., not the policy of running his paper. I think you will find a letter after that stating conclusively that he is to run the paper in his own way, as an independent publisher.

The CHAIRMAN. Upon your retirement you continued dictating newspaper policies but had nothing to do in a legislative way with the interests of the du Pont Co.

Mr. CARPENTER. Absolutely not. I am interested, of course, as any director might be.

The CHAIRMAN (continuing reading "Exhibit No. 1387"):

> Personally, I strongly advise you, in order to maintain discipline, to place the whole operation of the editorial and news sections wholly under Mapel. Let the staff understand that he is the boss and they cannot go over his head to you as president.
>
> You will have all you can do by managing the financial and business end without overloading yourself with detail.
>
> If I were you, I would lay out a complete chart showing the organization something along the attached rough sketch.
>
> Yours very truly,
>
> R. R. M. CARPENTER.

Now, when you retired actively as vice president, you indicated to the du Ponts in what capacity you would like to continue to serve, indicating that you would like to have contact in a political way where the company had political contacts. You did not say anything about continuing in control of any newspaper.

Mr. CARPENTER. I have no control over any newspaper today. I am on the directorate; I am one of the directors of the News Journal Co., representing the owners.

The CHAIRMAN. Yes; but you are saying to Mr. Ten Weeges that he is responsible on policy to you.

Mr. CARPENTER. Correct. The owners should have something to say on the policy of the paper as affects the company's interests, although if you will read—I don't know whether you have a following letter which clarifies that and says that he is to run the paper paper the way he thinks best.

Mr. IRÉNÉE DU PONT. Mr. Chairman, might I straighten that out?

The CHAIRMAN. Yes, Mr. du Pont.

Mr. IRÉNÉE DU PONT. The Christiana Securities Co. is a very large stockholder in the E. I. du Pont de Nemours & Co. E. I. du Pont de Nemours & Co. has no interest whatever in the Christiana securities Co. There are a group of stockholders who hold their stock in the company through the medium of the Christiana Securities Co.

We had obtained some years ago two of the newspapers in Wilmington. At that time—I need not go into the subject. It had nothing to do with politics at all. It was a personal row. We had those on our hands. We sublet that contract of running that to three men—Ten Weeges, Bob Richards, and Bill Metten, who were then the editors. They ran the paper entirely on their own, without any conference with us on policy whatever.

Mr. Carpenter represented on the board the owners. We had a division of profits between the owners and the operating men who leased the paper from us. Metten dropped out and Mr. Mapel was put in his place quite recently.

Now, I think this is telling Mapel what authority he had and telling Ten Weeges he should have that authority. The Christiana Securities has never dictated in any way what the policy of that paper should be, as long as it is run cleanly—always that.

The CHAIRMAN. But, Mr. Carpenter, we find you insisting in this letter that Mr. Ten Weeges was responsible on policy to you and not to everybody in the building.

Mr. CARPENTER. I can explain that, Senator. The publishers had always complained down there that on certain items which reported things which had happened in the company different people in the company had suggested what they were to do, and when this new management went into effect I conclusively stated to Mr. Ten Weeges that he need not discuss those questions with anybody up there, but if they came up at all to discuss them with me. I was confirming that in this letter; that is all there is to it.

The CHAIRMAN. You found in a general way in your communications and conversations with Mr. du Pont that he had done pretty much what you considered you had done in divorcing yourself in a political way?

Mr. CARPENTER. I do not quite understand that question, Senator.

The CHAIRMAN. In your contract with Mr. du Pont——

Mr. CARPENTER. Which one?

The CHAIRMAN. Or with Mr.——

Mr. CARPENTER. Raskob?

The CHAIRMAN. Raskob, yes.

Mr. CARPENTER. Yes.

The CHAIRMAN. You found he had quite removed himself from active politics?

Mr. CARPENTER. I haven't seen him three times in a year and all I know is what he wrote in that letter, but I see he is down at White Sulphur, so maybe he has not.

The CHAIRMAN. He told you in his letter that he was not——

Mr. CARPENTER. Active in politics?

The CHAIRMAN. Active in politics.

Mr. CARPENTER. I think that is what the letter says, yes.

The CHAIRMAN. Did it then occur to you that there might be others who stood closer to the administration here in Washington?

Mr. CARPENTER. I do not remember. sir. I do not recall that I ever took any action on that letter at all. Just put it in the file.

The CHAIRMAN. I have before me an exhibit which makes reference to Georgetown. What is Georgetown?

Mr. CARPENTER. Georgetown?

The CHAIRMAN. Yes. Is that a du Pont property?

Mr. CARPENTER. There is a Georgetown in Delaware and there is a Georgetown in South Carolina, where I go shooting sometimes.

The CHAIRMAN (reading):

> About our phone conversation the other day, let me know about what price you have in mind for Georgetown.

Mr. CARPENTER. Is that a letter addressed to Mr. Baruch?

The CHAIRMAN. To Mr. Bernard M. Baruch, yes.

Mr. CARPENTER. Mr. Baruch owns property in Georgetown, right outside of Georgetown. He wrote me a letter and asked me whether any of my constituents or friends were interested in purchasing it; he was trying to sell it. It is a shooting preserve, Senator.

The CHAIRMAN. You have taken up with Mr. Baruch certain political matters?

Mr. CARPENTER. I have written him two or three letters. I happen to know him personally, not very well.

The CHAIRMAN. You had reason to object or feel displeased about some appointments that had been made in the national administration?

Mr. CARPENTER. I know the letter you refer to, yes.

Mr. PIERRE DU PONT. Senator, might I say a word on this point?

The CHAIRMAN. Yes.

Mr. PIERRE DU PONT. In regard to the policy of the du Pont Co. with respect to legislation?

The CHAIRMAN. Yes, sir.

Mr. PIERRE DU PONT. I am not myself in that line of business at all, never have been, but if occasion should arise I would not hesitate to consult any man in the Senate or House of Representatives or in any other capacity in Washington or in any State legislature. I think every citizen has the right to and should talk to representatives of the people on interested subjects.

But the one thing that should be avoided is doing it underhanded. If I go to speak on anything concerning the chemical industry, I am well enough known in that industry so that my name speaks for me. I do not have to introduce myself as identified with the chemical industry. But if there was any dispute about the matter, I should certainly say why I came and who I was. That is the important question. As long as that is announced, our company will go anywhere on any mission at all and whoever grants us a hearing will weigh our words accordingly.

There is nothing underhanded in what we do, as far as I know, and I hope nothing that I do not know about. But we have done and will do just those things. We will go to any Senator or Representative on any mission. If, perchance, anything comes up concerning the lands in North Dakota, which you represent, you would be the first one I would talk with on the subject, and, without hesitation, I am sure you would hear me. That is the policy of the company, and always will be, I hope.

The CHAIRMAN. Mr. Carpenter, when you moved around from one division to another in the capacity of vice president, what was done with your files?

Mr. CARPENTER. At the time that I resigned from the company—I will give you an example: When I was general manager of the cellulose department and left there, all files I had at that time, other than personal files, were left in that department. When I retired from active service in 1931, whatever files I had at that time—there were not many—which referred to departmental matters or company matters, either the letters themselves were turned over to the departments that were interested or the files themselves were turned over or left in the departments.

I kept very, very few, if any, other than personal files. I had some files that were entitled, "du Pont Co.", but they were miscellaneous items, letters which I addressed to different people in the company at any time, on anything of interest.

The CHAIRMAN. In what department were you before you were at the head of the cellulose department?

Mr. CARPENTER. I was on the finance committee and the files at that time were kept by the secretary of the finance committee, all finance committee matters.

The CHAIRMAN. You had prsonal files during that time?

Mr. CARPENTER. I doubt if I had any to amount to anything. If I did, they were turned over to the interested departments afterwards.

Mr. IRÉNÉE DU PONT. The chairman said "personal files."

Mr. CARPENTER. Oh, personal files. I had personal files, of course.

The CHAIRMAN. What was done with the personal files?

Mr. CARPENTER. My policy in regard to personal files has always been to keep them at a minimum. I have destroyed personal files periodically every few months when they filled up with a lot of stuff which was unnecessary and which could not be used again. I have never destroyed anything which had anything to do with the company. It was turned over to where it belonged, if I did not keep it.

The CHAIRMAN. When you speak of your connection as active vice president, what did you then do with your files?

Mr. CARPENTER. Personal or company?

The CHAIRMAN. All of them.

Mr. CARPENTER. My personal files are in my office; my up-to-date ones. Any that referred to the company, as I say, I turned over probably to the different departments.

The CHAIRMAN. What was done with your personal file?

Mr. Carpenter. In my office.

The Chairman. All of it?

Mr. Carpenter. Yes.

The Chairman. In its entirety?

Mr. Carpenter. Yes.

The Chairman. And it is there today?

Mr. Carpenter. It is there today.

The Chairman. When did you last destroy what you call "personal files"?

Mr. Carpenter. I do not think I have taken out or destroyed any correspondence recently. I destroyed two files within a month's time that belonged to my father and mother's estate. I recall those distinctly. I took them out and destroyed them because they were of no further interest to me.

The Chairman. Who is your secretary at the present time, Mr. Carpenter?

Mr. Carpenter. Mr. Clarence Underwood.

The Chairman. Is he with you today?

Mr. Carpenter. Yes, sir.

The Chairman. Mr. Underwood, will you please come forward?

TESTIMONY OF CLARENCE UNDERWOOD

(The witness was duly sworn by the Chairman.)

The Chairman. Mr. Underwood, what is your full name?

Mr. Underwood. Clarence Underwood.

The Chairman. You are secretary to Mr. Carpenter?

Mr. Underwood. I am.

The Chairman. How long have you been in that capacity?

Mr. Underwood. About 20 years.

The Chairman. Did Mr. B. T. Moore, representing himself as an agent for this committee, call on you during the fall?

Mr. Underwood. He did.

The Chairman. Did he ask for access to the files of Mr. Carpenter?

Mr. Underwood. He did.

The Chairman. What did you then tell him?

Mr. Underwood. I took him to the file room and showed him the file cases and said he might go through all of them.

The Chairman. Did Mr. Moore ask specifically for the files running from 1920 up to 1930?

Mr. Underwood. He did not.

The Chairman. What did you tell Mr. Moore concerning the files of that period?

Mr. Underwood. From 1920 to 1930?

The Chairman. Yes.

Mr. Underwood. Mr. Moore asked me, after finishing four drawers, what we did with our files prior to those files which he looked at, and I told him in a great many cases when they had served their purpose we destroyed them.

The Chairman. After they had served their purpose they had been what?

Mr. Underwood. The personal files were destroyed.

The Chairman. Are there any files prior to 1920 in existence, files of Mr. Carpenter?

Mr. UNDERWOOD. Personal files?

The CHAIRMAN. Yes.

Mr. UNDERWOOD. Yes, sir.

The CHAIRMAN. Or any files?

Mr. UNDERWOOD. Personal files.

The CHAIRMAN. Prior to 1920?

Mr. UNDERWOOD. That I cannot answer. Prior to 1920?

The CHAIRMAN. Yes. Does Mr. Carpenter have any files originating before 1920 which are still in existence?

Mr. UNDERWOOD. I think there are some personal files.

The CHAIRMAN. Are there personal files dating from 1920 on?

Mr. UNDERWOOD. From 1920 on?

The CHAIRMAN. Yes.

Mr. UNDERWOOD. All the files we have, Senator, are in our office.

The CHAIRMAN. What is the status of the files running from 1920 on?

Mr. UNDERWOOD. They are personal files.

The CHAIRMAN. And how complete are they?

Mr. UNDERWOOD. That I cannot answer. As Mr. Carpenter said, at times he goes through them and destroys what he thinks has served its purpose and gets the file down to a minimum.

The CHAIRMAN. Wasn't that done with the files prior to 1920?

Mr. UNDERWOOD. It has been done at odd times right along.

The CHAIRMAN. Mr. Carpenter, wasn't that done prior to 1920?

Mr. CARPENTER. I don't think there are any files in existence prior to that. I do not keep any more files than I can possibly keep. I root them out occasionally to get the files down.

The CHAIRMAN. The testimony seems to be that there are files still available prior to 1920.

Mr. CARPENTER. I don't think so.

Mr. UNDERWOOD. Senator, I may be wrong in making that statement. All the files we had were opened to the investigators when they came there. We have no other files. If there are any letters in there prior to 1920, I am not sure of that.

Mr. CARPENTER. Senator, I think what has confused the examiners, and through no fault of theirs, is that they found, I am told, an old index file that had a great many files on it. That index nobody knew—I asked in the office—even existed. It was an index that was used 12 to 15 years ago. We have not used the index for 10 or 12 years. I don't think anybody even knew it was in the office. I think that is probably what Mr. Moore has in mind when he states there may be files somewhere prior to that time. There are no files, I am sure in saying, prior to 1920, in the office.

The CHAIRMAN. What was generally done with the folder marked, "Political"?

Mr. CARPENTER. It is a very small file. I think it is still there. They went all through everything.

The CHAIRMAN. As respects political parties, running from 1920 to 1930?

Mr. CARPENTER. If there are any letters there at all, they are in that file. If not they have been destroyed.

The CHAIRMAN. Would those be among the files that might have been destroyed from year to year?

Mr. Carpenter. Many letters may have been destroyed; yes; but that had nothing to do with legislative matters or political matters in Washington, to my recollection.

The Chairman. Haven't you indicated that the letters, among other things, may have related to requests to friends in Washington for political favors for other friends?

Mr. Carpenter. They may have. I am not sure. Personally, I have not been in Washington, I don't believe, 10 times in 20 years.

The Chairman. But you declare to the committee, Mr. Carpenter, that there have been no files destroyed which had relationship to the du Pont interests, as between their interests and the Government's?

Mr. Carpenter. Positively not.

The Chairman. Mr. du Pont, during the September hearing we requested that the company furnish the committee with the political campaign contributions of its officers and directors from 1919 to date. The Chair is advised that at the present time there has been no return in compliance with that request as relates to Donaldson Brown, J. P. Laffey, H. M. Pierce, J. J. Raskob, A. P. Sloan, Jr., who were directors and J. B. Eliason, the treasurer.[1]

Did you make request of all of them to supply the committee with that information?

Mr. Lamont du Pont. The request was passed on to those gentlemen; yes, sir.

Mr. Pierre du Pont. Mr. Chairman, I happened to be talking with Mr. Raskob on the phone the other day, and he said he was sending in his list.

The Chairman. He said that he was sending it in?

Mr. Pierre du Pont. He said he was sending it in about 2 days ago.

The Chairman. Again, Mr. du Pont, request was made at one time of you for a furnishing of such listings as would show all stockholdings in excess of $10,000.[2]

Mr. Lammot du Pont. Yes, sir.

The Chairman. Of the directors of the company.

Mr. Lammot du Pont. And the subsidiary companies.

The Chairman. And the subsidiary companies. The request, it appears from a note which has been given by the committee's investigator, has been complied with in general, but that some of those have not given the number of shares which they hold in other companies. And in view of the war-time allocation of orders, this matter of holdings in other companies is of especial importance to the committee. Will you undertake to ascertain why we have not been supplied with that?

Mr. Lammot du Pont. Mr. Chairman, I do not think I should undertake that. That information requested is the personal information of the men in question. I have no authority to ask them to give it.

Mr. Irénée du Pont. You simply passed along the request of the chairman?

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[1] Political campaign contributions of E. I. du Pont de Nemours & Co. officers and directors appear in Hearings, Part V, text, p. 1265, appendix, p. 1403. With the exception of A. P. Sloan, Jr., who, at date of publication of this volume, had not submitted his, the balance of the individuals mentioned above have returned theirs. This additional list appears in Hearings, Part IX, text, p. 2147, appendix, p. 2268.

[2] Lists of stockholders of directors of du Pont appear in appendix on p. 4498.

Mr. LAMMOT DU PONT. I did.

The CHAIRMAN. If you will do that——

Mr. IRÉNÉE DU PONT. That has been done. I received word from Lammot du Pont.

Mr. PIERRE DU PONT. Mr. Chairman, for my information, was the list supposed to be back to the war? I thought it was supposed to be from 1925.

The CHAIRMAN. 1919.

Mr. LAMMOT DU PONT. I think you are in error.

Mr. CARPENTER. 1925 to 1930, I think, Senator.

The CHAIRMAN. The Chair has no information before him on which to base an answer to the question. We shall ascertain definitely and will direct to you a letter covering the information that has not been furnished.

Mr. PIERRE DU PONT. I am afraid my list started in 1925. I should be glad to furnish a full list, if you wish it.

Mr. LAMMOT DU PONT. Senator, I trust you will not expect us to secure that information for you, because I think we have no authority to do so.

The CHAIRMAN. The Chair thinks he appreciates the situation, and the committee perhaps will have to proceed in another manner in order to get it.

The committee had expected that before adjournment for the holidays to lay a preliminary groundwork for what it considers a very important January inquiry into the amazing increase in new costs of naval armaments and methods of purchases and sales.

Our studies have developed, however, the necessity for such broad inquiry and involving such vital implications and conclusion that the committee has decided to postpone any public hearings on this phase until it can deal with it continously and conclusively in January, when we shall undertake that work.

Before stepping aside for continued hearings to be held this afternoon, the Chair wishes to announce that there will be a continuation of the hearings tomorrow morning at 10 o'clock, in continuation of the program that the committee will leave upon recess this afternoon.

All right, Mr. Wohlforth.

Mr. WOHLFORTH. Will the two officials of the N. R. A. please come forward—Mr. Dickerman and Mr. Scott?

Mr. GREGG. Mr. Chairman, may I take just a minute?

The CHAIRMAN. Very well.

Mr. GREGG. In connection with the purchase of the property at Old Hickory, question arose as to whether or not this village that was purchased by the du Pont Fibersilk Co. was not the village that the Mason & Hanger Co. constructed at a cost of about $21,000,000.[1]

I want to read from the contract of Mason & Hanger. They did considerable more work than constructing the village. In other words, the Mason & Hanger Co. contracts provide:

> The contractor shall in the shortest possible time furnish such labor, material, tools, machinery, equipment, facilities, and supplies and do all such things as may be from time to time specified by the Agent in the construction and completion of the following work—

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[1] See text, p. 4227.

That was the agency contract of January 29 [continuing]:

> Such extension as may be designated by the Agent [within the boundary lines of America, the plant site owned by the United States in the county of Davidson, State of Tennessee, known, or to be known as the "Old Hickory Powder Plant"] of a spur track now being constructed from the bridge of the Nashville, Chattanooga & St. Louis Railway over Stone River in the county and State aforesaid to the boundary lines of the plant site aforesaid. All of the work of such construction shall be in accordance with first-class American standards of railway construction. Within the plant boundaries aforesaid such tramway tracks, concrete roads, dwelling houses for employees, sewer lines, streets, sidewalks, and structures and improvements of a similar character as may be designated by the agent from time to time.

A new contract was made on March 23, 1918, with Mason & Hanger in which the same language was used, with the exception that Mason & Hanger's cost was broadened to cover work within and beyond the boundary lines of the plant's site.

So that approximately the $21,000,000 which was paid to Mason & Hanger not only included the construction of the village but any amount of other work.

Mr. WOHLFORTH. Mr. Dickerman and Mr. Scott will be sworn, please.

N. R. A. SMALL ARMS AND AMMUNITION INDUSTRY CODE

TESTIMONY OF CHARLES HEBER DICKERMAN AND JACK GARRETT SCOTT

(The witnesses were duly sworn by the chairman.)

The CHAIRMAN. Your full name, Mr. Dickerman.

Mr. DICKERMAN. Charles Heber Dickerman.

The CHAIRMAN. What is your official position with N. R. A.?

Mr. DICKERMAN. I am Assistant Deputy Administrator, manufacturing division.

The CHAIRMAN. Mr. Scott?

Mr. SCOTT. Jack Garrett Scott. I am the associate counsel of N. R. A.

Mr. WOHLFORTH. Mr. Chairman, this morning we heard testimony on the attitude of the small-arms industry toward its proposed code and the N. R. A. in general. And just to clarify the record, I would like at this point to put into the record the other attitude, the attitude of the code authorities of the N. R. A. toward the small-arms industry.

Mr. Scott or Mr. Dickerman, will you explain to the committee the exact status of the small-arms code?

Mr. SCOTT. The code was originally proposed to the N. R. A. sometime in July or August 1933. Negotiations were held upon that code and its various terms and a good many drafts were submitted as a result of these negotiations, until March of 1934, and at that time the negotiations apparently reached a stalemate; that is, the industry would not submit anything further, or what we deemed to be better proposals, and the National Recovery Administration would not approve what they had submitted.

At that time, in March 1934 the code in its then form was approved by the Administrator, in an order which imposed certain conditions. Subsequent to the entry of that order, the industry notified the National Recovery Administration they repudiated the code; that they would not regard the code as binding upon them, and that status has existed down to the present time.

Mr. WOHLFORTH. Have you any documents with you to show the attitude by the industry toward that code and, if so, will you please read them into the record and submit one copy for the reporter?

Mr. SCOTT. The first one was a telegram under date of April 4, 1934, from C. Stewart Comeaux, secretary of the small arms and ammunition manufacturing industry.

Mr. WOHLFORTH. Will you read it please?

Mr. SCOTT. Addressed to Mr. A. R. Glancey, Division Administrator, room 4867, National Recovery Administration, Washington, D. C. [reading]:

> Meeting of small arms and ammunition manufacturing industry now in session and members representing more than 90 percent in volume of sales have given careful consideration to changes and deletions in order of approval. Members desirous of cooperating in every possible way with National Recovery Administration but voted unanimously not to accept code as approved. However, they will unanimously accept code if amended by striking out final clause of paragraph C, section 1, article 2, reading as follows: "And provided further, that such hours shall not be availed of in more than 15 weeks in any year, nor more than 48 hours in any week" and provided article 16 is reinserted in code to read "by presenting this code, those assenting hereto are not thereby waiving any of their constitutional rights" and by reinserted article 18 relating to modification. Through conferences which have been held with Messrs. Matthews and Gregg you are familiar with the industry's position regarding articles 16 and 18. In reference to suggested change in paragraph C, section 1, article 2, we desire to state that original text was prepared after very careful consideration and was designed to permit the employment of experienced skilled labor when absolutely necessary to secure continuity of production without break in employment for general working forces. There how exists actual shortage of skilled labor, and experience has already demonstrated that the restriction imposed by the addition to that paragraph will seriously decrease employment in the industry. This telegram is sent as per your request to Mr. Gregg. Meeting will be in session until 6 o'clock today and any communication received from you prior to that time will be presented to the meeting.

Mr. WOHLFORTH. Have you any other letters or documents there relating to the attitude of the small-arms industry to the N. R. A. code, and, if so, will you read them for us?

Mr. SCOTT. Various negotiations were held between N. R. A. and the industry since this time in an attempt to have this accepted by the industry as a code for the industry, without any success.

On September 28, 1934, a letter from Mr. Comeaux, addressed to Mr. Barton W. Murray, Division Administrator, National Recovery Administration, Washington, D. C., was received, reading as follows:

> SMALL ARMS AND AMMUNITION MANUFACTURING INDUSTRY CODE
>
> At a meeting of the code committee for this industry held Thursday, September 27, consideration was given to the proposal outlined in your letter of September 13, and I was directed to advise you that the committee is unanimously opposed to having this code administered by the N. R. A. basic code authority.
>
> In this connection it will be recalled that this code, which was approved by the Administrator, was not accepted by the industry because of deletion by order of approval of articles XVI and XVIII, all of which is of record with the administration.
>
> While the committee is of the opinion that the industry would likewise be opposed to the proposal made by you, I am further directed to say that if you so desire, the question will be referred to a meeting of the industry.

Mr. WOHLFORTH. Have you any further documents which will throw light on the small-arms industry code and its adoption? If so, please read them into the record.

Mr. SCOTT I do not think there is anything that would add to the statement of the position of the industry.

Mr. WOHLFORTH. In your experience could you give us an expression on this matter: Was the attitude of the industry cooperative or did the code authorities meet with resistance to any considerable degree?

Mr. SCOTT. As to being cooperative, in my opinion the attitude of the industry was decidedly to the contrary.

That is shown, I think, by the records and files of the matter all the way through, and by the further ultimate fact that the code, when finally approved by the Administrator, was repudiated by the industry upon the basis of what I deem to be highly legalistic and technical grounds.

The history behind it throws a little light upon the thought. The main controversy which raged during all these months that the code was pending before the National Recovery Administration concerned labor provisions. As I said before, when we got to the draft of March 1934 we had gotten to the point where, in our opinion, the industry would not move any further toward providing what we considered to be satisfactory labor provisions for the industry.

Mr. WOHLFORTH. Is the code now in effect?

Mr. SCOTT. There seems to be a difference of opinion about it. In our opinion it is in effect but in the opinion of the industry they have expressly repudiated it and claim it is not in effect.

Mr. HISS. Is a voluntary code in fact in effect?

Mr. SCOTT. In view of the attitude of the industry, there is a good deal of doubt about that.

Mr. DAVIS. Senator, could I have the floor?

Senator VANDENBERG. Yes.

Mr. DAVIS. I would like to ask Mr. Scott—I understand Mr. Dickerman was appointed Deputy Administrator on November 27 of this year. I was chairman of this code committee from the time of its inception in July 1933, and the entire industry has been cooperating, and we are ready right now to accept that code, if they will restore the two articles, XVI and XVIII, in the code.

Mr. HANDY. That has been our position. There have been no labor difficulties.

Mr. DAVIS. We have accepted everything.

Mr. SCOTT. I may say, in answer to that, that one of the conditions in this order of approval which is in dispute and the important one substantively was one concerning labor provisions. The other two had nothing to do with labor provisions.

Mr. WOHLFORTH. May I add, Mr. Davis, that Mr. Dickerman, although he has been quite recently appointed, has all the data on this and is the man in charge and the one to whom we, of course, had to apply.

Mr. DAVIS. I would be very glad to place this entire record of correspondence before the entire American public. We have had no less than eight Administrators and Deputy Administrators handling our code. I have been through it since July 1933.

Mr. Scott. I have been familiar with it myself since November 1933, not directly but generally.

Senator Vandenberg. Do you want to make a statement, Judge?

Mr. Gregg. Senator, as I understand Mr. Scott to say, our objections are technical on articles XVI and XVIII. Article XVI is the provision in the code that by presenting the code we are not waiving any of our constitutional rights.

Article XVIII is that we are reserving the right to object to any modification of the code later on.

I went into that question thoroughly about the waiver of constitutional rights. I prepared a brief for Mr. Davis, and I would not advise any client to waive his constitutional rights under a code that is voluntarily applied for, when the Supreme Court of the United States has held repeatedly that, when you voluntarily apply for authority to do business under an act, and authority is granted under that voluntary application, you have waived your constitutional rights and you cannot take advantage of them later on.

I would not advise any client to thus agree to waive his constitutional rights.

Those are the two articles which have held up this code.

Mr. Wohlforth. Mr. Chairman, that is all I have. That shows the opinion of the code authorities and the opinion of the industry. I have no further questions unless Mr. Hiss has some.

Senator Vandenberg. Mr. Hiss?

Mr. Hiss. No questions.

Senator Vandenberg. The N. R. A. officials are excused.

(Witnesses excused.)

EXCESS-PROFITS TAXATION

Mr. Hiss. Colonel Harris, mention has been made in connection with the mobilization plan of plans of dealing with possible profiteering during war time through some form of excess-profits taxation. Is that correct, Colonel Harris?

Colonel Harris. That is correct.

Mr. Hiss. Mr. Irénée du Pont, I think a few days ago you stated in connection with certain testimony as to profits made during the war, that 80 percent of the profits were taken by taxation by the Government. Are you familiar——

Mr. Irénée du Pont. Is that my statement, sir?

Mr. Hiss. That was my understanding of what it was. Would you advise me as to your understanding of it?

Mr. Irénée du Pont. As I recall, Mr. Hiss, under the war tax which came in, I think in 1918, the Government took 80 percent of the profits in excess of 10 percent on the investment. I think that is correct. That is my recollection of that law. Prior to that time I think the rate was 65 percent of the profits. But you have got the records and know what it is. But I would like to refer to my testimony and if I made a mistake like that, it was certainly due to my inability to express myself.

Mr. Hiss. I would like to have marked as an exhibit a chart by Mr. Arthur Ballantine, who was formerly assistant Secretary of the Treasury, a chart which he introduced at the War Policy Commission hearings as to the rate of corporation income- and profit-tax rates. It appears at pages 710 and 711 of the War Policy Commission hearings. The chart does not include the munitions tax.

(The chart referred to was marked "Exhibit No. 1388" and is included in the appendix on p. 4428.)

Mr. Hiss. My investigation indicates that the munitions tax was in effect for 2 taxable years, namely, 1916 and 1917. In 1916 it was 12½ percent of the income and in 1917 it was 10 percent of the income.

Mr. Irénée du Pont. That tax could hardly be called a "munitions tax", because I think Congress was very careful to call it an "excise tax." If it had been a munitions tax it would have been a tax on exports and unconstitutional. That was another way of "beating the devil around the stump."

Mr. Hiss. In using "munitions tax" I thought I used the words you did, Mr. du Pont.

Mr. Irénée du Pont. I think the word "excise" was used by Congress.

Mr. Hiss. As near as I can determine from an examination of the statutes, the actual taxes from 1914 to 1921 were approximately as follows:

For the taxable years 1914 and 1915, 1 percent of income.

1916, 2 percent plus the 12½ percent excise tax which you have described.

In 1917 a graduated tax, based upon brackets of income, which would total in the higher brackets somewhat less than 60 percent, according to Mr. Ballantine's table.

Mr. Irénée du Pont. Does it not depend on how high the profits go?

Mr. Hiss. I say, it is a graduated tax. Specifically it is this: Net income equal to 15 percent of the invested capital less war credits, taxed at the rate of 20 percent; the net income in excess of 15 percent of the invested capital and up to 20 percent, taxed at 25 percent; then the net income in excess of 20 percent but not in excess of 25 percent of invested capital taxed at a rate of 35 percent; then the net income in excess of 25 percent but not in excess of 33 percent, taxed at 45 percent and the net income in excess of 33 percent taxed at 60 percent.

Mr. Nielsen. That is correct.

Mr. Irénée du Pont. I thought it was 65.

Mr. Hiss. Since the lower brackets were taxed at less than 60 percent, the gross tax compared with the gross income would be somewhat less than 60 percent of the income less the war credits, which was anywhere from 8 to 10 percent.

Then in 1918——

Mr. Nielsen. There was a normal income tax in 1917 besides that tax.

Mr. Hiss. One or two percent at that time.

Mr. Nielson. I think it was 2 and 4. I may be mistaken [referring to papers]. It is 2 and 4 percent.

Mr. Hiss. That is shown in the chart.

Mr. Nielsen. This 6 percent is on the remainder.

Mr. Hiss. Four percent.

Mr. NIELSEN. Some income was taxable at 2 percent and some taxable at 4 percent.

Mr. HISS. That is correct.

Then in 1918, in addition to an income-tax rate, there were taxes approximating 80 percent, as you have previously described them, excess profits taxes. Prior to that year there was not this excess profits tax.

Mr. IRÉNÉE DU PONT. What year?

Mr. HISS. The years before 1918.

Mr. IRÉNÉE DU PONT. That is the year before the Old Hickory contract was in operation?

Mr. HISS. That is correct.

Mr. IRÉNÉE DU PONT. I think that may be the matter you referred to. We were taxed 80 percent on that.

Mr. HISS. I thought your statement was made in the evidence relating to general profits showing the price level or such evidence as that in the charts.

Mr. IRÉNÉE DU PONT. Did I say all the profits on all that were 80 percent?

Mr. HISS. I so understood you.

Mr. NIELSEN. I think you meant, subject to 80 percent at a certain point. That is what you had in mind.

Senator VANDENBERG. The record shows what the testimony is.

Mr. HISS. From 1919——

Mr. NIELSEN. Wait a minute. You have a 12 percent normal tax besides.

Mr. HISS. I stated that.

Mr. NIELSEN. I am sorry; I did not hear you.

Mr. HISS. Then from 1919 to 1921 on the income above the war credit there was a 20-percent tax from the war credit income to 20 percent and 40 percent of the income in excess of 20 percent, plus the ordinary rate of income tax, which approximated——

Mr. IRÉNÉE DU PONT. What is this?

Mr. HISS. From 1919 through 1921.

Mr. IRÉNÉE DU PONT. That was after the war period?

Mr. HISS. That is right.

Mr. IRÉNÉE DU PONT. I did not get beyond the war period in those charts, I think.

Mr. HISS. During the years 1918 to 1924 there was, in addition to the amortization provision which has already been referred to, and as to which information has been requested from your company [1]——

Mr. NIELSEN. That is being prepared.

Mr. HISS (continuing). Under which investment in expansion, of capital investment, that is, the investment made after April 6, 1917, and prior to the end of the war, and which was for war purposes, could be deducted from taxable income. So that to that extent, to the extent that there was this amortization out of income taxes after the war and during the year 1918, particularly from 1919 to 1924, inclusive, there was a reduction of what would be ordinary income taxes which, in effect——

Mr. IRÉNÉE DU PONT. Softened the blow.

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[1] Hearings, Part XIII, footnote, p. 2927.

Mr. Hiss (continuing). Was a lessening of the tax burden during the World War. So that the 80-percent provision, even in 1918, must be qualified by the amortization provision.

Mr. Nielsen. Providing you had amortization, of course. Some taxpayers did not have any.

Mr. Hiss. Did the du Pont Co. have any during that period?

Mr. Nielsen. Yes; in 1918 we had $15,343,987.69.

Mr. Irénée du Pont. Did the du Pont Engineering have any amortization?

Mr. Nielsen. They did not have, and that was why the tax rate was 79 percent over all during 1918 and 1919.

Mr. Hiss. The du Pont Engineering did not have any amortization?

Mr. Nielsen. We do not claim they should have.

Mr. Hiss. Of course, that was paid by the Government.

Mr. Irénée du Pont. It does not affect the statement of fact, 79 percent of their taxes went back direct to the Government as a tax, and a certain proportion left.

Mr. Hiss. I should like to offer for the record a statement taken from your company, showing corporation receipts from all sources for the years 1915, 1916, 1917, and 1918—this does not include 1914, also a war year—to 1918, inclusive, of [reading]:

> $1,157,000,000, out of which there was expended for salaries and wages, $225,000,000; materials, freight, and expenses, $602,000,000; Federal taxes (paid and accrued), $72,000,000; B. bonus to employees, $15,656,000.

(The statement referred to was marked "Exhibit No. 1389" and is included in the appendix on p. 4432.)

Mr. Hiss. That exhibit also shows the net profits after taking out these items, of $228,731,000—more than the salaries and wages, exclusive of bonuses, and outside of the amount of Federal taxes.

Do you know, Mr. Nielsen, whether all the bonus of $15,656,000 was bought in the open market, or whether it constituted the issuance of treasury stock?

Mr. Nielsen. During the years 1915 to 1918 we purchased all of the bonus stock.

Mr. Hiss. $15,000,000 of purchases on the market must have had considerable effect on the price of du Pont stock during that period, did it not?

Mr. Nielsen. I would not say so. We bought it piecemeal and bought it carefully, and we watched the situation in that way.

Mr. Irénée du Pont. Could you tell me whether this is drawn from our published annual reports, or whether this report is corrected by reason of rulings of the Internal Revenue department, which changed the taxes, according as to which year it fell in?

Mr. Hiss. This came, Mr. du Pont, from a file of Mr. Pierre du Pont marked "Annual Report".

Mr. Irénée du Pont. Then it must be our own.

Mr. Nielsen. I think so, although I have never seen it.

Mr. Hiss. One last point: Mr. Irénée du Pont, there has been some testimony to the effect that the profits made by the du Pont Co. were almost entirely profits made on general business during this period. Is that your impression?

Mr. Irénée du Pont. I think the statement to which you refer was. I said that total profits made on the sale of powder to the United

States Government during the World War were more than offset by the taxes paid in the World War period to the United States Government.

Senator Clark. That is not true on taxes allocable to business coming from the United States Government, is it?

Mr. Irénée du Pont. Of course not. I am thinking of the du Pont Co. as an institution in the United States. If you had not had that institution here, the country would have been worse off from getting its powder at cost. I do not know whether I make myself clear. If we had earned from the Government $38,000,000, or something like that, of earnings from war contracts with the Government, we paid them in taxes in that period of time more than $38,000,000 or $50,000,000 of taxes, so that if this institution had not been here, the Government would have been worse off, even neglecting the tax, after they got the powder at cost. That is the point I was trying to put over, and I do not know whether I have put it over yet.

Senator Clark. You mean the total taxes paid on all business from all sources during the period of the war from 1914 to 1918 was more than your profits on your United States Government contracts?

Mr. Irénée du Pont. In that period.

Senator Clark. But, of course, were not greater than the taxes allocable to Government business.

Mr. Irénée du Pont. Of course not; no. You did not tax over 100 percent profit on our profits from the United States. Granted.

Senator Clark. No.

Mr. Hiss. Mr. du Pont, I have had certain computations made from "Exhibit No. 1113",[1] statement of the company's foreign sales.

The first shows the total sales to Belgium from 1914 to 1918, being $1,893,400. That is offered for appropriate number.

(The document referred to was marked "Exhibit No. 1390" and is included in the appendix on p. 4432.)

Mr. Hiss. The next exhibit shows the total sales to England during the same period, 1914 to 1918, and that comes to $347,395,511. That is offered for appropriate number.

(The document referred to was marked "Exhibit No. 1391" and is included in the appendix on p. 4433.)

Mr. Hiss. The next exhibit shows the same information for France, the total for the 4 years being $136,323,158. That is offered for appropriate number.

(The document referred to was marked "Exhibit No. 1392" and is included in the appendix on p. 4434.)

Mr. Hiss. And the exhibit for Italy, for the same period, shows a total amount of sales of $55,623,408. That is offered for appropriate number.

(The document referred to was marked "Exhibit No. 1393" and is included in the appendix on p. 4434.)

Mr. Hiss. The next exhibit shows the same information for Russia for the same period, the total being $62,017,385. That is offered for appropriate number.

(The document referred to was marked "Exhibit No. 1394" and is included in the appendix on p. 4435.)

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[1] Hearings, Part XIII, p. 2924.

Mr. Hiss. I also offer as an exhibit a statement furnished to the committee by the Treasury Department, as to the status of war loans by the United States Government to foreign nations.

(The statement referred to was marked "Exhibit No. 1395" and is included in the appendix on p. 4436.)

Mr. Hiss. Referring specifically to the countries to which the tabulations refer, the total indebtedness, with payments heretofore made deducted, the total indebtedness as of November 15, 1934, from Belgium to the United States was $413,653,000 plus, and the total indebtedness from France, similarly computed, was $3,980,000,000 plus, and from Great Britain $4,714,000,000 plus, from Italy $2,009,000,000 plus, and from Russia $346,000,000 plus.

Mr. Irénée du Pont. Those were loans made by the United States to those foreign powers? Are they complete? They did not seem to add up enough, as you read them.

Mr. Hiss. They are not all the loans. I read the loans to those countries to which these tabulations referred, to which your company had made sales, five countries.

I will also ask that the letter from the Acting Secretary of the Treasury be marked, because it describes the tabulation to some extent.

(The letter referred to was marked "Exhibit No. 1396" and is included in the appendix on p. 4437.)

Mr. Hiss. Colonel Harris, are you familiar with some of the difficulties in regaining by taxation profits that have once accrued?

Lieutenant Colonel Harris. I do not feel qualified to discuss that phase.

Mr. Hiss. There is considerable difficulty, is there not, in the technical complications of invested capital?

Lieutenant Colonel Harris. Repeat your question.

Mr. Hiss. Will you read the question, Mr. Reporter?

(The pending question, as above recorded, was read by the reporter.)

Lieutenant Colonel Harris. I am not familiar with the difficulties; I can perhaps visualize some.

Mr. Hiss. I offer for the record a letter which the committee received, under date of December 29, 1932, referring to the taxes of Mr. Alfred I. du Pont, which was made the basis of a formal request to the Treasury Department by the chairman, and the reply of the Treasury Department to the chairman under date of December 10, 1934.

(The letter of December 29, 1932, which was the basis of the formal request of the committee to the Treasury Department was marked "Exhibit No. 1397" and is included in the appendix on p. 4437.)

(The formal request of the committee to the Treasury Department under date of November 24, 1934, was marked "Exhibit No. 1397–A" and is included in the appendix on p. 4440.)

(The reply of the Treasury Department to the chairman of the committee, under date of December 10, 1934, was marked "Exhibit No. 1398" and is included in the appendix on p. 4441.)

Mr. Hiss. "Exhibit No. 1398" shows that for the years 1920 to 1926 Mr. Alfred I. du Pont had a gross income of $29,586,000, but paid not one cent of income tax.

Mr. Pierre du Pont. Would you mind stating the taxable income?

Mr. Hiss. What I stated was gross income.

Mr. Pierre du Pont. What was the taxable income?

Mr. Hiss. This is the gross income. I should assume there was no taxable income.

Mr. Pierre du Pont. There was no taxable income. Is not that right?

Mr. Hiss. I guess so. There were stated certain deductions which entered into the computation, and they showed losses on stock on a company known as Nemours Trading Co., $2,499,000 in 1920, $1,249,000 in 1921, and $1,000,000 in 1922, and $999,000 in 1923.

That may have had something to do with it.

Mr. Pierre du Pont. Therefore he had no net income.

Mr. Nielsen. Why speak of taxing gross income, when the tax is on net income? Gross income has nothing to do with it.

Mr. Hiss. The question was addressed to Colonel Harris before these exhibits were offered, as to whether there would be difficulty in determining taxes after profits had been made.

Mr. Nielsen. I do not think your example proved anything.

Senator Vandenberg. The committee will recess until 10 o'clock tomorrow morning, and all witnesses are excused except Lieutenant Colonel Harris and Lieutenant Brannon, who will be with us in the morning.

(Thereupon, at 4:40 p.m., a recess was taken until tomorrow, Friday, Dec. 21, 1934, at 10 a.m.)

INVESTIGATION OF MUNITIONS INDUSTRY

FRIDAY, DECEMBER 21, 1934

United States Senate,
Special Committee to
Investigate the Munitions Industry,
Washington, D.C.

The hearing was resumed at 10 a.m. in room 357, Senate Office Building, pursuant to the taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Vandenberg, Clark, Pope.

Also present: Stephen Raushenbush, secretary to the committee; Alger Hiss, legal assistant to the committee, and Robert Wohlforth, assistant to the secretary of the committee.

The Chairman. The committee will be in order.

Senator Watson, will you be sworn, and then we will hear you.

TESTIMONY OF JAMES E. WATSON

(The witness was duly sworn by the chairman.)

The Chairman. Senator, you have asked, in light of what transpired a week ago before the committee, for an opportunity to be heard. The committee is glad this morning to afford you a chance to say what you might wish to say respecting the matters that are pending before the committee.

Mr. Watson. As the chairman has said, I was not summoned here, I was not subpenaed here, I was not asked here. I called the chairman and requested this privilege and he very graciously consented, and I am deeply grateful for the opportunity.

Some days ago, when I was in the West, I read in the newspapers an account of a letter written by Senator Penrose to somebody, in which he asked that the du Ponts be given what they want, or language to that effect. I would not have cared anything about that, but some of the headlines in the western papers recited, " Watson involved in munitions investigation."

The word " involved " as used in these days has more or less of a sinister meaning. It was the word " involved " that I objected to. I just felt nettled about it and I thought I ought to have an opportunity to say to this committee how I felt in the matter.

The records referring to the letter show that Senator Penrose in that letter said nothing about munitions. It was all about the dye industry and about the tariff on dyes. I assume it is fairly well understood, or used to be, that nobody needed to urge me to be a protectionist, nor instruct me how to be one. I was an advocate of that theory before I ever saw Senator Penrose, and have been since he left this vale of tears to fight in other realms.

Senator Clark. This particular proposition went a little further than protection, Senator.

Mr. Watson. What was it?

Senator Clark. It went to the extent of embargo and prohibition against the import of dyes.

Mr. Watson. Do you want me to explain that?

Senator Clark. I just thought we might agree on terms, that is all.

Mr. Watson. No member of the du Pont family ever at any time spoke to me about the tariff question in any form, as far as I have any recollection. I do not recall, Senator, whether Coleman du Pont was in the Senate at that time or not. I do not think so. But, if he was there at that time, he was very chary about talking to his colleagues about something in which his people might be interested. At all events, he never talked to me.

I have no recollection of any legislation touching munitions, there may have been some, and especially any tariff on munitions, but the dye question was first and foremost for a good while. Senator Penrose, being a great protectionist, was for a tariff on dyes. He and I talked about it very often. But the man who led that fight more than anyone else was Senator Knox of Pennsylvania. He made a number of speeches on the floor in favor of this embargo on dyes.

I was chairman of the subcommittee that considered the tariff on dyes and we had extensive hearings on the subject. At the end of that time we unanimously reported in favor of an embargo on dyes, or what amounted to an embargo, the reason being that there was such a difference in the cost of production in Germany and here that no tariff rate could adequately measure that difference.

I never got into anything more interesting or more fascinating in my experience in either House or Senate than this question of the tariff on dyes. It showed what tremendous progress the Germans made in that respect and how marvelous were their investigations and their production. They put their scientists on the pay roll and kept them there, and they worked in secret places and produced these dyes in marvelous ways in taking the various steps in producing the final formulas which brought the dyes.

On one side, for instance, they would find a remedy. Practically all of the coal-tar preparations we now have come from these dye investigations by the Germans in their laboratories. Take 606; that simply meant that it took 606 experiments and operations before they finally reached the formula that produced the remedy.

Senator Clark. Senator, the way that matter came into this investigation, as you suggested——

Mr. Watson. Which, the 606?

Senator Clark. No—was that the du Ponts, as some of our evidence showed, were down here very busily engaged in urging this embargo as a national defense measure. That is, they were insisting that it was necessary for the national defense for them to be permitted to build up this monopoly in chemicals.

Mr. Watson. Yes.

Senator Clark. I may say, incidentally, since you mentioned the embargo on chemicals, that it has been in evidence here that under that embargo the du Ponts have been able to build up their business in the chemical line sufficiently at the expense of the American people that they now say their old family standby, the munitions business, is only 2 percent of their operations.

Mr. WATSON. Of course, as to that I know nothing as to the relative value of their production; but at that time I became profoundly convinced that if we intended to establish a dye industry in the United States at all, it would have to be done behind an embargo; that it could not be done by a system of tariff rates. I can give you one illustration.

Senator CLARK. I am glad to hear this frank statement, Senator, from a so-called "protectionist."

Mr. WATSON. Not only that, but if my friend, Senator Clark, will look at the proceedings that occurred in the Senate during the passage of the Fordney-McCumber bill—no, the Smoot-Hawley tariff bill—he will find the hottest fights over rates in that bill were about the tariff on dyes, and when the time came to vote, 24 Democrats voted for this high tariff on dyes.

Senator CLARK. I am very regretful, Senator, to learn that during those dark and gloomy days of the Republic some of my brethren strayed from the straight and narrow path.

Mr. WATSON. But, you know, you have gone much further now, because you have placed in the hands of the President the power to fix anything at all, with their N. R. A., A. A. A., or any other of the alphabetical organizations that have been established.

Senator CLARK. Not with my vote.

Mr. WATSON. I congratulate my friend from Missouri.

Senator VANDENBERG. Senator, if there is going to be any commenting on the subject, I would like to say that I cordially agreed with your viewpoint of the necessity for the protection on dyes.

Mr. WATSON. That is very kind, my friend. A friend in need is a friend in deed.

I only wanted to say this, and I do it as much for the Senators in as the Senators out: I am not a candidate for office, and therefore I am not seeking any kind of public favor, but I do not want to be placed in a false light with reference to a thing of this kind.

I was for a tariff on dyes. I was for an embargo on dyes. I believed it was essential to establish the dye industry in America, and I knew that it could not be done unless it was done behind an embargo. And my Democratic friends, enough of them, agreed to go along.

Senator Nugent, Brother Clark, was on this subcommittee, from Idaho. He was a pretty good man too, notwithstanding his political proclivities. He was as much against the tariff as anybody when we started in, but when we quit he was for this embargo.

Senator CLARK. That shows the effect of argument.

Mr. WATSON. It shows the effect of argument and logic on a wise man. But we did establish that industry. I don't know what it amounts to. They talk about the lobby business. Nobody needed to lobby me to be a protectionist. I beat them to it. I was for protection before they were. No du Pont ever spoke to me about it that I have any recollection of at all.

We did have before our subcommittee some of the scientists and some of the investigators and some of the specialists from the du Pont dye industry, but none of the du Ponts that I recall. We had them over here to give certain testimony as to why an embargo is necessary.

We might have fixed rates equivalent to an embargo, Senator Clark. I remember one dye that we would have been compelled to put a 2,000-percent rate on in order to protect its production in America. Nobody would have stood for that. There would have been an almighty howl go up that would have shaken the figure on the top of the dome of the Capitol.

Senator CLARK. Senator, I agree with you that there may at times be the necessity to impose an embargo, but there have been altogether too many instances where that has been done under the guise of making out a case for protection.

Mr. WATSON. I agree with you entirely. I, however, acted on my own responsibility. I resent the idea that somebody from the outside or somebody from the inside influenced me on that proposition, that because Senator Penrose wrote me a letter, therefore I was involved in this proposition. I do not like the word "involve." There never was a clearer, straighter fight made on any tariff proposition in all these years than for the tariff on dyes. It was renewed under the Smoot-Hawley bill, and there was a long fight. I am not going to mention any of my Democratic friends that advocated it. They can speak for themselves, as some of them are here.

Senator CLARK. Some of them wish they had not.

Mr. WATSON. I have not found that. They may, but I rather doubt that, because they believed in this dye industry in America. I know of no Democrat, Senator Clark, that does not think that if we had not imposed an embargo we would today have a dye industry in America and, as far as I am concerned, I think it is infinitely better to have it in American than in Germany, because the Germans built up from that dye industry enormous side industries, ancillary, which had much to do with the industrial supremacy of Germany and with her financial success.

Now, Mr. Chairman, I think I have said about all I want to say. I might add this: I am not putting on any robes of sanctity, but I want to say that in my experience not one cent of du Pont money ever came to me or any campaign committee of mine, never at any time. I think, perhaps, they were a little remiss in their opportunities, but that was the situation. They did not say anything to me about it beforehand, and there were no results afterhand. But everybody knew that I would be a protectionist and stood for the doctrine, for the theory, which I yet do, and I am very happy, Brother Clark, that you and your party have gone beyond that now.

Senator CLARK. Don't take me.

Mr. WATSON. You go along. You joined the crowd.

Senator CLARK. How is that?

Mr. WATSON. I say that you go along with them. You joined the crowd.

Senator CLARK. I would like for you to look over my record as long as I stay in the Senate to see whether I ever vote for a duty against revenue.

Mr. WATSON. Do you wish to ask me any questions, Senators?

The CHAIRMAN. I think not, Senator.

Mr. WATSON. I am very grateful to you for this opportunity. I just felt nettled when I saw those headlines in the western papers—

the idea that one Senator would write another Senator a letter and thereby he would become involved. Senator Penrose and I were very great friends in the Senate and we were together very, very much. If he wanted to say anything to me he would have said it, as he did. We talked about the tariff on dyes, and all of the Senators on my side, as well as on the other side, because there were a great number of Democrats for this tariff, were, I think, actuated only by patriotic motives.

The CHAIRMAN. All right, Senator.

Mr. WATSON. I am very much obliged to you, Senators, and glad to meet you again. This is the first time I have been in this building since I left. I have never set foot in the Capitol since I left it, and I would not be here today but for this opportunity which you have so cordially extended me, and for which I am very grateful. Thank you.

The CHAIRMAN. Thank you, Senator.

Mr. HISS. Colonel Harris and Lieutenant Brannon.

TESTIMONY OF LT. COL. C. T. HARRIS AND LT. E. M. BRANNON—Resumed

Mr. HISS. Colonel Harris, so far in regard to the contract forms——

Lieutenant Colonel HARRIS. Before you start, Mr. Hiss, do you want to take the information you have asked us to get at this time, or later?

Mr. HISS. I think this might be a very good time.

Lieutenant Colonel HARRIS. We have some of it now and some of it will have to be furnished later.

Lieutenant BRANNON. The first was in reference to salaries paid to the members of the War Industries Board.[1] From the records in the file of the Army Industrial Board I have made up this paper. Should I read it?

Mr. HISS. Would you, please?

Lieutenant BRANNON. Mr. Baruch, salary, $1 a year.

Mr. Brookings, from August 1, 1917, $500 per month. The records show that was terminated May 27, 1918, and the following day, May 28, 1918, Mr. Brookings was reappointed at the same salary, $500 per month. It finally terminated February 28, 1919.

Mr. Lovett, from August 1, 1917, $400 per month; September 16, 1917, $500 per month; terminated March 5, 1918.

Mr. Frayne, from August 1, 1917, $500 per month; from August 1, 1918, $675 per month; terminated February 14, 1919.

Mr. Scott, from August 1, 1917, $400 per month; from September 25, 1917, $500 per month; terminated October 26, 1917.

Next was the investment at Frankford Arsenal.[2]

The plant investment at Frankford Arsenal is as follows:

Land	$1,000,000
Buildings	8,189,000
Utilities	2,311,000
Total	11,500,000

There is no record of a deficiency appropriation for Frankford Arsenal during the years 1927, 1928, and 1929.[3]

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[1] Hearings, Part XVI, p. 4021.
[2] Ibid., p. 3958.
[3] Ibid., p. 3953.

Mr. HISS. Lieutenant Brannon, does that represent cost, those figures you have?

Lieutenant BRANNON. I do not know the basis. We simply asked the Ordnance Department and they furnished these figures, Mr. Hiss.

Mr. HISS. Yes.

Lieutenant BRANNON. The next is reference to orders placed with the E. I. du Pont de Nemours & Co. for powder.

The following powder orders were entered into with E. I. du Pont de Nemours & Co. during the calendar year 1934, and paid for from N. I. R. A. funds:[1]

37-millimeter gun, model 1916	$2,560
3-inch antiaircraft gun, model 1918	75,313
155-millimeter gun	1,050
Powder for caliber .30 ammunition	208,000
Total	286,923

EXTENT TO WHICH ORDNANCE DEPARTMENT COMMANDEERED PLANTS IN WORLD WAR

Lieutenant BRANNON. Now, with reference to the plants that were commandeered during the war.[2]

Attached hereto are memoranda of December 9, 1918, listing commercial plants commandeered for the Ordnance Department during the World War, under section 120 of the National Defense Act of 1916. I have only one copy of the list of plants. This is a letter written December 9, 1918, from the Administration Division, Advisory Section, to the Procurement Division, attention Captain Featherstone.

Subject: Plants commandeered for the Ordnance Department. I have simply taken this letter and put it in. It reads as follows:

DECEMBER 9, 1918.

From: Administration Division, Advisory Section.
To: Procurement Division.
(Attention Captain Featherstone.)
Subject: Plants commandeered for the Ordnance Department.

1. The following plants have been commandeered by the Ordnance Department:

1. Plant of the Liberty Ordnance Co. at Bridgeport, Conn. Req. 26 A/C, Ord. No. 27, dated 1/5/18.
2. Plant owned by Smith & Wesson, Springfield, Mass. Req. 709 B/C, Ord. No. 604, dated 8/31/18.
3. Plant of Bigelow-Hartford Carpet Co., Lowell, Mass. Req. 20 A/C, Ord. No. 62, dated 12/27/17.
4. Hoboken Land & Improvement Co., Hoboken, N. J. Req. 37 A/C, Ord. No. 516, dated 2/28/18.
5. Plant of Federal Enameling & Stamping Co., McKees Rocks, Pa. Req. 738 B/C, Ord. No. 609, dated 9/11/18.
6. Mosler Safe Co., Hamilton, Ohio. Req. 781 B/C, Ord. No. 612, dated 9/23/18.

By direction of the Chief of the Administration Division.

M. F. GRIGGS,
Lt. Col., Ord. Dept., U. S. A.
By LT. RICHARD L. DAVISSON,
Ord Dept., U. S. A.

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[1] Hearings, Part XVI, p. 3986.
[2] Ibid, p. 4012.

Now, there is another letter, Mr. Hiss, which has the same plants and, in addition, mentioned one or two that are not mentioned here. I believe from the context they were simply plant requisitions in order to take the land and buildings which were located thereon.

This is a letter from Lt. Col. M. F. Griggs, Advisory Section, Administration Division, to Lt. Col. R. P. Lamont, Procurement Division:

War Department,
Office of the Chief of Ordnance,
Washington, December 9, 1918.

From: Lt. Col. M. F. Griggs, Advisory Section, Administration Division.
To: Lt. Col. R. P. Lamont, Procurement Division.
Subject: Surrender of requisitioned or commandeered plants.

1. In accordance with the directions of the claims board, steps are being initiated to surrender at once to their owners the following properties:

(*a*) Liberty Ordnance Co.'s plant, Bridgeport, Conn., now operated by the American Can Co. under contract between the United States and the company. It is assumed that cancelation notice in this cost contract will be immediately served in connection with the breaking down of the 75 mm project.

(*b*) Mosler Safe Co. It is understood that the contract for the operation of this plant for the manufacture of gun carriages will be canceled or not executed.

(*c*) Federal Enameling & Stamping Co., McKees Rocks, Pa. This plant was manufacturing adapters and boosters, and it is understood that the contemplated contract for its operation by the National Operating Corporation will not be completed and that, as the output is not needed, this plant may be returned to the company and the operations discontinued by the Pittsburgh district office as now conducted.

(*d*) Smith & Wesson, Springfield, Mass. The revolvers manufactured in this plant will not be required. It is assumed that the contract with the National Operating Corporation will be canceled and this property surrendered to the owners.

(*e*) Several properties in Hoboken, N. Y., such as the Hoboken Land & Improvement Co., Jewel Tea Co., and the Bijour Motors Co., requisitioned for the Remington Arms-U. M. C. Co., for cartridge manufacture, as well as the Bigelow-Hartford Carpet Co. for use by the U.S. Cartridge Co. for cartridge manufacture, will continue in operation for the present, but that notification should be given as soon as these contractors can dispense with the requisitioned properties in accordance with partial suspension orders.

2. We should be notified at once in case the procurement division differs with the understanding above stated.

3. For the purpose of the necessary records of the commandeering section of the purchase, storage, and traffic division, letters are being prepared for Colonel Lamont's signature reciting the suspensions and cancelations which will remove the necessity for retaining the plants in question.

M. F. Griggs,
Lieutenant Colonel, Ordnance Department, U. S. A.

Senator Vandenberg. What is meant by commandeering a plant, Lieutenant? What do you do to commandeer a plant?

Lieutenant Brannon. As I understand, there are two separate provisions. There was a general provision which authorized the taking by eminent-domain proceedings, just like we might in peace time take land or buildings. The other one—section 120 of the National Defense Act—authorized the commandeering of plants which refused to accept compulsory orders.

Senator Vandenberg. In other words, you had the authority to commandeer in any situation where you could not arrive at a satisfactory agreement?

Lieutenant Brannon. Yes, sir.

Senator Clark. Just what was that authority, Lieutenant? I mean, did it go merely to the extent of having the Government go and take physical possession, or did it go to the extent of permitting you to commandeer personnel? In other words, you did not just have an Army officer walk in and say, "Boys, you are in the Army. We want to turn out some powder."

Lieutenant BRANNON. I believe if I read section 120 of the National Defense Act, that will answer that. The first paragraph of that section authorizes the placing of compulsory orders. The second section reads:

> Compliance with all such orders for products or material shall be obligatory on any individual, firm, association, company, corporation, or organized manufacturing industry or the responsible head or heads thereof, and shall take precedence over all other orders and contracts theretofore placed with such individual, firm, company, association, corporation, or organized manufacturing industry, and any individual, firm, association, company, corporation, or organized manufacturing industry or the responsible head or heads thereof owning or operating any plant equipped for the manufacture of arms or ammunition or parts of ammunition, or any necessary supplies or equipment for the army, and any individual, firm, association, company, corporation, or organized manufacturing industry or the responsible head or heads thereof owning or operating any manufacturing plant, which in the opinion of the Secretary of War shall be readily transformed into a plant for the manufacture of arms or ammunition, or parts thereof, or other necessary supplies or equipment, who shall refuse to give to the United States such preference in the matter of the execution of orders, or who shall refuse to manufacture the kind, quantity, or quality of arms or ammunition, or the parts thereof, or any necessary supplies or equipment, as ordered by the Secretary of War, or who shall refuse to furnish such arms, ammunition, or parts of ammunition, or other supplies or equipment, at a reasonable price, as determined by the Secretary of War, then, and in either such case, the President, through the head of any department of the Government, in addition to the present authorized methods of purchase or procurement herein provided for, is hereby authorized to take immediate possession of any such plant or plants, and through the Ordnance Department of the United States Army to manufacture therein in time of war, or when war shall be imminent, said price or material as may be required and any individual firm, company, association, or corporation or organized manufacturing industry or the responsible head or heads thereof, failing to comply with the provisions of this section shall be deemed guilty of a felony and upon conviction shall be punished by imprisonment for not more than three years and by a fine not exceeding $50,000.

Senator VANDENBERG. You could not commandeer the du Pont organization for the purpose of erecting Old Hickory, could you? You would have to deal with them at their mercy, so to speak. You had no authority to enforce your judgment as to the national necessity in the situation, did you?

Lieutenant BRANNON. When it comes to an engineering organization, that is where it is not a question of a plant so much as it is personnel, and I do not know how far we could go, sir.

Senator VANDENBERG. You could have commandeered the du Pont plant, could you not?

Lieutenant BRANNON. Yes, sir.

Senator VANDENBERG. Then why could you not have commandeered the du Pont plant and expanded it as a branch of Old Hickory under your commandeering authority?

Lieutenant BRANNON. I think we could, sir.

Senator VANDENBERG. It would seem so to me.

Senator CLARK. I do not see that there is any provision in the law for that, Senator.

Senator VANDENBERG. I am asking the lieutenant.

Senator CLARK. I am referring to the lieutenant's answer.

Lieutenant BRANNON. If we commandeered a factory, of course, the question of taking over the personnel and getting them to serve the Government, whether they want to or not, is a different proposition.

Senator CLARK. I understand that, and that is what I am getting at. I thought I understood your response to Senator Vandenberg's question to be an agreement with the proposition, which I do not think is justified. I will ask Colonel Harris if it is justified.

Lieutenant Colonel HARRIS. That same question was raised several days ago and I said I felt they could commandeer the plant but not the personnel of the organization.

Senator CLARK. To use the du Pont example, you would have to go up and commandeer the du Pont plant under the law?

Lieutenant Colonel HARRIS. Yes, sir.

Senator CLARK. But when you state, "We want you to build a powder plant for us at Old Hickory", they would say, "No; we have something which you cannot commandeer, the 'know-how.'"

You have no authority to say, "Well, boys, it is the 'know-how' which we want, and trains are running to Leavenworth barracks where we send men who hang back from the front-line trenches."

They had a perfect right to say, which still exists, that "You have to haggle with us on terms", when the Germans were about to break through.

Lieutenant Colonel HARRIS. I think every du Pont man could have walked out and left a shell of the plant.

Senator CLARK. I agree with you.

Senator VANDENBERG. You could have commandeered the plant?

Lieutenant Colonel HARRIS. Yes, sir; the physical property.

Senator VANDENBERG. Having commandeered the physical property, would it not have become almost of vital interest for the personnel to stay there?

Lieutenant Colonel HARRIS. I would think so.

Senator CLARK. You had no intent to draft the "know-how?"

Senator VANDENBERG. I agree with you, but I am getting at the fact, that there was a power, which apparently could have been used, to get the ultimate net result, if anybody wanted to use it.

Senator CLARK. You mean "moral suasion"?

Senator VANDENBERG. Yes; with a capital M and a capital S.

Lieutenant BRANNON. That is what I had in mind. If they transferred their services to the Government, they could have sent them to Old Hickory, or anywhere else, as long as they wanted to work for the Government.

I believe that is all the data which we have so far.

Lieutenant Colonel HARRIS. I would like to repeat the request which I made before, to be able to submit a report in connection with Old Hickory, which I have not had a chance to prepare as yet.[1]

ADJUSTED-COMPENSATION CONTRACT FORM—EXTENT OF POSSIBLE PROFITS TO CONTRACTORS

Mr. HISS. Colonel Harris, you have discussed certain provisions of the proposed contract forms developed to afford safeguards under the present War Department plan to prevent profiteering, which, as I understand it, is one of the ills which the War Department has in mind in connection with this plan.

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[1] Hearings, Part XVI, footnote, p. 3985.

We have also had considerable evidence and testimony as to some of the difficulties and some of the profiteering practices which were common during the World War and which resulted in many months of hearings before the Graham committee, in taking many volumes of testimony. The matter seems a long way off, but it has been necessary to bring up certain of those instances which have afforded concrete examples against which to check certain provisions of the contract.

It has also been developed that under the principle of allocation there is extreme doubt as to how much, if any, competition between suppliers there will be, since suppliers will be counted on for a definite percentage of the total requirements rather than three or four competing for the same orders.

Referring again to the adjusted-compensation contract——[1]

Lieutenant Colonel Harris (interposing). Mr. Hiss, I would like to add to your statement, if that is a statement of summary of the plan, that the whole plan is based on a construction that there will be price fixing and basic price fixing, and that when we let under the allocation system, when the plant takes on a job, the Government will have something to say about the price.

Mr. Hiss. The price at which raw materials are bought, do you mean, Colonel Harris?

Lieutenant Colonel Harris. Yes; and I think about the estimated value of the material to be manufactured. In other words, it is entirely free to negotiate, and we will know on our side or will have some data on our side to strengthen our hand.

Senator Clark. Colonel, Lieutenant Brannon testified here yesterday, I believe, or day before yesterday, when I asked him how many of these industrial-plants data had been assembled on, upon which could be based a figure of the base cost on which a return was to be allowed, and he said none. That is 15 years' time since the last war, and we have not the data on a single plant.

Lieutenant Colonel Harris. We are talking about two different things. You are talking about valuation of the plant and we are talking about the estimated value of the plant to be entered into.

Senator Clark. I understand that cost is based on actual cost plus a return of 6 percent to the contractor.

Lieutenant Colonel Harris. They are both elements.

Senator Clark. In other words, you cannot fix the cost price without having your base figure any more than you can fix a utility figure without having the base figure under almost every law in every State in the Union.

Lieutenant Colonel Harris. That is true.

Senator Clark. According to Lieutenant Brannon's testimony we are just as far away on having the essential data on which to fix costs as we were 15 years ago at the end of the war.

Mr. Hiss. With respect to that same point, Colonel Harris, under the proposed contracts there will be paid, regardless of the particular contractor, regardless of his business ability or his efficiency or anything else, 6 percent on the valuation of his plant and capital. In other words, that is a guarantee of 6 percent on the valuation of the plant and capital. Is not that correct?

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[1] Introduced into the record as "Exhibit No. 1226–A", earings, Part XV, p. 3625.

Lieutenant Colonel HARRIS. Correct; as agreed upon between the United States and the contractor.

Mr. HISS. That refers to the amount of valuation?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. That is, it has been determined that every contractor will make 6 percent under the present plan. Is that correct?

Lieutenant BRANNON. He will get 6 percent for the estimated amount of performance, Mr. Hiss. If he takes longer on the contract, he will get no extra fee.

Lieutenant Colonel HARRIS. That is at a rate of 6 percent per annum.

Mr. HISS. On the valuation figure.

Lieutenant Colonel HARRIS. And the working capital.

Mr. HISS. He will get at least 6 percent assured him by the contract, regardless of whether up to that time he was getting 6 percent in ordinary competitive business or not. Is that correct?

Lieutenant Colonel HARRIS. That is correct.

Mr. HISS. That value, I think you testified yesterday or the day before, will have to be fixed, not by any exact valuation procedure similar to utility valuation, the Interstate Commerce valuation, or the valuation employed by the Bureau of Internal Revenue in considering invested capital under the excess-profits tax; it will have to be determined by negotiation in time of war, when there is great pressure for getting contracts signed and production started. That is correct, is it not?

Lieutenant Colonel HARRIS. Unless we can accomplish some of that work beforehand.

Mr. HISS. So far none of that work has been done?

Lieutenant Colonel HARRIS. That is correct.

Mr. HISS. If the valuation finally agreed on is in excess of the true valuation, then the contractor will be getting more than 6 percent on his true valuation. Is not that correct?

Lieutenant Colonel HARRIS. That is correct.

Mr. HISS. And there are still many contractors, or prospective contractors, who have expressed themselves as not satisfied that that contract furnishes adequate return for selling to the Government in time of war.

Lieutenant Colonel HARRIS. I think that is probably true, but that is arrived at in a little different way. Industrialists have been asked to pass upon this contract, and some of them had their own plants in mind in commenting, but it was more basic than to comment on their own plant.

Mr. HISS. But men familiar with the trade, men who will probably be contractors, have given it as their opinion that a great number of the prospective contractors would not be able to consider this contract sufficient compensation for their services?

Lieutenant Colonel HARRIS. I would say some. I do not like to say " a great number ", because I do not know how many, but some have.

Mr. HISS. You have some comments from different ordnance districts?

Lieutenant Colonel HARRIS. That is right.

Mr. HISS. In addition to the 6-percent fee, paragraph 4 of article III of the adjusted-compensation contract, page 4 of the memorandum form, provides for a bonus for any reduction by the contractor of the costs below the costs fixed in an estimated schedule of costs to be drawn up at the time the contract is signed. This bonus is to be one-quarter of the percentage of saving applied to the actual cost; in other words, somewhat less than one-quarter of the actual savings. Is that correct?

Lieutenant BRANNON. That is correct.

Mr. HISS. Are you familiar with the " bogey " contracts, as they were called during the war, Lieutenant Brannon or Colonel Harris?

Lieutenant BRANNON. Yes.

Lieutenant Colonel HARRIS. You answer.

Mr. HISS. They were an attempt to get away from the cost-plus-a-percentage contract?

Lieutenant BRANNON. That is correct.

Mr. HISS. They provided, did they not, for an estimated cost?

Lieutenant BRANNON. That is right.

Mr. HISS. And a percentage of the saving actually arrived at under that estimated cost?

Lieutenant BRANNON. Yes. The usual form was this: The so-called " bogey " contract was a form of cost-plus contract, but instead of paying the contractor a percentage of the cost, so that he would have an incentive to increase the cost, usually the percentage was based on the estimated cost. It was assumed that he would receive a certain percentage of the estimated cost, and that was the " bogey." If he could better that estimated cost, he was paid a part of the savings as additional compensation.

Mr. HISS. Is it not true that under that particular scheme the tendency, and in certain cases the result, was to cause contractors to boost their estimated costs beyond any reasonable relation to actual costs, in order to increase their fee?

Lieutenant BRANNON. Of course, this was not the contractor's estimate. It was the estimate agreed upon between the contractor and the representatives of the Government.

Mr. HISS. But just as in the case of the estimate of the valuation, that would have to be determined by negotiation, would it not?

Lieutenant BRANNON. Yes.

Mr. HISS. And, as in the case of the estimate, the contractor would have considerably more knowledge than the War Department, since there will not be a big staff of valuation experts, such as the Interstate Commerce Commission has?

Senator CLARK. It would be very much to the interest of the contractor, leaving aside any patriotic or ethical considerations, from purely a monetary standpoint—it would be very much to the interest of the contractor; to the financial interest of the contractor—to pad his costs in every way in the negotiations leading up to the agreement on cost, would it not?

Lieutenant BRANNON. That is correct.

Mr. HISS. Do you remember specifically the figures relating to the Liberty motor contracts which were this form of contract, were they not?

Lieutenant BRANNON. I know approximately what those figures were, Mr. Hiss. I do not know whether I have a copy of that memorandum.

Mr. HISS. It is at page 14 of that memorandum, Lieutenant Brannon.

Lieutenant BRANNON. I do not believe I have a copy of that particular one. That is the one I prepared.

Mr. HISS. I think that is the one, March 1932—no, I beg your pardon. This is your memorandum.[1] Have you a copy of that?

Lieutenant BRANNON. No; I have not a copy of that with me.

Mr. HISS. May I hand you my copy?

Lieutenant BRANNON. Yes.

Mr. HISS. The figures as stated there show, do they not, that the estimated costs arrived at by negotiation prior to the beginning of manufacture were $6,087 per unit, that is, per motor?

Lieutenant BRANNON. That is correct.

Mr. HISS. Of which the fee was to be 15 percent?

Lieutenant BRANNON. That is correct.

Mr. HISS. Plus 2 percent of any saving made in the actual cost over the estimated cost?

Lieutenant BRANNON. No; it was 25 percent of the saving.

Mr. HISS. Twenty-five percent of the saving. Excuse me. The actual cost proved to be only $3,200, slightly more than one-half the estimate.

Lieutenant BRANNON. That was the approximate figure. There were about five different companies which manufactured Liberty motors, and the actual cost was about $3,200.

Mr. HISS. That meant a return, in some cases, of 100 percent on cost to certain contractors, did it not?

Lieutenant BRANNON. That is not quite right either, Mr. Hiss. The 15-percent estimate was $913 per motor, and the contractor's share of the savings was $722, which was a profit of $1,635 on a motor which actually cost about $3,200. In other words, his profit was about 50 percent of the actual cost.

Mr. HISS. And in relation to investment it might have been much higher than that in some cases?

Lieutenant BRANNON. Had these contracts continued—of course, they were cut down, due to the end of the war—but it worked out that some of the plants would have been able to earn a profit of 100 percent on the plant devoted to the Liberty motor contract.

Mr. HISS. Is not the bonus provision, to which we referred, the one which appears in paragraph 4 of article III of the adjusted-compensation contract, in essence subject to the same abuses, or does not it bring forth the same temptations to abuse, that were contained in the "bogey" contracts?

Lieutenant BRANNON. There are two reasons why I think this is an improvement on the World War type of "bogey" contract:

In the first place, the contractor is not paid a flat 25 percent. It is a sliding scale, so that the greater the difference, the smaller is the percentage. As the difference increases, he gets the increased cost, the contractor, in the same percentage. The percentage rate gradually goes down.

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[1] Memorandum presented by Lt. E. M. Brannon, J. A. G. D., Nov. 13, 1934, before a conference of officers in the Planning Branch, Office of The Assistant Secretary of War, entitled "Discussion of the Legal and Contract Phases of Production Planning", copy of which is on file with the committee.

Mr. Hiss. In terms of actual dollars, the higher your original estimate in relation to this actual cost, the greater the bonus under this bonus provision?

Lieutenant Brannon. That is correct.

Senator Vandenberg. Lieutenant, you are still tied to the integrity of the estimate, are you not?

Lieutenant Brannon. That makes a big difference in costs.

Senator Vandenberg. It is fundamental. It is governing?

Lieutenant Brannon. Yes, sir.

Senator Vandenberg. What would be the explanation that the estimate for the Liberty motor was twice the ultimate cost of the motor, if there was any reasonable attention given to the making of the estimate?

Lieutenant Brannon. I am not a technical expert on matters of that kind; but as I understand the argument advanced, it was that when they undertook to make the Liberty motor, although it was made by automobile manufacturers, I believe, by all automobile companies which made this motor, it was quite a different motor from anything made on that scale, greater than theretofore, particularly due to the fact that the relationship between the horsepower of the motor and the weight was very much less than the ordinary automobile motor, and they assumed it was going to be very much more difficult to manufacture than it actually proved.

Senator Vandenberg. Does this record show who made the estimate?

Lieutenant Brannon. Not this record; no, sir.

Mr. Hiss. Lieutenant Brannon, following out the line just being developed by Senator Vandenberg, is it not true in regard to the Liberty motor that that was a lot nearer the kind of article that those manufacturers had been producing than will be true with respect to a great many of the ordnance contractors in time of war who have to turn their attention to a totally new product, and different from the product which they have been producing, and will it not, therefore, be more difficult to determine actual costs than in the case of the Liberty motor?

Lieutenant Brannon. As I say, Mr. Hiss, it turned out to be, but one of the reasons given at the time was that it was going to be quite a different proposition, but it turned out it was not.

Mr. Hiss. Therefore, under the adjusted-compensation contract, there will be 6 percent on the estimated plant and capital at least. That is guaranteed?

Lieutenant Brannon. Not quite.

Mr. Hiss. Less a possible penalty, if they fall below their estimated cost.

Lieutenant Brannon. Right.

Mr. Hiss. That penalty is 1 percent of the fee for each percent that the cost exceeds the estimate, up to 50 percent of the fee?

Lieutenant Brannon. That is correct.

Mr. Hiss. They are sure to get 50 percent of the fee, no matter how careless they may be in exceeding the cost of the estimate. Is that correct?

Lieutenant Brannon. Unless they stop work.

Mr. HISS. Furthermore, if their costs go beyond the estimate by virtue of raw material or labor costs due to increases sanctioned by the Government, that will not affect the penalty?

Lieutenant BRANNON. The estimate will be adjusted.

Mr. HISS. The estimate will be adjusted to fit that.

Senator VANDENBERG. Excuse me.

Mr. HISS. Yes, sir.

Senator VANDENBERG. It is in evidence, let us say, that several of these prospective contractors are dissatisfied with this form of contract. Suppose, in spite of their protests, this form of contract is made effective, and they still decline in the emergency to do business with you, then what is your recourse?

Lieutenant BRANNON. We have not worked out a form of compulsory order but personally I see no reason why under section 120 of the National Defense Act we could not place a compulsory order on them for the production of the item.

Senator VANDENBERG. In other words, you are back to the power of commandeering.

Lieutenant BRANNON. Yes, sir.

Senator VANDENBERG. On that one point, may I ask you as a practical thing, what happened in connection with the personnel in those plants which you did commandeer during the last war?

Lieutenant BRANNON. You may make this distinction, Senator, between the compulsory order and commandeering: In the first you place a compulsory order, under which the manufacturer simply goes ahead and makes a profit just as he would ordinarily—we do not attempt to run his plant. But if he refuses a compulsory order and we then commandeer his plant, then he is subject to a very severe fine and imprisonment.

Senator CLARK. He is subject to fine and imprisonment not for refusing a compulsory order, is he; but if he undertakes to resist the commandeering of his plant, then he is?

Lieutenant BRANNON. I do not understand it that way.

Senator CLARK. He is not subject to fine and imprisonment for merely refusing a compulsory order.

Lieutenant BRANNON. That is not the way I understand it.

Mr. HISS. I read it as Senator Clark does.

Lieutenant Colonel HARRIS. I would, too.

Mr. HISS. If he resists the order, your only recourse is to commandeer.

Lieutenant Colonel HARRIS. I agree with the Senator.

Mr. HISS. If he resists that, he is subject to fine.

Lieutenant BRANNON. The reason I question that, sir, is that as section 120 was originally submitted by the Military Affairs Committee, the commandeering feature was not in it. There was simply a provision for compulsory orders, and the provision about commandeering was added on the floor of the House.

Senator CLARK. That may be, Lieutenant, but it certainly changed the intent of the bill in putting in the amendment because, as I read this section, if a firm refused a compulsory order, then the only recourse of the War Department is to resort to the other alternative, to commandeer, and the penalty, as I see it, if it applies to anything, only applies to the resisting of commandeering.

Senator VANDENBERG. You mean it applies to an attempt to prevent the Government from taking physical possession of the plant?

Senator CLARK. Yes.

Senator VANDENBERG. As a practical proposition, Lieutenant, you did commandeer five or six plants. What happened? Did the personnel continue or was there difficulty in respect to that?

Lieutenant BRANNON. I am not familiar with any of those cases, sir, but I may add that while we commandeered some five or six plants and we issued something like 1,000 compulsory orders, I think the Navy issued several thousand compulsory orders.

Senator VANDENBERG. That would indicate that the compulsory order was almost completely successful in accomplishing the purpose?

Lieutenant BRANNON. Yes, sir.

Lieutenant Colonel HARRIS. In connection with the line of reasoning of Mr Hiss, I would like to make a statement about the allocation of plants. I think it is perfectly applicable.

Out of our 12,000 plants allocated, 8,000 of them are allocated to the Quartermaster Corps, for exactly the same products they make in time of peace. All of that work will be on a fixed-price contract.

Of the remaining 4,000, I do not believe there would be 1,000 that would come in this valuation or adjusted-compensation class. The Ordnance Department has only 1,000 plants allocated to it, out of the total 12,000. Most of the plants making ordnance matériel are large plants. I do not believe that more than 100 would have this valuation or adjusted compensation come in to a marked degree. So the point I am making is, out of the 12,000 plants there are relatively few of them that would come under this particular form of contract.

Senator CLARK. But, Colonel, even granting that is entirely correct, which I can readily see that it is, some of these things in which the question of compensation or commandeering or compulsory contract would be involved would be the most vital, essential elements of war. I, of course, grant that wheat and corn and blankets, and uniforms, and a great many other things we can sit here and enumerate, are very essential in warfare. Nevertheless, they are the kind of articles for which there might be substitution, and for which procurement is relatively easy.

The reason I am so much interested in this particular class of contracts is that it might involve one particular contract out of the 12,000, we will say, that might be able to hold up the whole prosecution of the war, as the du Ponts did with the Old Hickory plant, for 4 months.

Lieutenant Colonel HARRIS. Three months, sir.

Senator CLARK. A little better than 3 months, I believe.

Lieutenant Colonel HARRIS. Three months and four days.

The CHAIRMAN. Three months and four days?

Lieutenant Colonel HARRIS. Three months and four days.

The CHAIRMAN. During the most critical hour of the war.

Senator CLARK. On an essential that could not be bought on the market, as you might buy blankets—it is conceivable you might send troops into battle in overalls if you did not have the proper uniforms, or something of that sort, but it is very hard to send them in without powder. This very class that you are talking about, brought down to the minute, might represent 100 different contracts, any one of which would be sufficient to interfere very materially and very vitally with the entire conduct of the war. Is not that correct?

Lieutenant Colonel HARRIS. I admit it.

Mr. HISS. Colonel Harris, how do you expect to arrive at a fixed-price contract? Will that be the subject of negotiation?

Lieutenant Colonel HARRIS. Yes; that will bring in the question of the estimated cost, proper cost of the material.

Mr. HISS. So you will have to go into the same old question of estimated costs, just as you do under the adjusted compensation.

Lieutenant Colonel HARRIS. I will admit there is a tremendous volume of work. I guess that is what you want to show.

Mr. HISS. If those costs are not accurately stated, the same possibility of profiteering takes place there as it would if the valuation of the plant under the adjusted-compensation contract and the estimated cost schedules under the adjusted-compensation contract do not truly reflect the value and the costs?

Lieutenant Colonel HARRIS. If the Government negotiators are not on the job, there is a possibility of the Government being gypped.

Senator CLARK. Colonel, when you get back to this question of cost, I mean the base cost, or as they call it in the utilities business, the rate base, I mean the valuation at which rates are fixed on a fair return to the company, what are you going to do with the case of a concern that has gone out and built, we will say, a powder plant or a heavy ordnance plant or a small ordnance plant, or anything else you please to mention, and then, we may say, after the declaration of war, or immediately preceding the declaration of war, at a time of abnormal costs, when the costs are going up, constantly on the upgrade; if you go to figure the return, the price to be paid by the Government based on a proper return on the capital invested, what distinction are you going to make between a plant constructed at that time or even constructed with Government money after the war started, and a plant which has been built in a time of lower costs? In other words, are you going to grant more than 6 percent on a plant constructed at a time of lower prices, or are you going to allow less than 6 percent on a plant constructed at the higher price base?

Lieutenant Colonel HARRIS. I think the only fair——

Senator CLARK. It is a matter that has to be thought out, is it not?

Lieutenant Colonel HARRIS. Quite true.

Mr. HISS. Colonel Harris, in addition to the provisions you have so far described in the adjusted compensation contract, does not that in article 3, paragraph 6, page 5, of the mimeographed form contemplate a payment agreed upon at the time the contract is entered into, as rehabilitation costs? That is, the reconverting of the plant back to peace-time purposes?

Lieutenant Colonel HARRIS. That is all an agreed upon rate.

Mr. HISS. Will not that have to be a very tentatively arrived at rate, since you will be estimating in war time how much it will cost to turn the plant back in peace time? It may be a long way off at that moment.

Lieutenant Colonel HARRIS. Yes; but, on the other hand, I think that in these rehabilitation and putting back-in-shape fees, the people negotiating on that will very soon arrive at certain limits that are applicable and will know the game pretty well.

Mr. HISS. To make any estimate of that kind, would it not require the kind of detailed accounting and examination that we referred to in the valuation question, that the War Department does not intend to go into?

Lieutenant Colonel HARRIS. That activity will add to the work.

Senator VANDENBERG. Does there not have to be a pretty powerful authority behind the Government negotiator as a sort of a big stick in the corner if the price is going to be satisfactory?

Lieutenant Colonel HARRIS. Yes, sir. I have tried to state all along that we are counting on price control and we are also counting on public opinion, and we are expecting to use it.

Senator VANDENBERG. We will say you are in negotiation with a company, and they are rejecting your estimates, as the du Ponts did with respect to Old Hickory. Under your plan, what have they to fear in the event that they persist in asking for the higher prices? Have you any authority, alternatively?

Lieutenant Colonel HARRIS. In the case of the legislation proposed, which has been discussed by Senator Clark, the bill which makes the resources of the Nation available to the jurisdiction of the President for the pursuit of the war enables us to take any property at a reasonable compensation; but the question of taking an organization, as in the case of the du Pont Engineering Co., I do not know just how we would, because we would be dealing with a group of people to do a job as agent. I do not know what it would be except through the force of public opinion.

Senator VANDENBERG. That is what I am trying to get at.

Senator CLARK. You take men to carry a gun and get jabbed up with bayonets without any consultation or negotiations or haggling.

Senator VANDENBERG. I am trying to find out whether your plan has in it any correction for this lapse in the continuity of the program which has been developed heretofore.

Lieutenant Colonel HARRIS. We will have, as far as material or plants are concerned.

Senator VANDENBERG. That is not enough, is it?

Lieutenant Colonel HARRIS. I do not believe we have anything to cover the case of the du Pont Engineering Co. or a group of individuals rather than a plant, except for public opinion.

Senator VANDENBERG. And there is nothing in your program which does specifically reach it?

Lieutenant Colonel HARRIS. As a matter of fact, whether we are right or wrong, we are counting on the cooperation of industry in our plans. Personally, I do not think we can fight a war unless we can depend on industry to meet us in fair agreements. There will be cases where they want more profit than we think they ought to have—I will grant that. But, generally speaking, I for one have confidence in industry to give the same service to the Government that other people do. I may be wrong.

Senator CLARK. But the other people are drafted, Colonel, and I understand you do not want to do that with industry.

Lieutenant Colonel HARRIS. I admit the distinction, but we feel that drafting would add to the confusion instead of eliminating it.

Senator CLARK. Colonel, I do not know how much you know about the powder business—you may be an expert powder manufacturer, for all I know, but we will assume that you are not. Do you have any doubt that you could walk into the du Pont plant or anybody else's plant after the declaration of war with an eagle or a star or two stars or three stars on your shoulder, and say, "All right, boys, you have been drafted. We want you to turn out some powder."

The CHAIRMAN. Not a blue eagle?

Senator CLARK. A silver eagle is what I am talking about. "Turn it out right now." You do not have any doubt you could turn out powder and use the "know-how" of the du Pont organization, do you?

Lieutenant Colonel HARRIS. It depends absolutely on the character of the man that went in there. If he were the right type of man he could get it out, but if he started tearing down everything they were doing, started looking at everything they were doing and cross-questioning them on everything they were doing, he could paralyze the plant.

Senator CLARK. I am willing to bet you could turn out plenty of powder if you had the authority you are talking about.

Lieutenant Colonel HARRIS. I believe I could, because I know something about powder and I believe I can get along with people. I believe if you went into the du Pont plant and said that, they would cooperate with you and do the best they could. I believe every other industry would do the same thing—if you had the legal background, of course.

Senator CLARK. Of course, we assume you would have the legal authority.

Lieutenant Colonel HARRIS. I believe they would give you full cooperation, because I have a great deal of respect for industry and the American people.

USE OF COMPULSORY ORDERS IN WORLD WAR

Mr. HISS. You referred to compulsory orders some time back.

Lieutenant BRANNON. Yes.

Mr. HISS. Would you describe for the record exactly what you mean by compulsory orders?

Lieutenant BRANNON. As I say, compulsory orders are orders placed under authority of section 120 of the National Defense Act. They are simply orders on a producer which he has no option to refuse.

Mr. HISS. What do they say in regard to payment?

Lieutenant BRANNON. They will be paid a price which the Secretary of War determines to be fair and just, I think. I do not remember the exact wording, but it amounts to a fair and just price as determined by the Secretary of War.

Mr. HISS. How would that be determined by the Secretary of War?

Lieutenant BRANNON. I do not know as to the details, Mr. Hiss.

Lieutenant Colonel HARRIS. That adds, Mr. Hiss, to the volume of work you are referring to.

Mr. Hiss. During the World War the compulsory orders that were used stated some compensation when they were sent out, did they not?

Lieutenant Brannon. I have not found that the War Department had a regular form. The Navy Department did. They had two paragraphs in that order: One was a price determined in advance. The other was a tentative price which stated to the effect that "at the present time it is not possible to arrive at a final price, but we will fix this tentative price; if, upon later determination, it should be determined that this is too high it will be lowered, and if it is too low it will be raised."

Either one of those two alternative forms might be used.

Mr. Hiss. Did not the Judge Advocate General's office rule that a compulsory order enables you to place orders without competition, and was it not used to some extent, at least, in order to place orders without having competitive bids?

Lieutenant Brannon. I think ordinarily in time of war it is not necessary to have competitive bidding.

Mr. Hiss. Are you familiar with the opinion of the Judge Advocate General appearing in volume 1, 1917, page 141, which says:

> Under this section the mere placing of an order for the supplies and materials required is sufficient without the execution of a formal contract therefor. No advertising for bids in any form whatever or filing of bids is necessary.

Lieutenant Brannon. That is correct. I remember there was such an opinion. But, as I say, we issued only about a thousand compulsory orders, but I am sure there were a great many more contracts than that placed without competition.

May I add one other thought on the compulsory order, that that order takes precedence over any other contracts that the contractor may have, and it may have been used in some cases merely to take precedence over commercial orders that may have already been given the contractor.

Mr. Hiss. To secure priority?

Lieutenant Brannon. Priority; yes.

Lieutenant Colonel Harris. In connection with the Navy placing of compulsory orders—I am giving second-hand information—I think in many cases their placing a compulsory order did not indicate that there was any reluctance to perform the work; it was more to get this priority.

Senator Clark. You mean to relieve the contractor from any private civil liability that he might have for not carrying out his private contract in its priority?

Lieutenant Colonel Harris. Contract obligations or any other obligations he had, he would be relieved of.

Senator Clark. Yes. In other words, if he made a contract to deliver a boat at a certain time, the Government could come in and by this compulsory order acquire priority, and at the same time relieve the private contractor of any private liability he might have to this private contractor.

Lieutenant Colonel Harris. I think that is the principal reason it is used.

Mr. Hiss. It was not used really as a means of cutting short long negotiations where two parties could not agree on competition?

Lieutenant Colonel Harris. When it comes to the Navy actions, I am not a first-hand witness.

Mr. Hiss. I mean the Army orders that Lieutenant Brannon has referred to.

Lieutenant Colonel Harris. I will let him answer that.

Lieutenant Brannon. That is still a little different from the question as you phrased it before.

Mr. Hiss. Yes.

Lieutenant Brannon. I do not know but what it was used in some cases. I say "in some cases." I think the primary purpose was simply priority. I have no doubt that in some cases it may have been used to cut short negotiations. I do not know, though, to what extent it was used in those cases.

ADJUSTED COMPENSATION CONTRACT FORM—EXTENT OF POSSIBLE PROFITS TO CONTRACTORS

Mr. Hiss. In addition to the rehabilitation costs, the adjusted-compensation contract provides in paragraph 7 of article III, page 5 of the mimeographed form, for the payment in installments of an amount agreed upon at the time the contract is executed for depreciation of the plant, does it not?

Lieutenant Brannon. Yes.

Mr. Hiss. And that, in addition, will be an item that will have to be arrived at by negotiation rather than by any elaborate evaluation or technical estimates at the time?

Lieutenant Brannon. That is correct.

Mr. Hiss. Finally, there is a provision in the contract, is there not, which differs from the ordinary peace-time Government contract in that any change in the estimate due to changed conditions can be approved by the contracting officer without the provision of peace-time contracts that changes in excess of $500 must go to the head of the Department. That is correct, is it not? Article V, paragraph 1, page 6, I think, is the provision of the adjusted-compensation contract, and has not the usual limitation as to the $500 amount.

Lieutenant Colonel Harris. The thing that he can change is specified.

Mr. Hiss. He may change drawings and specifications, direct temporary suspension of work, and direct procurement of additional facilities to provide material or facilities which the contractor agrees to furnish but is unable to furnish.

Lieutenant Colonel Harris. Yes.

Lieutenant Brannon. That is right.

Mr. Hiss. In paragraph 11 of article VI, page 8, there is a provision that the Government must pay for the cost of defective work rejected by the Government unless the contracting officer shall determine that the defective work was due to the fault or neglect of the contractor. Why is the burden of proof put on the Government there rather than on the contractor?

Lieutenant Brannon. The reason for that is this: Of course, this is a cost-plus form of contract, in which the Government is paying the cost. It is used in those cases where the contractor is making something with which he is not familiar. Usually it is a very technical item of equipment or ammunition of some kind. It is assumed that there will be a certain amount of spoilage that cannot be avoided. The Government undertakes to pay that cost, unless it is shown that it is due to the fault of the contractor. In other words, it is assumed in advance that there will be some spoilage.

Mr. HISS. Would it not be better to leave it in the discretion of the Government officer to determine whose fault it was, rather than to provide payment unless he makes a finding that it was due to the fault of the contractor?

Lieutenant Colonel HARRIS. I believe that suggestion would lead to endless reluctance on the part of a contractor to enter it, because he does not know in many cases what he is going to manufacture. I do not think he would be willing to leave it to the judgment of one individual on as broad a subject as that. I would not, if I were the contractor.

Mr. HISS. Under article VIII, paragraph 1, page 9, there was a provision that purchase orders over $5,000 must be in writing. Does that mean that purchase orders under $5,000 may be oral, Lieutenant Brannon?

Lieutenant BRANNON. That simply means for subcontracts, Mr. Hiss. The contractor, it simply means, can go ahead and place orders, but if he places an order for more than $5,000 it not only must be in writing but it must contain certain provisions relative to termination of that contract.

Mr. HISS. But does that mean that if it is less than $5,000 it not only does not have to contain these clauses but could be oral?

Lieutenant BRANNON. I think it could.

Mr. HISS. Will there not be great difficulty in auditing oral purchase orders?

Lieutenant BRANNON. Of course, they may order the material by telephone. In a case of this kind a lot of small orders, no doubt, will be ordered by phone or by personal solicitation. But, of course, some kind of invoice or bill will come with them. They will have to be attached to the voucher before it is approved.

Mr. HISS. You still expect to have written records?

Lieutenant BRANNON. Oh, yes.

Mr. HISS. In regard to that paragraph on page 9, article VIII, I see no limitation on the price which a subcontractor may receive. That is not included in those clauses which must be put in subcontracts. What does the War Department do on that, Lieutenant Brannon?

Lieutenant BRANNON. In the first place, Mr. Hiss, the contracting officer has to approve expenditures. In other words, he has to approve the material, and the prices of most of this material are already fixed in advance.

Lieutenant Colonel HARRIS. Answering Mr. Hiss' question, it is contemplated that those purchases will be on a fixed-price basis.

Mr. HISS. No provision is made as to the amount of profit that a subcontractor might receive.

Lieutenant Colonel HARRIS. Not on a fixed-price contract. We might have a measuring stick in our own mind to do the best we could; but the amount of profit he receives depends on the difference between his selling and cost price.

EVALUATED FEE CONTRACT FORM—GENERAL

Mr. HISS. In regard to the construction form of contract, which we have not discussed yet, I understand, Lieutenant Brannon, that in the War Department's opinion this particular form of contract that has been offered in evidence is not considered as near its final form as is the adjusted-compensation contract. Is that correct?

Lieutenant BRANNON. No; that is not quite correct, Mr. Hiss. We plan two forms of construction contract. This is the fixed-price construction contract.

Mr. HISS. I am referring to the evaluated fee contract.[1]

Lieutenant BRANNON. I beg your pardon. That is correct, Mr. Hiss.

Mr. HISS. Item K, page 8, under article II, provides that the contracting officer may include as part of the cost any item not specifically listed in the cost of the work. That provision is necessary, in the War Department's opinion, for flexibility; is that correct?

Lieutenant BRANNON. I think so.

Mr. HISS. That means that the limitations placed in here as to what may be considered costs are subject, in each particular case, to being departed from in the judgment of the contracting officer?

Lieutenant BRANNON. That is correct.

Mr. HISS. The fee which is stated at pages 9 to 11 is really simply cost plus a percentage of cost, is it not?

Lieutenant BRANNON. That is correct.

Lieutenant Colonel HARRIS. With a maximum.

Mr. HISS. Was there not a maximum fee in many of the cost-plus contracts during the World War?

Lieutenant BRANNON. There was.

Mr. HISS. So that after 13 years of experimenting the War Department still has not been able to get a construction contract for large-scale construction that is not based on cost plus a percentage of cost?

Lieutenant BRANNON. That, of course, is a little bit confusing, if you just take that statement as you made it. In this contract the fee is cost plus a percentage, but that percentage may vary between different limits, depending upon the extent to which the contractor holds down his costs and performs the work.

Mr. HISS. Was it not true of the cost-plus-percentage contractor in the World War that at no time was a specified percentage agreed upon?

Lieutenant BRANNON. That depended upon the particular contract. Some were 10 percent, some were 12 percent, and so forth. I think I have a copy of some of those contracts.

Lieutenant Colonel HARRIS. The evidence has shown that.

Lieutenant BRANNON. I am sure that the usual case was to have a fixed percentage, which varied merely as the cost. That is, a contract under $500,000 would be one percentage, $500,000 to $1,000,000 would be a different percentage, but that percentage was fixed.

Mr. HISS. How does that differ from the present form?

Lieutenant BRANNON. It differs this way: For example, if you turn to that, to the fee clause, Mr. Hiss, you see he is guaranteed a minimum fee of 1 percent. The maximum fee may be as high as 6 percent on a job under $100,000, and it will vary between 1 percent and 6 percent, depending upon the efficiency with which he does the work. In the World War contracts the usual form was really the form of this maximum limit; in other words, to say under $100,000, 6 percent; under $500,000, 5½ percent; and so forth.

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[1] Introduced into the record as "Exhibit No. 1226-B", Hearings, Part XV, p. 3625.

Senator CLARK. You mean everybody got the maximum?

Lieutenant BRANNON. No, sir. They did not have this provision in the World War contract, unless they ran them up. Of course, I do not know how high they went.

Mr. HISS. I would like to go into it a little bit more.

Lieutenant BRANNON. Yes.

Mr. HISS. The decision as to what the fee will actually be is retained in the person of the chief of branch, is it not?

Lieutenant BRANNON. That is correct, Mr. Hiss.

Mr. HISS. And the chief of branch may, of course, decide that this particular job is worth 6 percent.

Lieutenant BRANNON. That is correct.

Mr. HISS. So in the World War form whoever had charge of the final determination of the contract could have decided a fee of 6 percent or somewhat less if he so determined.

Lieutenant BRANNON. I do not think in the World War contract, Mr. Hiss, that the Government had that option.

Mr. HISS. I have not made my point clear. The only difference is that here the percentage is to be fixed after the contract is completed?

Lieutenant BRANNON. That is correct.

Mr. HISS. Varying between two limits.

Lieutenant BRANNON. That is correct.

Mr. HISS. In the World War there was the same flexibility, except that that would be exercised before the contract was entered into; is that not correct?

Lieutenant BRANNON. I think you can say that is correct; yes.

Mr. HISS. Will you turn to page 11 of this contract, article IV. Full payments are to be made currently, including 1 percent of the cost paid as fee. This payment is to be made on or about 2 days after a statement furnished by the contractor supported by the original papers. This statement and all payments are to be final and binding, except that the contractor may appeal to the chief of branch.

Does that mean that if upon audit at a later time, or a reaudit, an audit by an independent branch of the Government such as the Comptroller General, there is found to be error, that payment will still be final and the Government cannot recover it back, Lieutenant Brannon?

Lieutenant BRANNON. I will have to look at that a moment, Mr. Hiss.

Mr. HISS. Do you not think, Lieutenant Brannon, that in view of the difficulty with respect to Old Hickory and the audit question there, that 2 days would be much too short a time at the end of each month to have the Government make up its mind finally? This may be simply a slip the way it is drafted. I was trying to find out just what you had in mind, what this provision was meant to provide for.

Lieutenant BRANNON. I do not think that was the intent, but I will have to think a little bit before I will be prepared to argue that that is not it.

Mr. Hiss. Then let us pass on to another subject.

Lieutenant Colonel Harris. Are you leaving contracts? I would like to make a little statement, if I might.

Mr. Hiss. Certainly.

Lieutenant Colonel Harris. I would like to repeat what I have said before, that all these contract forms are in a development stage. There is nothing in this contract form that we feel is finally or can be definitely accepted.

Senator Clark. Colonel Harris, you have been working on those things for nearly 15 years?

Lieutenant Colonel Harris. I was going to take that up in my next remark, if I might, Senator.

Senator Clark. All right.

Lieutenant Colonel Harris. The development of a suitable contract form is a difficult and tremendous subject, and has engaged the best thought of a great many people. We have not arrived at a solution as yet. All the negotiations that Mr. Hiss has been stressing will have to be made after the war begins. I admit it. There is going to be a tremendous amount of negotiations. There is going to be a tremendous amount of procurement activities. Carrying on the war is going to be a tremendous undertaking in itself. The whole thing about the war is a tremendous undertaking.

PROBLEMS INVOLVED IN PRICE FIXING

Mr. Hiss. Colonel Harris, we were discussing the other day this question you have referred to as the background of the entire plan, namely, the fixing of prices. There are two or three questions I would like to ask you on that. One thing that you were not sure of the other day was whether in fixing prices the cost element that would enter into it would not have to take care of possible future cost increases.[1] You thought that it ought to be based, as I remember it, on present costs. Have you had time to consider it?

Lieutenant Colonel Harris. I have had time to study this thing, because, as a matter of fact, I said the other day that I was not particularly well versed in this. But I have had time to study it. Instead of taking the isolated paragraph you quoted, I want to quote one or two before that:[2]

> The time for initiation of control measures is left to the discretion of the committee as are also the scope and nature of the control which is to be applied to particular commodities or groups of commodities.
>
> Whether early action is to be limited to a selected class of necessaries and essential war materials or is to be extended to include the entire price structure is dependent upon conditions which exist at the time—

That was the point I was trying to stress the other day—

> and upon the extent to which it can be shown that the action taken is reasonably necessary for the national defense and the successful prosecution of the war.

I want to quote a paragraph in the report of the War Policies Commission. This is a recommendation of the War Policies Commission:

> That the Congress should empower the President, in the event of war, to institute a program under which prices may be stabilized and thereafter

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[1] Question of cost element in price fixing, Hearings, Part XVI, p. 4029.

[2] Industrial Mobilization Plan (Committee Print No. 2), p. 64.

adjusted at such levels as will minimize inflation and will secure to the Government the use of any private property needed in the prosecution of the war without affording the owner thereof profit due to the war. It should be clearly stated that such a program will not be placed in operation until Congress specifically directs it as a necessary measure in the conduct of the war.

I want to say one or two more words:

We look on the price control and price fixing as the broadest subject discussed in this book. It applies to every person in the United States. It is a national question. In our national planning, with which we are charged under section 5A, we felt, generally speaking, that we should only provide an organization, a structure, to carry out this responsibility; that the action of that organization would depend on the conditions at the time and the personnel composing the committee. The plan is that they are to be appointed by the President and responsible directly to him. So I feel that while we have stated in this document the historical records we thought were pertinent, and the various ways and means that seemed to have a bearing on the subject, to try to pick us to pieces on the thoughts expressed in here is really a waste of time, because we admit that it is a bigger subject than we are capable of handling. We are trying to set up the structure and the organization, rather than the answer.

Mr. Hiss. I was not trying to pick it to pieces.

Lieutenant Colonel Harris. I beg your pardon. I meant no reflection, sir.

Mr. Hiss. What I would like to try to bring out is that the paragraphs that you quoted seemed to me to be so broad and vague as not to indicate that any particular scheme under any particular set of circumstances has been worked out by the War Department.

Lieutenant Colonel Harris. I am frank to confess that beyond the recorded history which we have tried to incorporate in this document, of the last war, and the ways and methods that might be chosen to accomplish this result, we have gone very little further.

Mr. Hiss. But you have referred in relation to the contracts to price control as being fundamental to the whole thing.

Lieutenant Colonel Harris. That is true.

Mr. Hiss. Is it not necessary, then, in order to be sure that the whole problem has been taken care of, that some other concrete proposals for specific situations be had in mind?

Lieutenant Colonel Harris. We make a concrete proposal that there be price control.

Mr. Hiss. What kind of price control, under any given set of circumstances that may occur to you?

Lieutenant Colonel Harris. Mr. Hiss, if you will bear in mind the last war, there was no single action of price control put into operation until it had been personally approved by the President. You can realize our reluctance to try to prescribe the means of operation of this thing, and the result, too.

Mr. Hiss. Colonel Harris, the same thing is true as to legislation. It is not put into effect until it has been approved by Congress, but the War Department has actually suggested drafts for the consideration of Congress.

Lieutenant Colonel Harris. That is quite true.

Mr. Hiss. Has it not formulated any price-control policies for the consideration of the President—that is, specific policies?

Lieutenant Colonel HARRIS. We have stated specific policies, but that portion of the work is not developed to the degree that the rest of it is.

Mr. HISS. Has it developed to the extent that you are prepared to say whether you think the fixing of prices must contemplate future increases of cost in the industries, or should be based upon past or present costs?

Lieutenant Colonel HARRIS. Certainly any price level that is set has to be in effect for a period of time, so that I think I can say certainly that the conditions can be considered during the period under consideration.

Mr. HISS. As an example of that, I call your attention to the statement of Mr. Brookings at one of the price-control committee's hearings:

> We felt, after hearing all Mr. Davis—

He was the president of the Aluminum Co. of America—

> had to say about it, and taking into consideration the probable increase, as prices were going up, and we fixed the price at 32 cents.

Now, according to the Federal Trade Commission, the costs at that time of the Aluminum Co. were only 17½ cents a pound. According to the Federal Trade Commission's own data, they were only 15¼ cents. So that in any price fixing there must be, in order to take care of possible future increases, a very liberal estimate over present costs, which means a liberal estimate for profit, does it not?

Lieutenant Colonel HARRIS. It might; on the other hand, it might take into consideration a knowledge of what has been agreed to in certain contributing elements—for example, wage scales. It might have been agreed that the wage scales should be increased. It might be known at the time they were negotiating this that the wage scale was to be increased. They would have to take that into consideration.

Mr. HISS. We have referred once or twice to the difficulty of determining specific costs, and you have referred to the fact that the War Department must rely upon the cooperation of industry. Is not that also true of the prices to be fixed by any price-control committee, that they will have to rely upon industry for its own cost figures, to a large extent?

Lieutenant Colonel HARRIS. Of course, in the price-fixing field they certainly will have the advantage of all the governmental agencies dealing with that subject, and there are a great many data on file and kept current. But the statement still holds, you would have to have cooperation with industry, I think, to deal with them.

Mr. HISS. May I ask you a more fundamental question in this field? In your opinion, what is the primary purpose of the price-control commission or committee? Is it to limit profits or to fix such a level as will encourage necessary production needed in time of war? You remember the chart to which we referred the other day?

Lieutenant Colonel HARRIS. Yes. Both hold; both have a bearing.

Mr. HISS. I would like to call your attention to a few statements by some of the people connected with price control in the last war. Can you identify this [holding up document]?

Lieutenant Colonel HARRIS. That is a galley proof of the complete report of the War Industries Board. It was not published, and that is the only copy in existence.

Mr. HISS. This was prepared by whom?

Lieutenant Colonel HARRIS. That was prepared by the War Industries Board, but it bears the name of Hugh Johnson as the editor.

Mr. HISS. I am quoting from one of the galley proofs.

Senator CLARK. Is it a fact, Colonel, that the reason that was never published was that General Johnson wrote with somewhat his usual frankness in preparing that report?

Lieutenant Colonel HARRIS. That is a very valuable report, Senator. I think the real reason it was not published was that the chairman of the War Industries Board wanted to get a report and get it out quickly, of a size that people could read, and much of the report actually that was used—that document—bears many of the fundamentals, and a concise statement of many of the features of that. That is a very much more voluminous and a very much more valuable report, if I may say so.

Senator CLARK. Therefore, it seems to me it ought to be available to Congress. I am not holding you responsible for the failure of publication, but it does seem to me if that is a basic report, of which a brief report or part was published, it ought to be published in full and given into the hands of governmental officials for determining war policies in the future.

Lieutenant Colonel HARRIS. I think it should be published.

Senator VANDENBERG. Colonel, speaking of General Johnson reminds me of this: Do you know whether there is anything in the various N. R. A. codes which subordinate these code authorities in time of war to the war control?

Lieutenant Colonel HARRIS. I don't think there is anything in the National Industrial Recovery Act that says anything about more than two years. I don't think there is anything in it that says anything about war.

Senator VANDENBERG. If you had the N. R. A. in existence during a war, you would have a tremendous clash of authority, wouldn't you?

Lieutenant Colonel HARRIS. Well, sir, we have given, of course, very serious study during the last 18 months to the effect on our war plans of the N. R. A. and its organization, its code committees. We call for war service committees and they are now code authorities. Having these code authorities is a great benefit in our industrial plan. While we only divide our industry into some 60 divisions, the N. R. A. divide their codes into some 400, we will say. For example, we have a building-materials group. I dare say there are 20 codes. There is 1 for cement, 1 for sand, 1 for lime, 1 for lumber, and so on. Now, in adapting that set-up to our set-up, we would form a war service committee, probably with one man from each of those codes involved.

Senator VANDENBERG. Wouldn't you have to absolutely control the N.R.A. code authorities in time of war?

Lieutenant Colonel HARRIS. Yes, sir; we believe so.

Senator CLARK. And your plan does really contemplate the abrogation of the N. R. A. provisions, if necessary, particularly with reference to section 7 (a), doesn't it, Colonel?

Lieutenant Colonel **Harris.** What I am trying to say is that we are planning to utilize the advantages of N. R. A.

Senator **Clark.** It has been under discussion and practically agreed on, for the abrogation of 7 (a) particularly, hasn't it?

Lieutenant Colonel **Harris.** By us?

Senator **Clark.** As far as the war planning is concerned, have not those plans been under consideration and practically agreed upon?

Lieutenant Colonel **Harris.** Our plans speak for themselves, Senator. I would not care to be drawn into that phase of it.

Senator **Clark.** I am not asking you to disclose military secrets, but my information is that the War Department's plans do contemplate the abrogation particularly of 7 (a) in time of war.

Lieutenant Colonel **Harris.** Well, you cannot have two bosses in war.

Senator **Clark.** I am not trying to argue with you about that. I am simply asking you about it.

Senator **Vandenberg.** That is the point; you have to synchronize N.R.A. with your plans or be subordinate to it.

Lieutenant Colonel **Harris.** Yes; one or the other has to become the boss; and I assume they are studying that as to whether they will take us over.

Senator **Vandenberg.** Under the present set-up you would both be bosses, wouldn't you?

Lieutenant Colonel **Harris.** Yes. Unless the limits of each were fixed, we certainly would be, and there would be confusion.

Senator **Vandenberg.** Exactly.

Mr. **Hiss.** Colonel Harris, I am just about to quote one particular statement in the report you say was prepared by Gen. Hugh Johnson on this issue as to whether the price-fixing duties are primarily concerned with limiting profits or whether they are for the larger purpose of increasing production in time of war.

This is from chapter 5, pages 18 and 19, of that bound volume: [1]

> In most of these cases the need for increased production was so great that wherever increased demand had inflated a price, the Government could not afford to fix a price so low as to cut off one single source of production.

Lieutenant Colonel **Harris.** If it was needed.

Mr. **Hiss.** Then he says further:

> It mattered not, therefore, that some highly organized business showed a cost of production low beyond all proportion to some small and independent producer. The needs of our men in France would brook no price that would decrease the output of even the high-cost producer. The proposition to fix a price on cost plus profit was explored and found utterly impracticable.

On that statement, you might have to leave this price line up to meet those people, and the profits to the low-cost producer would be simply enormous, wouldn't they?

Lieutenant Colonel **Harris.** Quite true.

Now, may I say that our plan contemplates that there are cases where we cannot avoid that sort of thing and that undue profits must be taken away by an excess-profits tax of some kind.

Mr. **Hiss.** We will come to that a little later, Colonel Harris. Specifically, to make clear the next point I want to take up, does the War Department plan contemplate the piecemeal fixing of prices that was done during the last war, or does it contemplate a freezing of the price level at some base period prior to the out-break of war?

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[1] Committee Print No. 3, p. 38.

Lieutenant Colonel HARRIS. There have been a number of schemes for controlling prices presented by various distinguished people and discussed. I must in answer to that go back to the statement in that first paragraph that I read, of the conditions of the time.

Mr. HISS. You are familiar with the price-freezing scheme, are you, Colonel Harris?

Lieutenant Colonel HARRIS. I am not to the degree that I would be prepared to discuss any phases of it.

Mr. HISS. May I call your attention to two places in the minutes of the War Policies Commission? First, General MacArthur on this subject testified at page 372.

> Freezing of prices would appear to be a doubtful expedient, because so many factors are involved that injustice must follow. Evasion and court appeals are inevitable. In the end, the Government effort would probably be largely gesture. Attempts at enforcement would likely create antagonism and the Government would lose the essential elements of good will.

Later a letter was introduced in the record from General Moseley, addressed to Mr. Baruch. That letter said that General Moseley had considered the price-freezing proposition again, and he found that he was in agreement with Mr. Baruch. Do you know which is the view of the War Department at the present time—the statement that I have quoted from General MacArthur, or General Moseley's acceptance of Mr. Baruch's plan?

Lieutenant Colonel HARRIS. I would say that the War Department at the present time is in the position of not having adopted any specific plan.

Mr. HISS. If we may analyze just for a few minutes the problem of freezing all prices, does that contemplate a freezing of every price or only of certain prices?

Lieutenant Colonel HARRIS (reading):

> Whether early action is to be limited to a selected class of necessaries and essential war material or is to be extended to include the entire price structure is dependent upon conditions which exist at the time and upon the extent to which it can be shown that the action is reasonably necessary for the national defense and the successful prosecution of the war.

Mr. HISS. I was going to ask you to say which particular one, but I understand you say you do not know which one. But is it your understanding of price fixing that every single price is to be frozen as of one particular time?

Lieutenant Colonel HARRIS. I will make this statement, but I can not go beyond it. As I understand it, price fixing fixes a ceiling above which prices cannot go; they may go below. With that statement I have almost exhausted my knowledge of what they call price freezing.

Senator CLARK. Colonel, that provision in that paragraph or in that pamphlet you just read does not mean anything except that we do not know yet what we are going to do; is that correct? It is a good deal like saying, "Handsome is as handsome does." In other words, it does not give any basis whatever for either Congress or the public to determine what might happen in the event of war.

Mr. HISS. Colonel Harris, my understanding of the price-freezing proposal is that in order to avoid the dislocations caused by piecemeal fixing of prices so that there would be continual jockeying between one commodity price and another, since there is such interrelation between different products, all prices will be held at exactly a certain point, and no change would be permitted in any price except after some specific finding by a board. If so, would wages have to be frozen in the same way? Do not they constitute an element of cost that if left uncontrolled would also affect, and vitally, the price structure?

Lieutenant Colonel HARRIS. Unquestionably.

POSITION OF LABOR IN FUTURE WARS

Mr. RAUSHENBUSH. Colonel Harris, we are interested for the moment in the question of what is going to happen to labor during the next war, and I wonder whether it is to you or to Lieutenant Brannon I should address the questions on that.

Lieutenant Colonel HARRIS. We reserve the right, if the committee approves, to answer as I judge the questions should be answered.

Mr. RAUSHENBUSH. Not only is the matter of price fixing, which I believe you just discussed. involved here, where you will have to note not only the question of fixing prices and its influence on wages, but it is also important in the whole question of mobilization.

Now, very briefly, to get the set-up, I would like to run through rather quickly, and I think without any question, your set-up in regard to that. Just that you have in mind the plans of the War Department for labor during the war, I want to refer first to pages 10 and 11 of the Industrial Mobilization Plan [1] which sets up priority control. I do not particularly want to read that whole section if we can agree on this proposition, Colonel: That that priority control gives the Government the power to divert raw materials from one kind of factory to another. That in essence is the thing.

Lieutenant Colonel HARRIS. I admit that.

Mr. RAUSHENBUSH. And a bill to do that has been prepared by the War Department and is given on page 86 of the Industrial Mobilization Plan.

Lieutenant Colonel HARRIS. That is true.

Mr. RAUSHENBUSH. Cannot we agree that that will probably result in some kinds of factories being closed down for want of raw materials, some nonessential factories?

Lieutenant Colonel HARRIS. The morale of the whole people is necessary in war, and no factory would be shut down under the conditions you speak of unless it was absolutely necessary to win the war.

Mr. RAUSHENBUSH. Yes.

Lieutenant Colonel HARRIS. The needs of the people to earn a living are fully recognized in the basic fundamentals of this plan.

Mr. RAUSHENBUSH. Yes. The point I was making was a little to the side of that, that when you start diverting raw materials to the war industries, which of course you should, there may be some dislocation of industry there at times, and some nonessential factories might for a while be closed down; there is a possibility of that.

Lieutenant Colonel HARRIS. I do not like the words "closed down." Might be reduced.

Mr. RAUSHENBUSH. All right, reduced.

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[1] Printed as Committee Print No. 2.

Lieutenant Colonel HARRIS. Yes.

Mr. RAUSHENBUSH. There might be some temporary unemployment.

Then the War Department has a plan to take care of the unemployment by shifting two services from the Department of Labor over to the War Labor Administration, which seems to be outlined on page 44 of the Industrial Mobilization Plan.

SECTION O. MOBILIZATION

> The mobilization of the several bureaus of the War Labor Administration should be effected successively as the necessity for them becomes apparent. The employment service and conciliation service should be organized by the transfer of those functions from the Department of Labor.

That is the outline, is it not, those two services, the Federal Employment Service and the Federal Mediation Service are shifted over from the Department of Labor to the War Labor Administration?

Now, going over to pages 40 and 41, I want to point out in your language and the language of this Industrial Mobilization Plan that this point of employment services becomes somewhat different than it is at present, and I want to read that and see if you can explain away some confusion that seems to be created in my mind in that.

SECTION K. EMPLOYMENT SERVICE

1. GENERAL

> This service is an operating agency. Its function is to bring the job and the worker together.
>
> The operations of this service differ materially from the operations of similar services in peace time, in that ordinarily the latter do not mobilize labor for a particular purpose. Peace-time employment services merely direct an applicant to a probable market for his labor and there the applicant must both sell and prove himself.
>
> In war time this lost motion should be avoided and the employment service must know the applicant's qualifications, as the result of tests or otherwise, and the certainty of the existence of the job before assigning him.

Now, that "assigning him" is the question I wanted to raise. Does that mean what it would seem offhand to mean, that this employment service, working now under the War Labor Administration, is to tell these workers they are assigned to that plant and not to that plant?

Lieutenant Colonel HARRIS. You mean the workers voluntarily available?

Mr. RAUSHENBUSH. No; I am asking a different question. I mean when a factory is temporarily closed to tell a man, for the purpose of making war material or priority control, that he must go to a certain place, that then he is assigned to that place?

Lieutenant Colonel HARRIS. I do not read that implication to that language.

Mr. RAUSHENBUSH. Can you give us some other explanation of what it does mean?

Lieutenant Colonel HARRIS. It means what I said. The man is voluntarily available and you know his qualifications and you have got a job for him and you say to him, "There is a job for you and that is where you are to go."

Mr. HISS. Does that mean he cannot go anywhere else?

Lieutenant Colonel HARRIS. You mean he cannot work anywhere else?

Mr. HISS. Yes, sir.

Lieutenant Colonel HARRIS. He can work anywhere he pleases.

Mr. HISS. What is the value of the assignment, then, to a particular place?

Lieutenant Colonel HARRIS. Because he may be more available in that plant. He would be put in a place where he would give the best return. That is a perfectly sensible thing to me.

Mr. RAUSHENBUSH. The way you describe it, Colonel, to me in reading this language is the way you describe it here, or the way the War Department describes it. It starts off—

> The operations of this service differ materially from the operations of similar services in peace time—

And then it goes on after that with that assignment proposition.

Is it not a reasonable supposition to say that that is the way it will actually work? Here is an employment service that has gone under the control of the War Industries Administration or the Labor Administration. They will simply want to get people in places where they need them and will tell them very definitely to work there and nowhere else.

Lieutenant Colonel HARRIS. If there should be any legislation such as "Work or fight", and that man says, "I want to work", and he comes over for a job, under that kind of a policy they probably would assign him to that job.

Senator CLARK. Does not this language describe the difference between peace-time-employment agencies and war-time-employment agencies in terms setting forth that during peace time this man applies to an employment agency, whose function is to tell the prospective worker that there is a job available at such and such a place, and if the worker wants to go and apply for the job and the conditions are mutually satisfactory to the worker and his prospective employer, he takes the job and goes to work. But under this war-time-employment agency which is set up here, a man is assigned to a place and told to go there and work.

Lieutenant Colonel HARRIS. May I inquire, Mr. Raushenbush, suppose that was our intention, what legal authority would we have to do that?

Senator CLARK. There is a whole program of legislation outlined for Congress.

Mr. RAUSHENBUSH. Let us go into that question of legal authority, Colonel. I see in connection with that whole proposition a bill has been provided, a draft bill, which you have on page 81 of this booklet, in which in section 2 it is provided that every male person over 18 shall be registered. That is section 2. That is the subject of that section, is it not?

Lieutenant Colonel HARRIS. It is.

Mr. RAUSHENBUSH. Then we turn to section 4, on page 82, of the draft bill, and find, however, that those people liable to military service only include those between 18 and 45. So if I do not misinterpret that, what you have here is that every man in the country over 18 registers and that those between 18 and 45 are liable for military service.

Lieutenant Colonel **Harris**. I should imagine the purpose of that was to determine who was between 18 and 45. Make everybody register and then you can sift them out.

Mr. **Raushenbush**. Anyhow you have them registered. Now, that leaves the men over 45 registered, and under control for assignment, and the men from 18 to 45 also under control for assignment, either for peace or military service.

Lieutenant Colonel **Harris**. If you define the word " assignment " I will agree with your first statement.

Mr. **Raushenbush**. I was trying to get at that before, and you said, if they do pass a work or fight bill, then they will be assigned.

Lieutenant Colonel **Harris**. That depends entirely on the will of Congress.

Mr. **Raushenbush**. What we are trying to get at here are the recommendations and ideas of the War Department in planning on that. Along in that same connection I would like to point out that on pages 82 and 83, section 6, the President is given the power to defer service in the Army for persons engaged in industries, occupations, or employments found to be necessary to the maintenance of the national interests.

Now that is clearly, is it not, Colonel, a place to exempt certain persons. Isn't that what that is?

Lieutenant Colonel **Harris**. I did not find that as you read it.

Mr. **Raushenbush**. Section 6, bottom of page 82 and the top of page 83, about seven lines down. It is the ordinary section.

Lieutenant Colonel **Harris**. Yes.

Mr. **Raushenbush**. And exempting persons, deferring military service to " persons engaged in industries, occupations or employments, including agriculture, found to be necessary to the maintenance of the national interest."

Lieutenant Colonel **Harris**. That authorized a deferment for certain classes; yes.

Mr. **Raushenbush**. The President there has the power to exempt certain persons.

Lieutenant Colonel **Harris**. Yes.

Mr. **Raushenbush**. Now, leaving this whole question just a moment—I would like to get back to it later—I would now like to take up the question of what representation for labor you have in mind for this whole war-time set-up.

I see on page 27 of this booklet there is a provision for a Labor Division of the War Industries Administration, and I would like to read that:

> 6. Labor Division.
>
> (*a*) Composition: The Labor Division will consist of—
>
> (1) A Chief of Division appointed by the Administrator of War Industries.
>
> (2) A representative of the Administration of War Labor.
>
> (3) A representative of the War Department.
>
> (4) A representative of the Navy Department.
>
> (5) Representatives from such other governmental departments as the Administrator of War Industries may deem necessary.
>
> (*b*) Functions: This division will coordinate labor requirements and adjust conflicting requirements for labor engaged in the production of war materials. It will determine shortages of labor in war industries and will determine priorities in the use of labor accordingly. It will keep the Administrator of War Labor (appendix III) informed of such priorities, and will cooperate with him and with existing labor agencies.

(*c*) Mobilization: The Labor Division of the Army and Navy Munitions Board will, in the event of an emergency and until the Administrator of War Industries is appointed, carry out the functions prescribed herein.

Upon the creation of the Administration of War Industries, officers from the Army and Navy Munitions Board, with the pertinent records and data, will be made available to the Administrator to assist in organizing the Labor Division.

I note here in passing, Colonel, that that sort of links up, doesn't it, with the thing we were talking about before, that assignment idea, that section where it says that the Board will determine the putting of labor in war industries and determining priority in industry of labor.

Lieutenant Colonel HARRIS. I do not think so.

Mr. RAUSHENBUSH. All right; we will skip that for a minute.

Let us note the composition of that Board. That is a board of five, one of which is picked by the Administrator of War Industries, who I believe is going to be a prominent financier.

Lieutenant Colonel HARRIS. That is correct.

Mr. RAUSHENBUSH. One is picked by the War Department, and he certainly would not be a representative of labor, would he?

Lieutenant Colonel HARRIS. As long as you brought that up, I might mention that the Army officer who collaborated in writing this thing is a labor affiliate.

Mr. RAUSHENBUSH. Who is that?

Lieutenant Colonel HARRIS. He is dead now, I believe. But it is Lt. Col. C. B. Ross, who carried a union card and was in constant consultation with the American Federation of Labor in the preparation of this document. I do not say that the American Federation of Labor subscribes to this at all now. Don't misunderstand me.

Mr. RAUSHENBUSH. What was his labor connection?

Lieutenant Colonel HARRIS. You ask me what was his labor connection?

Mr. RAUSHENBUSH. Yes.

Lieutenant Colonel HARRIS. Before he came in the Army he belonged to one of the trades and had a union card.

Mr. RAUSHENBUSH. Do you take that to be a representative of labor? Anybody who carries a union card?

Lieutenant Colonel HARRIS. I did not say so. Did you think I said he was a representative of labor?

Mr. RAUSHENBUSH. I am not trying——

Lieutenant Colonel HARRIS (interposing). And you cannot make me say so.

Mr. RAUSHENBUSH. I am not trying to make you say so, Colonel. I am interested in this question.

Lieutenant Colonel HARRIS. So am I.

Mr. RAUSHENBUSH. The question was whether the representative appointed by the War Department would be a representative of labor. My statement was that he probably would not be a representative of labor, would he? And you testified that, inasmuch as Mr. Ross had helped in drafting this, that in some way labor, I take it, had been consulted in the matter.

Lieutenant Colonel HARRIS. I said he was in constant contact with the labor officials, and the point I am trying to make was that I feel sure that a sympathetic attitude toward labor was in his mind.

Mr. RAUSHENBUSH. In his mind?

Lieutenant Colonel HARRIS. I do believe that.

Mr. RAUSHENBUSH. I carry a union card myself, and I do not feel that I represent labor.

Then there is one representative to be appointed by the Navy Department. He would not be a representative of labor himself, would he?

Lieutenant Colonel HARRIS. He would be a representative of the Navy Department.

Mr. RAUSHENBUSH. Yes.

Lieutenant Colonel HARRIS. I do not know whom they would choose.

Mr. RAUSHENBUSH. And one or two representatives from other governmental departments. They would not be representatives of labor either, would they?

Lieutenant Colonel HARRIS. I do not know who they would choose.

Mr. RAUSHENBUSH. They would choose, presumably, governmental people.

There we have a board of five, sir, one of which is picked by the outstanding industrial leaders, who is head of the War Industries Administration, and the others from governmental departments. Do you see on there anywhere a representative of either organized or unorganized labor?

Lieutenant Colonel HARRIS. Not labeled that way, and not labeled the other way. It so happened in the last war the representative of the War Industries Board in connection with labor was Mr. Frayne, and if I am not mistaken Mr. Frayne did have some relation with organized labor.

Mr. RAUSHENBUSH. Mr. Frayne was a labor organizer.

Lieutenant Colonel HARRIS. So that in practical application the representative of the War Industries Board, comparable to the administration of war industries, was a labor man.

Mr. RAUSHENBUSH. That is one of the very things we are interested in, because, if you will turn to the bottom of page 35, it seems to make it clear that this time it is going to be different.

Lieutenant Colonel HARRIS. Wait just a minute.

Mr. RAUSHENBUSH. The War Labor Administrator this time, according to the present plans will do this, quoting from the bottom of page 35 of the industrial mobilization plan:

> The Administrator should be an outstanding industrial leader * * *.

Lieutenant Colonel HARRIS. I might state that that particular clause is contained in there just as you read it. There is a great difference of opinion right now. I do not happen to believe in that particular clause.

Mr. RAUSHENBUSH. Colonel, I hope this is without any personality at all. This is a War Department document, and we are trying to find out what is underlying the whole plan for labor during war, and we find that they say that the Administrator of this War Labor Administration shall be an industrial leader. So that we look the over the board of five and find no representation either for organized or unorganized labor in this particular set-up for the coming war.

May I ask, is not this even a little less representative set-up than that which we have in the N. R. A. at the moment? There the National Labor Board has at least half labor representation on it, does it not?

Lieutenant Colonel HARRIS. I think it is entirely appropriate for me to state that this Industrial Mobilization Plan, as we visualize it, is the best effort to prepare a workable plan. But we do not believe that it follows that the Administrator of War Labor, or that the Administrator of War Industries would follow the provisions set forth in here. This plan has not the basis of legislation. It is only a plan to be put in his hands, for him to take or reject as he sees fit. The only thing here which is fixed in this plan is the legislative program, that is subject to the will of Congress. The industrial mobilization plan has the approval of the War Department and the Navy Department. That is all the official status this plan has.

Senator CLARK. Colonel, that is precisely what we are doing, preliminary to the recommendation of legislation, which is part of the function imposed on this committee by the mandate of the United States Senate. We are studying the latest available plan, and this is what you state to be the best available plan, with a view to making recommendations. We are trying to find out about it.

Lieutenant Colonel HARRIS. I shall endeavor to answer any questions. I wanted to express that thought.

Senator CLARK. I want to explain to you that we are studying it not in any captious sense, to pick flaws in a plan prepared by the War and Navy Departments. It is a part of the duty of this committee, under the mandate of the United States Senate, to study this question and suggest legislation. We are taking this plan, which is described to us by you and others as the latest and best available plan which has been produced yet by the planning branches of the War Department and Navy Department, and we are trying to see what it says and examine it from that standpoint.

Lieutenant Colonel HARRIS. I recognize that, Senator, and I am here to explain it to the very fullest degree possible.

Senator CLARK. You have been very kind about that, Colonel. We are not trying in any captious sense to examine you, but trying to get the facts.

Lieutenant Colonel HARRIS. I might say, I have been covering a rather broad field in this investigation, and perhaps I have overextended myself.

Senator CLARK. We appreciate the situation, but you are the head of the planning branch.

Lieutenant Colonel HARRIS. I am doing the best I can.

Mr. RAUSHENBUSH. The proposals here affect such a large part of the country, both those to be drafted in the fighting service and those to be in the industrial mobilization——

Lieutenant Colonel HARRIS. May I interrupt you to ask one question? Is this discussion going to be very long or searching? If so, I would like to send for the officer in my office who has charge of this labor provision.

Mr. RAUSHENBUSH. Mr. Chairman, in that connection, this is, to my mind, a very important question, and the statements in this industrial mobilization plan are ones that have probably been considered at some length at various times before the War Policies Commission, and doubtless General MacArthur and others could testify on these labor matters.

Senator CLARK. At least they have received the approval of the Secretary of War and the Secretary of the Navy under their official seals.

Mr. RAUSHENBUSH. And if the Chair sees fit to ask General MacArthur and anybody else who have acquainted themselves with this matter, the examination could be dropped here, if you desire.

Lieutenant Colonel HARRIS. I think I can answer most questions.

The CHAIRMAN. The Chair suggests that Mr. Raushenbush proceed and that Colonel Harris answer as best he can.

Lieutenant Colonel HARRIS. I shall be very glad to.

The CHAIRMAN. The committee is frankly anxious to complete today until after the holidays at least. So that if you can answer, as far as you know, Colonel Harris, any questions that are raised, then we cannot ask for more.

Lieutenant Colonel HARRIS. I will do the best I can, to the best of my ability.

Mr. RAUSHENBUSH. Colonel Harris, rather than embarrass you, when a question is asked, if you say you would prefer to have that put over, we will pass it.

Lieutenant Colonel HARRIS. Generally speaking, the plan speaks pretty well for itself, unless it is the use of some word or thought.

Mr. RAUSHENBUSH. That is what I cannot understand. If it speaks for itself, it speaks in a very loud and definite language at one time. If it does not speak for itself, and can be interpreted, that may be a very different matter.

Lieutenant Colonel HARRIS. It is a plan for a very loud occasion. It is a plan for war.

Mr. RAUSHENBUSH. For that reason, it seems worth giving it some attention, Mr. Chairman, if that can be done.

This War Labor Administration, then, has, I believe, we have agreed, no direct representative of organized or unorganized labor on it. Then we come to the next page, page 36, which sets up an advisory counsel. I think I will read that section [reading]:

> The Administrator of Labor is assisted in the formulation of policies and the adoption of means to administer such policies by an advisory council consisting of 10 members, 5 of whom shall represent industry and 5 of whom shall represent labor.

That is a 50–50 arrangement at this point, is it not? [Continuing reading:]

> Members of the advisory council are appointed by the President.
>
> The advisory council shall meet from time to time as directed by the Administrator of Labor.
>
> The Administrator of Labor or his deputy shall preside at all meetings of the advisory council..
>
> Among the principal questions to be considered by the advisory council are—
>
> 1. Measures to prevent grievances of employers or employees, whether actual or imaginary, from interfering with war production.
>
> 2. The right of employers or employees to organize into associations and trade unions and to bargain collectively through representatives of their own selection.
>
> 3. Standards of wages, hours of labor, and working conditions. (See appendix VI.)
>
> 4. Equality of pay for identical work.
>
> 5. Recognition of the statutory work day and the adjustment of hours not in conformity therewith with due regard for the necessities of the United States and the welfare of the workers.

6. Maintenance of maximum production in all war work, and the suspension for period of the actual emergency and a reasonable adjustment thereafter of all restrictive regulations not having the force of law which unreasonably limits production.

Now, before we start talking about some other thing, let me ask you this:

Is not an advisory council set up at this time to take under consideration or to consider these questions? Is not that a sort of probably useless adjunct in the sense that all the decisions on these matters will have to be made very quickly, and if they once start discussing such questions as " 2 ", that is, " The right of employers or employees to organize into associations and trade unions and to bargain collectively through representatives of their own selection," that they will never get anywhere in war time?

Lieutenant Colonel HARRIS. That particular advisory council is under the Administration of War Labor. That is the task of all labor organizations set up in this program. Some of the other things which we were reading were in the Administration of War Industries, the labor division of that organization. That is the highest organization and the lower one is required to contact with and carry out the policies of the highest one. The highest one has its advisory council, divided between industry and labor.

Mr. RAUSHENBUSH. Are not we talking about something different? Under the section of the appendix marked "3", which is headed "Administration of War Labor", we find that the administrator of labor is to be assisted by this advisory council which I have just described. It is a body under him. It assists him. The question which I am raising is this: Here the whole War Labor Administration is set up without any labor representation, but there is an advisory council which is to assist. The very question I was raising was, whether anybody can sit down and advise or consider matters of administration, which are in a sense matters of policy and legislation? At the time that war broke out, and thereafter, could there be any agreement, for instance, between five members of industry and five of labor, on section 2, the right of employers or employees to organize? Is that just a possibility?

Lieutenant Colonel HARRIS. I am inclined to agree with you.

Mr. RAUSHENBUSH. I thought we would get an agreement here. We have had the steel industry differing and unable to agree under the present pressure for 12 months on what one section of N. R. A. meant. The textile industry, the automobile industry, and others, have spent about a similar time. What is being set up here is an advisory council, apparently, to deal with matters which are very long and complicated matters, and if they start discussing them, then one can assume, can one not, that the advisory council will never get anywhere? That is, the chances are they will never get anywhere with the help of a kind that will start being effective right from the beginning of the war?

Lieutenant Colonel HARRIS. Certainly, on a subject such as you quoted, that is true.

Senator CLARK. In other words, Colonel, is there not the strongest kind of probability that while this 50–50 council is considering these very much controverted questions, that the Administrator of Labor will have already decided them, and the head of this department, this prominent industrialist, as was stated a while ago, will already have put them into operation?

Lieutenant Colonel Harris. The Administrator will undoubtedly, if he finds it is holding up.

Senator Clark. That is the effect of the advisory council, and it is therefore more or less suggested. I am not disagreeing with the necessity for prompt action in time of war, but, as a matter of fact, this advisory council on these subjects might be more or less of a debating society, with five representatives on one side and five on the other side, discussing matters which Mr. Raushenbush has pointed out have been in very grave dispute for 12 or 18 months under present circumstances, in peace times, with all the pressure that the President of the United States and the great force of public opinion were able to bring to bear on them. Would not this be more or less just a debating society, and would not all the questions which are assigned to them for consideration have been affirmatively determined or negatively determined, one or the other, by the Administrator before the council ever got around to operate?

Lieutenant Colonel Harris. There are several factors which work to advantage under war conditions in this regard. In the first place, you have a very strong morale and strong public opinion in case of war. Moreover, this will be recognized as more or less temporary. I do not think there would be the tendency to hold out on a point in case of war as there would be under normal life of the country.

Senator Clark. We have seen the du Ponts holding out for what they considered to be a fair profit, which the War Department did not consider a fair profit for 3 months, under very great stress.

Lieutenant Colonel Harris. There were two sides and they could not agree.

Senator Clark. There would be two sides to every question submitted to the advisory council—two sides to every question, and that all makes for delay. There would be two sides, very widely separated, as proved many, many times, with each side having very much merit on its side of the contention.

Mr. Raushenbush. Before leaving the advisory council, are not the probabilities here, Colonel, that all of these matters would be nonpublic? I mean they would not go out and thresh this thing out in public, in the middle of a war, would they?

Lieutenant Colonel Harris. I do not think they would. There would be undoubtedly cases when they would do that thing. I do not say they would do it secretly, but they would not have time for public hearings. I do not think they would necessarily be secret.

Senator Clark. And they necessarily and properly would not want public notoriety given to the proposition that there was serious disagreement on these great matters while we were at war?

Lieutenant Colonel Harris. Where it was against the national interest they would feel that way.

Mr. Raushenbush. And in peace times it would be that way. Do you know off hand the number of reports published by the Advisory Labor Board or the Consumers' Council of N. R. A., recommending this and commenting on this?

Lieutenant Colonel Harris. All I have seen is in the newspapers, and I do not know.

Mr. Raushenbush. I do not remember a single one from either organization, and I asked about it the other day and found out they had been under orders, apparently, not to make anything public. Here you have a set-up like the National Labor Board, consisting of 50 percent industrial and 50 percent labor, and even in peace time they are not talking in public. So that whatever public advantage there might be of having these things threshed out, presumably in war time they would not get that benefit.

Lieutenant Colonel Harris. I think that is true, but I am trying to emphasize the fact that in time of war the object is not what one side will do or the other. The object is to try to win the war. I think many questions would be raised which would not cause a long-drawn-out negotiation.

Mr. Raushenbush. I want to pass that as a matter of argument and not comment upon it beyond saying that there were plenty of people who thought that the depression was serious enough for almost war-time emergency, and yet there had been almost an 18 months' discussion by the two interests in the steel industry and the auto industry. Your point is that war would be more serious than the depression, which is probably a sound point.

Coming to point 3, on the matter of some of the things the advisory committee is to decide, it says:

> Standards of wages, hours of labor, and working conditions. (See appendix VI.)

We turn to appendix VI, sir, at page 64, and find there the price-control arrangement, and find the price-control committee, on which the War Labor Administration would have 1 member out of, it seems to be, about 20; and we find that the price-control committee, reading from the chart, is described as follows:

> Quasi-judicial body for the formulation of policies and methods for the control and stabilization of prices, wages, and profits.

Does that mean fixing wages?

Lieutenant Colonel Harris. Would you tell me what part that is?

Mr. Raushenbush. I am reading from a chart in another part of the book. It is on page 64.

Lieutenant Colonel Harris. I see. In the middle of this chart.

Mr. Raushenbush. The middle of the chart describes the price-control committee as:

> Quasi-judicial body for the formulation of policies and methods for the control and stabilization of prices, wages, and profits.

Is not that a frank statement that wages are going to be under their control, and a frank statement that 1 out of this committee of about 20 is going to represent the War Labor Administration, which in turn has no direct labor representation on it at all?

Lieutenant Colonel Harris. The chart shows that contacts with the Department of Commerce, Department of Agriculture, Interstate Commerce Commission, United States Tariff Commission, Federal Trade Commission, and other Government research agencies, the War and Navy Departments, Treasury Department, War Trade Administration, War Labor Administration, War Industries Administration, and National War Service Corporation. It seems to draw on all the agencies of the United States Government.

Mr. RAUSHENBUSH. Yes; but not from labor. The other point is that that group is a price-control committee, and we find the advisory committee under point three is to consider "standards of wages, hours of labor, and working conditions." (See appendix VI.)

And we turn over to the price-control matter and find there a statement that wages are under the price-control committee.

Now, is it not a fairly logical question to ask what I asked: Does not that mean that wages are going to be pretty definitely fixed by the price-control committee?

Lieutenant Colonel HARRIS. It only says "for the formulation of policies and methods for the control and stabilization of prices, wages, and profits", but, of course, the thought which you have I think is justified.

Mr. RAUSHENBUSH. It is justified. And that the control committee is under the chairman of the price-control committee, which has the ultimate decision in the matter.

Lieutenant Colonel HARRIS. Please remember that this is under the President of the United States, and that the War Labor Administration is involved in this group.

Mr. RAUSHENBUSH. Yes, sir; the War Labor Administration is 1 out of 20.

Lieutenant Colonel HARRIS. And also the Secretary of Labor, as an adviser of the President, and labor is not excluded. That is the point I am making.

Mr. RAUSHENBUSH. Are you making the point that the Secretary of Labor represents organized and unorganized labor?

Lieutenant Colonel HARRIS. No; I do not see anything on this chart to show that industry is represented. I do not see industry or labor represented. I see here a Government organization.

Mr. RAUSHENBUSH. Let us stop a moment on that. The chairman of the War Industries Board is a prominent industrialist—I mean the War Labor Administration is a prominent industrialist, and the chairman of the War Industries Administration, as we agreed a while ago, is either a prominent industrialist or financier, and you will probably admit that the chances are that the War Trade Administration is going to be under that.

Lieutenant Colonel HARRIS. If you want to know my opinion, I will express it.

Mr. RAUSHENBUSH. Is not that your opinion on what it says?

Lieutenant Colonel HARRIS. That is my opinion on what it says; yes.

Mr. RAUSHENBUSH. That we are going to have probably three industrialists representing all those three groups, along with all the other Governmental agencies in price fixing.

I think we have disposed of the matter that labor does not have any direct representation there. When you go to standards of wages, hours of labor, and working conditions, Colonel Harris, it says here that that is under the control of the price-fixing committee to consider standards of wages, hours of labor, and working conditions.

Lieutenant Colonel HARRIS. It shows it in the chart. Can you tell me whether it says so other than in the chart? I do not know whether that is pertinent, but I think the chart is the only place it says that.

Mr. RAUSHENBUSH. I do not have the page reference to that. It is in the earlier part of the book, if you can check it.

Lieutenant Colonel HARRIS. I will agree that is what it says in the chart.

Mr. RAUSHENBUSH. I will try to get a reference to that later.

May we skip down to the bottom of page 36, point 6, as to the duties of the advisory council, and I would like to ask what that means:

> Maintenance of maximum production in all war work, and the suspension for period of the actual emergency and a reasonable adjustment thereafter of all restrictive regulations not having the force of law which unreasonably limits production.

Colonel Harris, does that mean such union regulations as there may be, or what other restrictive regulations as there may be, or what other restrictive regulations are there which you have in mind which do not have the force of law?

Lieutenant Colonel HARRIS. I do not feel qualified to answer questions on that matter.

Mr. RAUSHENBUSH. All right, sir.

Now turning for a moment to this mimeographed section on wartime contracts, February 2, 1934, we find on page 18 something which seems to illuminate that section which I have just read, apparently speaking of the N. R. A. codes and the way that they can be adapted to war, and it says in the second paragraph on page 18:

> Undoubtedly such provisions of emergency codes as apply to maximum hours of labor and minimum wages would have to be scrapped.

Lieutenant Colonel HARRIS. I would like to state that this thing which you are reading from has nothing to do with the Industrial Mobilization Plan, is not a part of it, and the only relation it has to it is a study of a group of officers on this subject. It has no official status except that.

Mr. RAUSHENBUSH. It is one of the elements entering into your thinking on this whole question, is it not?

I mean that here you had a group of senior officers, including Lieutenant Brannon, give their ideas on the thing, and their proposition or their ideas on what would happen are that such revision of maximum hours of labor and minimum wages would have to be scrapped during war.

Lieutenant Colonel HARRIS. If it is their opinion, it is worth what it is worth.

Mr. RAUSHENBUSH. Would you feel free to speak for the War Department in saying that the War Department would have no intention of scrapping those provisions during war?

Lieutenant Colonel HARRIS. I am not qualified to answer the question.

Mr. RAUSHENBUSH. I do not want to press you for an answer for things on which you are not qualified to answer.

But taking section VI which I have just been reading, about the removal of restrictive regulations not having the force of law, if this does have any weight as an element in the situation, it would seem that you are actually setting up a sort of plan which parallels the N.R.A., but takes out section 7–A, let us say, the provisions with regard to labor.

Lieutenant Colonel HARRIS. Of course you appreciate this document was written before section 7–A was in existence.

Mr. RAUSHENBUSH. Yes, but it is very interesting to see how the two things are along the same line. Could you say who was the brains behind that, Colonel Harris?

Lieutenant Colonel HARRIS. This is the result of studies covering many years, hearing of the War Policies Commission, and the cooperative work of many people.

Mr. RAUSHENBUSH. It is interesting to me to see how closely allied the two things are, and it seems here from the things which we have that the war-time idea would be to have an N. R. A. act without those particular sections which Congress put in.

Now turning for a moment to page 12, which has to do with this same thing, page 12 of the Industrial Mobilization Plan, under the head of labor, 3–C, I will read part of it [reading]:

> Among the more important problems to be considered are the minimizing, by an equitable distribution of war orders, of excessive migrations of labor; the prevention of unethical competition for labor by war industries; compilation for the information of the President of lists of industrial deferments required for efficient operation of war industries; the avoidance and settlement of industrial disputes; and the coordination of employment services.

Do you feel competent to tell us, Colonel Harris, what it means by "the prevention of unethical competition for labor by war industries"? That looks on the face of it—and you said the language was plain—that looks on the face of it like a plan definitely to forbid the raising of wages of any kind. I may be wrong, but that is the way it seems on the face of it, as I read it.

Lieutenant Colonel HARRIS. Do you call raising wages unethical?

Mr. RAUSHENBUSH. The phrase is used here, "the prevention of unethical competition for labor by war industries."

Lieutenant Colonel HARRIS. I am asking you if you call raising wages unethical.

Mr. RAUSHENBUSH. That is what I am asking you, sir.

Lieutenant Colonel HARRIS. I do not think it is.

Mr. RAUSHENBUSH. What is the unethical competition for labor by the war industries, then, if it is not taking labor from one to another by offering them a higher wage?

Lieutenant Colonel HARRIS. I do not know what means they would use. They might take a man who had been a foreman and make him a superintendent. I do not know the methods. Whether or not that would be proper, I am not saying.

Mr. RAUSHENBUSH. That is the question, is it not? On the face of it, it would give rise to a possible inference, certainly, that if one industry started getting labor away from another, through higher wages, that that might be considered unethical, and that that would be prevented under these control measures.

Lieutenant Colonel HARRIS. I will say that if the raising of wages had reached the point where it was against the national interest, I would say it was unethical.

Mr. RAUSHENBUSH. Where is it against the national interest?

Lieutenant Colonel HARRIS. I do not know.

Mr. RAUSHENBUSH. Has the War Department discussed that?

Lieutenant Colonel HARRIS. No; the War Department certainly has not discussed that.

Senator CLARK. Colonel, you do not think it is in the national interest to have a man working in a munitions plant, as a common laborer, who may earn during the war $15 or $20 a day, and have another man in the Army, who has been drafted, and who get $1 a day and his keep?

Lieutenant Colonel HARRIS. I think Mr. Raushenbush was talking about a man working in a munitions plant for $15 a day and another man offered him $40 a day in another munitions plant.

Senator CLARK. Mr. Raushenbush and I were talking about different things.

Lieutenant Colonel HARRIS. I will ask you to repeat that.

Senator CLARK. I say, do you think it is unethical and against the national interest for a man doing more or less common labor in a munitions plant to get $15, $20, $25, or $30 a day, as some did during the war, doing more or less common labor, whereas a man who was drafted and wearing the uniform of the United States would get $1 a day and his keep?

Lieutenant Colonel HARRIS. Yes, sir; I do; and I think it was also unethical that certain executives in industry got 10 times what I got, occupying a comparable position.

Senator CLARK. I agree with that.

That did not have anything to do with what you were talking about, Mr. Raushenbush, but it was brought up by the colonel's reply.

Mr. RAUSHENBUSH. I can understand the colonel's reply very well. It seems true. As long as the wages in industry are four or five times as big as the wages in governmental service, the situation is not quite on a par.

Lieutenant Colonel HARRIS. May I request just 1 minute's recess.

Mr. RAUSHENBUSH. Yes, sir.

Mr. RAUSHENBUSH. I call your attention again to the first sentence of that section I read on labor, which reads:

> The assurance to industry of an adequate labor supply, both in numbers and by occupational qualifications, will require the organization of a labor administration with an administrator of labor appointed by and directly responsible to the President.

I am just calling attention to the first sentence to give the appropriate purpose of these control measures. Here it is apparently to give assurance to industry of an adequate labor supply, and that that will require the organization of a labor administration.

Then right along that line, which seems to be the line of supplying industry with labor at the minimum of trouble, we got into this question of what was to prevent unethical competition for labor by war industries. I was making the point, or asking the question, as to whether any competition between industries for labor did not mean an increase in wages; and the preventing of that, whether that did not mean keeping wages down. I do not remember exactly what your answer to that was.

Lieutenant Colonel HARRIS. My answer was that I did not consider raising wages unethical, and I said that this thing stated that, raising wages within the limits of the national interest.

Mr. RAUSHENBUSH. Oh, yes; now I remember; and that the War Department had not considered as to how high wages could or could not be in the national interest.

Lieutenant Colonel **Harris**. The War Department has plenty to do to think about its part of this program and has thought about the other things to the point of preparing an organization and a structure and a recorded history of what seems to be good practice. We are going to turn it over to them and let them operate it. The War Department will be through with this thing on "M. day",[1] in the measures of most of these things you are discussing.

Mr. **Raushenbush**. Going from that to page 86, a bill has been prepared that allows the President to fix the value of services, does it not—I mean wages. I call your attention to the bill on page 86, the second section:

> That the President is hereby authorized, with respect to any product, foodstuff, material, commodity, right, or service—

Underlining the word "service"—

> declared by him essential for the national security and defense in the prosecution of the war, to fix and establish just and reasonable maximum, minimum, or absolute prices and/or rates at which any such product, foodstuff, material, commodity, right, or service may be bought, sold, or otherwise contracted for.

That does give the President the power, does it not, to fix those wages which they want to fix under the head of necessary war services?

Lieutenant Colonel **Harris**. Perhaps it might be construed there, but the intent of that paragraph is to speak of service as an impersonal thing, and not with reference to the individual entering into that service. The railroads are service.

Mr. **Raushenbush**. And also wages can be considered a service, can they not; personal services?

Lieutenant Colonel **Harris**. I said it might be construed. I am not qualified to pass on that point.

Senator **Clark**. Colonel, I do not think there is any question that it is not only clearly open to that construction, but that that is practically the only view that can be taken of it.

Lieutenant Colonel **Harris**. Senator, I do not believe that the word "service" there was used to refer to wages. I think the "service" there was certain industrial or other services necessary to prosecute the industrial effort of the war. I would not say that it would not cover it. I do not know.

Senator **Clark**. It says:

> That the President is hereby authorized, with respect to any product, foodstuff, material, commodity, right, or service.

The right to render personal service and earn wages thereby is certainly one of the most fundamental rights of mankind. The President is certainly given the right here to fix the compensation for those services. Understand me, I am not saying this is not right, but I do say that it clearly gives the President the right to fix the price of services.

Lieutenant Colonel **Harris**. The intent of this law is to give the President all the material resources of the country and everything that goes into them to prosecute the war.

Senator **Clark**. If there is any argument as to the intendment of this act and what it says, that is an additional reason why Congress ought to be looking the thing over now and clarify those matters, instead of passing them under whip and spur after declaration of war.

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[1] The date designated in War Department orders as the first day of mobilization. Popularly referred to as the first day of war.

Mr. RAUSHENBUSH. Colonel Harris, without too many references to this—you probably know this better than I do—is not the general plan about labor in the war to take pretty much the wages as they are at the time, and have them written into the agreements between the War Department and the contractors?

Lieutenant Colonel HARRIS. I think, generally speaking, that all price-control measures were in the hope that they could maintain the levels at which we entered the war. I think that is the purpose.

Mr. RAUSHENBUSH. The level at the time. How would you deal with a situation where, let us say, we went straight from a depression into war, and the wages were very, very low, let us say, as in Pennsylvania here a year and a half ago, when we had wages of $3 a week and under.

Lieutenant Colonel HARRIS. Was that because of the low wage per hour or the few number of hours they worked?

Mr. RAUSHENBUSH. That was the full week.

Lieutenant Colonel HARRIS. But was that due to the few hours that they worked?

Mr. RAUSHENBUSH. No. That was a full-hour week.

Lieutenant Colonel HARRIS. In that case they should be raised.

Mr. RAUSHENBUSH. That is what I am trying to get at. Here the arrangement seems to be to keep wages as is, and yet you are going to have sections of the country or certain industries, probably, where the wages are very low. What do you do in that case?

Lieutenant Colonel HARRIS. I think they would use their best judgment and apply the answer that seems to be best for the national interest.

Mr. RAUSHENBUSH. Yet have you not created a situation where the great bulk of the production for the war is going to be in the processes before they get to the ultimate manufacturer, just as they are at present? I mean, the ultimate manufacturer who sells to you in all chances adds only about 20 percent of the value; the great bulk is in the raw material processes before it gets to him.

Those people are going to have a labor problem. You are taking care of it to a certain extent by taking the employment agencies under the War Board and doing some allocating and assigning. Yet those people are going to get orders from the final manufacturers on the basis of their low costs. Is not that right?

The people you deal with are going to get orders from the other manufacturers at the lowest prices. You are establishing a situation where, as in ordinary business today, the people will want to keep their wages down. That is the only point I am making there. Is not that a reasonable proposition? It is no different from the present.

Lieutenant Colonel HARRIS. I think that generally people pay as little as they can get it for; the law of supply and demand.

Mr. RAUSHENBUSH. The one point I am raising in that connection is whether you have not made a set-up here that puts the governmental pressure terrifically behind the status quo, whatever it happens to be at the time. Do you have the power either to let the man out of the Army or to take him in, and say, especially if the "work-

or fight " bill goes through, " You have to work here or get into the Army ", as Mr. Baruch said in his testimony before the War Policies Commission. You probably will have that power either directly through legislation or indirectly through what Senator Vandenberg calls " moral suasion ", with a capital M-S. You have that power in one way or the other.

The question I was going to raise, somewhat more slowly than I am raising it now, is this: Here are you not creating through all these controls and these suggestions that unethical competition for labor should be cut out, a situation where you almost induce the great bulk of manufacturers producing for your final manufacturers to do their utmost to keep wages down, so that they will be the ones from whom your final manufacturers will order?

Lieutenant Colonel Harris. You have covered a number of points in that question.

Mr. Raushenbush. Yes. I am going too fast, under pressure of time.

Lieutenant Colonel Harris. This organization is provided with the hope of preventing the thing that Senator Clark said a while ago, that when the soldier goes in the Army for $1 a day it finally winds up that somebody working in an ammunition plant gets $15 a day. To that extent you might say that it is trying to hold down wages.

Mr. Raushenbush. Yet there is nothing in these plans, as I remember, that deals with that at all. If you were interested in raising wages for the boys in the combat forces, there is nothing in here about that, as I remember it. The thing deals entirely with industry and what it is to get.

But I am raising a further question whether in this very great care that is taken of industry and what it shall get, you have not additionally and sort of incidentally, perhaps, created a situation where there would be a terrific pressure on all the manufacturers in the country to keep wages down very much, especially in view of the price fixing.

If they are to get war orders in bulk and get them continuously and keep them, they will have to get set to insist the War Department do the sort of thing your various officers suggested, scrap the labor provisions of the N. R. A., and generally keep out the disturbing elements that will tend toward raising wages. Do you see the question there?

Lieutenant Colonel Harris. I do not see anything sinister in this industrial mobilization towards the interests of labor. I do not see anything sinister in this industrial mobilization plan to industry. It is certainly written with the hope of being fair to all elements involved in the war, because the plan is conceived in a spirit that it is a national war.

Mr. Raushenbush. One might point out in passing that certainly all our legislation, including, perhaps, the N. R. A., is an attempt to be fair to all people, yet there are certain groups who feel that they are very unjustly treated indeed.

Lieutenant Colonel Harris. You can never get unanimity of opinion among a large cross section of the people. You get two together and they are liable to differ.

Mr. Raushenbush. You are aware of the testimony of General MacArthur before the War Policies Commission? I do not want to read the whole thing, in the stress of time here, on the question of that draft of labor, but may I simply ask one question:

Do you know whether the War Department policy has changed since he gave that testimony?

Lieutenant Colonel HARRIS. I have read the testimony of General MacArthur several months ago. I do not remember what he said. If you will tell me what he said, perhaps——

Mr. RAUSHENBUSH. At the bottom of page 380 of the War Policies Commission hearings, perhaps this will give it. He was asked:

> Mr. COLLINS. Do you propose to draft certain men for fighting and let in voluntarily those who want to work, or do you intend to draft the workers also?
>
> General MACARTHUR. The selective service act itself, of course, inducts, as we said, all necessary men between the ages of 18 and 45.
>
> Mr. COLLINS. And you want them all drafted, whether they are to work or fight
>
> General MACARTHUR. There are no exemptions at all, but they are allocated.
>
> Mr. COLLINS. And you could allocate the Chairman of the Commission to the trenches and put me in some munitions factory, provided we were both under 45 years of age.

I want to correct Mr. Collins there. According to this thing, he might have cut out that last proviso, because everybody over 18 is registered.

General MacArthur then goes on:

> General MACARTHUR. It is to prevent such imperfections of allocations that we have devised this scheme.
>
> Mr. COLLINS. So your proposal would be to draft them all and then to allocate them to the activity that you think would be best suited to the individual?
>
> General MACARTHUR. Not that we think, but that the local board thinks.

So he comes out a little more strongly there on what allocation means than you seemed to be willing to in the matter earlier in the day.

After refreshing your memory, could you say whether there has been any change in the——

Lieutenant Colonel HARRIS. Just a minute, Mr. Raushenbush. With reference to that word "assigned" on page 41, Lieutenant Brannon has been looking up something. You read the word "assigned" and asked me if that had anything arbitrary in it. I want to call your attention to three lines above it, where it says:

> In war time this lost motion should be avoided and the employment service must know the applicant's qualifications.

The word "applicant"; what does that signify? It signifies to me that he applied. Then, having applied, going down one more line, you read the words "assigning him."

Mr. RAUSHENBUSH. Whether that man referred to by General MacArthur as being allocated is going to consider himself an applicant is a question that probably will not be decided until that war starts.

Senator CLARK. Assuming that he does become an applicant, after he becomes an applicant and gets assigned—say, if he works in a factory that is forced to shut down because this industrial mobilization authority, whatever it is in this particular case, has taken away from that factory all its raw materials, he then applies to this labor bureau that is set up here, for a job, and thereby becomes an applicant. Then he is assigned. In other words, he can do that "or else"; is not that correct?

Lieutenant Colonel HARRIS. To my mind the word "applicant" means that he is in a state of voluntarily presenting himself.

Senator Clark. What is the distinction that is sought to be drawn between the peace-time application to an employment bureau and the war-time application?

Lieutenant Colonel Harris. I think what General MacArthur states ought to be ascertained from General MacArthur. I am trying to stay with this mobilization plan, and I am having enough trouble with that.

Senator Clark. I am trying to ask you what you understand this distinction, as drawn in the industrial mobilization plan, means:

> The operations of this service differ materially from the operations of similar service in peace time, in that ordinarily the latter do not mobilize labor for a particular purpose. Peace-time employment services merely direct an applicant to a probable market for his labor and there the applicant must both sell and prove himself.
>
> In war time this lost motion should be avoided and the employment service must know the applicant's qualifications—

which is provided for in another place, as has already been pointed out, by registration—

> as the result of test or otherwise, and the certainty of the existence of the job before assigning him.

What is the distinction there, then, Colonel?

Lieutenant Colonel Harris. I think that the word "mobilize" probably is the distinction in your mind. I think that is probably just a use of a military term, which means to gather together.

Senator Clark. It is not a military technical term, is it?

Lieutenant Colonel Harris. I think in a peace-time set-up they simply offer to the applicant a job if he wants to go and take it. I think in this other set-up they would probably exert a little more effort to gather together applicants who would like to go to work, and put a little more pressure on them, perhaps.

Senator Clark. What is the pressure? That is what I am trying to find out, exactly.

Lieutenant Colonel Harris. The pressure of finding somebody to fill the job; not the pressure on the man particularly, except through his patriotism, but pressure on the activity of gathering people together.

Senator Vandenberg. The best way to stay out of these troubles is not to get into this next war.

Senator Clark. That is what I am trying to get at.

Lieutenant Colonel Harris. I have said that three or four times.

Senator Clark. That is the purpose of all these questions, so far as I am concerned.

The Chairman. The committee finds that it cannot hope to finish this morning, and takes a recess at this time until 2 o'clock.

(Thereupon, at 12:50 p.m., a recess was taken until 2 p.m. of the same day.)

AFTERNOON SESSION

The Committee reconvened pursuant to the taking of recess at 2 p. m., Senator Gerald P. Nye (chairman) presiding.

The Chairman. The committee will be in order. Mr. Raushenbush, you may proceed.

TESTIMONY OF LT. COL. C. T. HARRIS AND LT. E. M. BRANNON—Resumed

Mr. RAUSHENBUSH. Mr. Chairman, in the first of the examination this morning a question came up about the connection between the N.R.A. and the industrial mobilization plan. I would like to offer for the record in that connection a statement of considerable length, a long paragraph or two from this final report of the War Industries Board to the President, by Gen. Hugh S. Johnson, which is marked, and I will ask the reporter to copy it without taking it out of the room.

(The statement referred to is as follows:)

Other nations have passed through a similar process. Governments have participated in industry, and industry and government have become parts of the same system in a manner unheard of before the war. The advantage of thus joining power, for war purposes at least, is beyond question. In the general state of world finance, these other nations will unquestionably meet us in new competition, and it is axiomatic that the prosperity of this country depends upon its ability to meet the competition. If there is unquestionable advantage in this governmental participation in national business—not as a jealous matter, and not as an auxiliary bureau, but as a planning and adjusting agency and a point of common contact, a force for coordination and cooperation and unification of American business in an efficient national system—then it would be a blunder to let this war experience pass into history, with nothing more than a final word of commendation and farewell. In this belief, it is the purpose to discuss shortly our experiences in war administration of industry, with an eye to the application of some of them to the uses of peace.

Administration during the war falls naturally into departments along natural lines of cleavage. The experience should be very valuable in delineating the units of administration in case another such organization should become necessary. They were as follows: Food, fuel, railroads, shipping, soldiers, labor, finance, raw materials, finished products, exports, and imports. In the process of evolution from the nebula of the Council of National Defense, organizations for the administration of most of these subjects formed and became independent as the need for them became acute. The Food, Fuel, Railroad, Shipping, War Industries, and War Trade Administrations were formed separately, and were tied into common control through no coordinating below the Chief Executive. The Selective Service Administration developed within the War Department, and only that and the Labor Administration developed within existing executive departments of the Government. The War Industries Board was a sort of residuary unit for all subjects not properly falling within the duties of one of the others.

The CHAIRMAN. Was there not a request for the printing of the entire so-called "Johnson report"?

Mr. RAUSHENBUSH. Mr. Chairman, I would suggest that probably the War Department officials would feel at this moment that large parts of that report did not represent their own considered judgment of certain situations.

The CHAIRMAN. Colonel Harris indicated this morning something along the line of having it printed, I believe.

Lieutenant Colonel HARRIS. May I, as a representative of the Department, request that it do be printed, it being of great value to the War Department in its preparation of industrial planning?

The CHAIRMAN. You suggested this morning that it might be printed.

Lieutenant Colonel HARRIS. Yes; and I express that hope now.

The CHAIRMAN. The Chair shall offer this as an exhibit, to be printed separately from the printed record of the hearings.

(The report referred to was marked "Exhibit No. 1399" and was printed separately as Committee Print No. 3.)

Mr. Raushenbush. Do we understand, Colonel, that the War Department feels that that expresses its present views toward industrial mobilization?

Lieutenant Colonel Harris. I do not think so at all, Mr. Raushenbush, as a general principle. There may be many things we do approve. The material value that we want in that report is in its facts rather than its conclusions. It is the fact data that is in that book that we would like to have printed.

Mr. Chairman, would that mean that that book would be sequestrated from now on till this committee closes?

The Chairman. Long enough, at least, to give the printer a chance to publish it.

Lieutenant Colonel Harris. We would be glad to furnish it at that time for that purpose.

The Chairman. Thereafter we will have no use for it and, of course, will expect to surrender it to the Department thereafter.

Lieutenant Colonel Harris. I think we will be glad to let you have it as long as you are going to get it printed.

The Chairman. We will see that it is returned to you.

Mr. Raushenbush. I gather the War Department wants to stand behind the facts given in this report, but does not stand behind the opinions expressed in it; is that correct?

Lieutenant Colonel Harris. The War Department regards that as a very valuable document relating to the activities of the War Industries Board during the war. The War Department is not prepared to warrant any statements made in that book.

Mr. Raushenbush. That is all I want on that.

Colonel Harris, toward the end of the morning session we were raising several questions about the attitude of the War Department toward labor, and in that connection I would like to call to your attention for your comment some testimony by Mr. Baruch before the War Policies Commission, given on pages 44 and 45. About the middle of page 44 seems to be apparently the thing, where he says:

> There was in the selective service law a provision profoundly affecting the labor supply, which was not utilized until the spring of 1918, when it first saw the light of day as the famous "work or fight" order.
>
> Even in the classes under the draft which were otherwise available for military service, there were hundreds of thousands of able-bodied men who, by reason of their domestic relations or of late numbers in the list prescribing the order of call, were deferred temporarily or completely. The "work-or-fight" order merely said to these men "No matter what the grounds of your deferment may be, unless you are faithfully, continuously, and usefully employed in a capacity and for an enterprise determined by the Government to be essential to the prosecution of the war, your deferment will be canceled and you will immediately be called for service to the colors."

Would you care to comment on that, in view of our outline this morning of what the set-up was, without labor representation anywhere near the top of the war machinery, and with the constant suggestion of regulating and controlling what they call the unethical competition of labor, with the assignment phrase used in the industrial plan and the allocation phrase used by General MacArthur, doesn't that mean that if any labor leader or representative decides that the wages of his people are insufficient for a decent living and calls a strike, if he and his men are not continuously employed, then under a work or fight order as described by Mr. Baruch, that labor leader and such of his men as the Government may see fit to take will be immediately called to service with the colors?

In other words, here is a provision for breaking strikes by having the Government in the heat of the war pressure take whatever men are not continuously employed and send them into the Army immediately.

Isn't that a fair interpretation of what is being outlined here by Mr. Baruch?

Lieutenant Colonel HARRIS. You ask me what the War Department thinks of that, is that right?

Mr. RAUSHENBUSH. Yes.

Lieutenant Colonel HARRIS. There is a section of the General Staff handling the selective service activities and they should be called to testify to that point. I am on the industrial side and do not feel qualified to reply for the War Department on any matter relating to the draft. .

Senator CLARK. Certainly, Colonel, as a matter of common English, you cannot put any other construction on that language than the one Mr. Raushenbush put on.

Lieutenant Colonel HARRIS. Whatever the language conveys.

Senator CLARK. That is safe enough. There is only one construction to be put on that language, as I see it. You don't have any contrary view of the common acceptation of the English terms involved, do you?

Lieutenant Colonel HARRIS. I followed the thought of that paragraph.

Mr. RAUSHENBUSH. In 1925, Colonel, Colonel Simons, of du Pont, is writing a letter to Major Casey, under date of August 22, 1925, headed, "Proposed problems for War College." I would like to show you a copy of that. On the second page, under the heading of "B. Proposed problems for the War College," he raises a question which is a problem to be discussed, "Will labor be militarized? If so, what will be the type of organization?"

Could you tell us whether that was a subject of general discussion in the War Department, if common ordinary labor is going to be militarized?

Lieutenant Colonel HARRIS. I have never heard that discussed myself. I don't know whether it has been discussed.

Senator CLARK. Colonel, the War Department has had under consideration undoubtedly, because there have been several different public investigations, the activities of a man named Disque during the war, hasn't it?

Lieutenant Colonel HARRIS. The name has a familiar sound.

Senator CLARK. You are familiar with the history of Colonel Disque, are you?

Lieutenant Colonel HARRIS. I am not, sir.

Senator CLARK. I can read from an official report, being the minority report of the Graham Committee, page 91:

> Colonel Disque had been a cavalry captain in the Regular Army and resigned late in January 1917, after 19 years of service, leaving the Philippines, where he was stationed, and going to Michigan, where he took charge of the Michigan Penitentiary. He resigned his position as warden in September 1917, when he was made a lieutenant colonel, and came to Washington in that year.

Now, it is a fact, is it not, that this ex-warden of the Michigan Penitentiary, put in charge of getting some lumber requirements, particularly spruce, in Oregon and the Pacific Northwest, immediately proceeded to put his men in uniform, his laborers and everybody else, and put them under military discipline; isn't that true?

Lieutenant Colonel HARRIS. I don't know anything about it.

Senator CLARK. That is the evidence. I will read another paragraph from the same report, on page 92:

> Probably no arrangement of equal significance was ever had in this country during the war as this one, wherein the Secretary of War agreed with Mr. Gompers and Colonel Disque to farm out American soldiers in the woods and mills of Oregon and Washington and to build railways for private contractors, to work 8-hour shifts in safe places and at civilian wages, reaching as high as $8 per day, while American soldiers in France, without limit as to hours, sometimes continuously day and night, were working and fighting for $30 a month.

Now, it is a fact that this man Disque—and I assume this must have been a subject of at least comment by the War Planning Division—this Colonel Disque at one time had nearly 30,000 men employed as laborers, whom he put in uniform and subjected to military discipline during the war, at the same time paying them civilian wages of his own fixing, in conjunction with the Secretary of War and Mr. Gompers, at the same time subjecting them to military discipline, and in one case broke a strike on the Pacific Northwest coast by the use of these men in uniform; isn't that true?

Lieutenant Colonel HARRIS. I do not know anything about that, sir.

Senator CLARK. Has not that ever been a subject of discussion in the Military Planning Division?

Lieutenant Colonel HARRIS. Not during my course of duty there.

Senator CLARK. I will read another paragraph on page 93:

> After farming out the soldiers of this army in the Northwest for 6 months or more in violation of the law, the War Department called upon The Adjutant General's Office for an opinion as to the authority of the War Department to pay soldiers the prevailing civilian's wages. The Judge Advocate General's Office rendered an opinion to the Secretary of War in the matter, under date of September 11, 1918, holding that the War Department acted within its powers.

Did you ever hear of that?

Lieutenant Colonel HARRIS. I never heard of that at all.

Senator CLARK. I will read you another paragraph from page 99 of this report:

> Captain Turner, a trained officer, forceful and fearless, said that of 109 soldiers given him by Colonel Disque, only 7 were familiar with the woods, and 102 were wall painters, polishers, etc. Captain Turner had charge of 140 soldiers at Stilwater Camp, and testified that these men were working for private parties on commercial logging entirely. No spruce timber was in that section; no airplane lumber was cut there. Two soldiers while thus working for private interests were killed by falling trees. Deserving men were not considered, he testified, but official favoritism was common.

Did you ever hear of that?

Lieutenant Colonel HARRIS. Never heard of that.

Senator CLARK. You would gather from this, wouldn't you, Colonel, that if it were possible for an Army officer in time of war to take soldiers and turn them over to private civilian companies to work on private enterprises that matters of that sort might come up?

Lieutenant Colonel HARRIS. I cannot conceive of our soldiers being handled as you have just read. A soldier is in the Army for the purpose of fighting.

Senator CLARK. I agree with you, Colonel; but this is a written report.

Lieutenant Colonel HARRIS. I do not question the report. I know nothing about the report, but it violates my idea of what a soldier is.

Senator CLARK. It violates mine, too. And, contrariwise, it violates your ideas for civilians to be simply put in uniform and subjected to military discipline, doesn't it?

Lieutenant Colonel HARRIS. Unless they were soldiers.

Senator CLARK. Unless there was specific authorization of law for that purpose?

Lieutenant Colonel HARRIS. That is my conviction.

Mr. RAUSHENBUSH. Somewhat along the line of what we discussed this morning, Colonel Harris, I have before me a report as to the Army officers serving as administrative members. There are quite a number serving on N. R. A. codes. Does that mean that they are under code authorities?

Lieutenant Colonel HARRIS. I am one of those administration members. I think I can give you some first-hand information on that particular activity. I am an administration member on the cement code, appointed last March, and have been on that duty since. It is a part-time duty. I attend the code meetings, and I receive copies of all actions in between meetings, and am in touch with the N. R. A. on the duties to which I have been assigned when necessary. The other officers are performing similar duties.

If you are interested in how this thing all came about, I had something to do with it. When the N. R. A. was established the War Department, desiring to cooperate in any national effort in an emergency, offered the services of the War Department personnel.

The Assistant Secretary of War, particularly on account of the industrial planning, wrote a letter to General Johnson offering the services of the officers under his jurisdiction for duty with the N. R. A.

Several were assigned to full-time duty. There is an officer assigned to my office, Captain Battley, who was from my office—I was not in charge at that time, but he was in my section of the office—who went to duty with the N. R. A. in August 1933 and has been there continuously. There are one or two others on full time, too.

Senator POPE. What is their compensation?

Lieutenant Colonel HARRIS. Army compensation. No other. They simply draw their Army compensation.

Along in March or February we were officers in the planning branch and keeping in touch with this N. R. A. development and its relationship to our industrial plan, and we were anxious to get a closer touch with the Code Administration. So Captain Battley and myself talked the matter over and he went over to one of the administrators—I do not know who initiated this idea—but finally we were asked if such duty would be agreeable. It was taken up with the Secretary of War and it was agreeable.

They selected from the Army personnel on industrial planning work; that is, in our office and in the field offices or the districts, certain people whom they would like to have on certain codes, myself being one of the number requested. As the result, with the approval of the War Department, these officers were assigned as administration members of the specific codes.

Mr. RAUSHENBUSH. The question I really wanted to get at, Colonel, was this: Are there any labor members on any of these authorities from your office?

Lieutenant Colonel HARRIS. There are provisions for three administration members, an additional one from labor, and an additional one from industry, if desired and directed by the Administrator. I do not recall on any code—I know on my own code I am the only administration member.

Mr. RAUSHENBUSH. Is there any labor member on any of these codes that you know of, Colonel?

Lieutenant Colonel HARRIS. You mean on the administration member side?

Mr. RAUSHENBUSH. No; on the whole code authority.

Lieutenant Colonel HARRIS. Of the codes that I know, there are no labor members.

Mr. RAUSHENBUSH. There are no labor members?

Lieutenant Colonel HARRIS. No.

Mr. RAUSHENBUSH. Could you speak for the other officers in making a statement as to whether the labor provisions of these particular codes that are in existence are enforced or not?

Lieutenant Colonel HARRIS. A code authority becomes cognizant of a violation from reports rather than any other single source. In some of the codes there are many labor problems arising. I would not say whether they were complaints or not. In the other codes there are very few. In the cement code there have been very few problems that have reached the code authority, on labor.

Mr. RAUSHENBUSH. But you would not care to make a statement——

Lieutenant Colonel HARRIS. I would not care to make a statement with reference to the code administration that I did not know about.

Mr. RAUSHENBUSH. As to whether the labor provisions were or were not being enforced?

Lieutenant Colonel HARRIS. No.

Senator CLARK. It is a matter of common notice, is it not, Colonel, that in the industries for which there would be the greatest necessity in time of war, the so-called "heavy industries", there has been a very great delay in arriving at any code agreement as to labor conditions, as to any installation of a code, isn't that true?

Lieutenant Colonel HARRIS. Many industries have not reached agreements. I think probably some heavy industries and some others.

Senator CLARK. Steel is one of the greatest requirements of war, is it not?

Lieutenant Colonel HARRIS. Yes.

Senator CLARK. It is a matter of common notice that there has been very great dispute between the employers and the employees, we will say, as to labor conditions in the steel industry under the N. R. A. You read the papers nearly every morning when you wake up, don't you?

Lieutenant Colonel HARRIS. All I know is what I do read in the papers.

Senator CLARK. That is all I know, too. That is a matter of common notoriety.

Mr. RAUSHENBUSH. I would like to offer this list you prepared of War Department, Army Officers Serving as Administrative Members, as an exhibit.

(The list referred to was marked "Exhibit No. 1399–A" and is included in the appendix on p. 4444.)

Mr. RAUSHENBUSH. I think Colonel Harris very properly stated that on certain major questions stated here he himself did not feel qualified to speak, and in view of the fact that we have this whole question of what is going to happen to labor during the war and the possibilities outlined in the question wherein a situation is being created where the rights of organizaton and the rates of rising wages are all involved to some extent, might I suggest to the Chairman that the questioning along this line be left to a later hearing, so that the proper officers might be present?

The CHAIRMAN. Very well. Colonel Harris, who would you suggest as being the highest and most responsible among those in the Army to discuss this question?

Lieutenant Colonel HARRIS. Would the discussion also bring in the selective service draft? It probably would, wouldn't it?

Senator CLARK. The fact that it is selective service is all I am concerned in. Colonel, it is a fact, is it not, that plans are already drawn by the War Department and legislation prepared for submission to Congress covering a selective service act generally along the same lines as in the last war?

Lieutenant Colonel HARRIS. There is a selective service act.

Senator CLARK. And it is also a fact that the legislation prepared, as pointed out by Mr. Raushenbush this morning, does, if certain eventualities develop, more or less mean the drafting of labor, does it not? If you have any hesitancy in replying there, the testimony in the record will stand for it.

Lieutenant Colonel HARRIS. I would rather rest on that.

Senator CLARK. What I am getting at is this: Whether or not the War Department plans at the present time contemplate the drafting of man power for use as soldiers and sailors as the case may be, and at the same time contemplate an ultimate drafting of labor and at the same time set up a system of adjusted compensation or cost plus, or whatever you please to call it, in regard to the employment of capital. As far as I am concerned, that is the point I am trying to get at.

Lieutenant Colonel HARRIS. I can answer that to the best of my knowledge the War Department is contemplating the draft of soldiers.

Senator CLARK. Yes, sir; and sailors.

Lieutenant Colonel HARRIS. And sailors.

Senator CLARK. Yes.

Lieutenant Colonel HARRIS. Military personnel. To the best of my knowledge and belief, the War Department is not planning the draft of labor.

Senator CLARK. I will say that some of the language in this legislation that has been prepared has been very unhappily phrased then.

The CHAIRMAN. Whatever the plan may be called, conscription of labor, or what, is quite aside from the question. Call it what we will, who are the highest officials in the Army who might be prepared to discuss this?

Lieutenant Colonel HARRIS. Mr. Chairman, if you will allow me, I would like to consult with the War Department, because right now I have not given it any thought. I would like to give you the best man I can.

The CHAIRMAN. Then you will indicate to the committee, after your consultation, whom we might expect the highest information from?

Lieutenant Colonel HARRIS. Yes; I will.

The CHAIRMAN. Thank you. Are you finished, Mr. Raushenbush?

Mr. RAUSHENBUSH. Yes.

The CHAIRMAN. Mr. Hiss.

PROBLEMS INVOLVED IN PRICE FIXING

Mr. HISS. Colonel, we were discussing before the recent inquiry as to labor, the general problem of fixing prices in time of war, and we had asked some questions on the point of whether the main duty of a price-fixing agency was with respect to limitation of profits or with respect to encouraging production in time of war.

I should like to read an excerpt from a meeting of the War Industries Board on March 4, 1918:

> The result of its—

Referring to the Board—

> action in fixing prices in any case should be considered in the light of the circumstances under which, and the purposes for which it acts—getting within the time required an adequate supply of war materials which the Government needs and the price question, though always important, is, after all, not the first consideration, and there should always be considered the fact, as illustrated by its action with respect to steel prices, that it uses a very broad judgment in a great emergency without regard to strictly Federal Trade Commission reports or other cost data.

One other point on the same line, a quotation from hearings of the War Policies Commission, at page 148, where Senator Robinson asked General Pierce:

> In your view, I assume, the prime necessity is the adequate supply?

To which General Pierce replied, "Yes."

Senator Robinson then said, "And prompt supply?"

The reply was, "There is no question about that."

> Were the prices you fixed made with regard to that consideration?

General Pierce answered, "Yes, sir; and the protection of the Government."

In a volume entitled, "Government Control Over Prices," written by a Mr. Garrett, who served with the Price Fixing Committee for a while, there is a statement at page 244 by Lieutenant Colonel Montgomery, who served with the Price Fixing Committee and who is a well-known accountant and expert in this field:

> The duty of stimulating production in one way or another was the policy always uppermost in the mind of the committee.

Do you feel, Colonel Harris, that in the event of another war that any different policy could be followed by a price-control committee?

Lieutenant Colonel HARRIS. If it relates to materials we have to have and cannot get, we have got to put the price high enough to draw out the required amount. I think that answers your question.

Senator CLARK. Colonel, how much further along are we from being able to insure supplies of essential commodities which you just mentioned without exorbitant profits than we were after the close of the war in 1918?

Lieutenant Colonel HARRIS. You mean after the close of the war, with reference to that?

Senator CLARK. After the close of the war in 1918, after 15 years' consideration of the subject, how much further are we along than we were in 1918 in our processes of keeping down exorbitant profits in the few essential things we have to have in war?

Lieutenant Colonel HARRIS. I think that we are considerably further along. I think the entire industrial planning activity will work toward the prevention of exorbitant prices. We know our requirements more clearly. Those requirements have been divided between districts. They have been matched against plants and the plants know what they are and, in our opinion, more than it was in the early part of the war or even at the last of the war in many cases. We know more about the material itself and about the costs.

This is a pertinent time to state that during the last war, as you know, Senator, we adapted much of the French matériel, for which the drawings even were written in French and had to be translated into English. That added immeasurably to the confusion of the war and to the delay in getting in production.

We have not got that phase again. We are better oriented.

To my mind, aside from the negotiations on what the capital is and what the estimate is and the percentage they are going to make, I think we have a better situation.

Senator CLARK. Colonel, this is not an argumentative suggestion at all, but we discussed the other day the matter of Army rifles, and you and I agreed, and I think every other man who has ever paid the slightest attention to the subject would agree, that the United States in the Springfield rifle has the best army rifle in the world. I think that is generally agreed throughout the world, as you said the other day. We agreed also that during the last war it was necessary for American troops to be armed with British Enfields.

Lieutenant Colonel HARRIS. With an American magazine, to use American ammunition.

Senator CLARK. Colonel, the particular outfit with which I happened to be connected in the World War had Springfield rifles first and they gave us British Enfields, and on the other end they took those from us and gave us another gun, so that we had three different weapons inside of 6 weeks. I think it is without dispute a fact that the American troops were for the most part armed with a far inferior infantry weapon than the weapon which had been developed in United States arsenals before the war. That is correct, is it not?

Lieutenant Colonel HARRIS. It was inferior to the Springfield. It was a good rifle; I think it was as good as anybody else had except the Springfield.

Senator CLARK. It was a fairly good rifle, Colonel; but in comparison with a Springfield it was a far inferior weapon, was it not?

Lieutenant Colonel HARRIS. It was not as good as the Springfield, and that is admitted.

Senator CLARK. The gist of the whole National Defense Act—I mean the most essential part of the National Defense Act, passed in 1920—was it?

Lieutenant Colonel HARRIS. 1920 was the amendment.

Senator CLARK. That which is now called the "National Defense Act", I mean.

Lieutenant Colonel HARRIS. Yes, sir.

Senator CLARK. The most essential part was the authorization of the Assistant Secretary of War to use public funds for purchasing jigs, dies, tools, and various things to make such situation as I have just described impossible in the next war. You said the other day—with which I entirely agree—that the fault is not in the War Department; that the War Department could only spend the money which Congress had appropriated, but your testimony was to the effect that Congress had only appropriated about $75,000 a year for a purpose which would necessarily require a much larger sum. So that from that very standpoint, on the preparation for war, we are practically no further advanced now than we were in 1918, are we, Colonel?

Lieutenant Colonel HARRIS. In that particular phase I think you are quite right.

Senator CLARK. Do you not think that is the most important phase of procurement?

Lieutenant Colonel HARRIS. One of the most important phases. I will say that we are better prepared than we were at the beginning of the war, because we saved from the war many gages, which have been carefully classified, carefully preserved, and are now available in storage to assist in the inauguration of another war.

Senator CLARK. I think that is a very important element. But is not one of the most economic things the United States could do the laying in of various dies and tools to enable the United States to enter production on the best weapon which the United States has knowledge of?

Lieutenant Colonel HARRIS. I entirely agree.

Senator CLARK. We have made no practical advance in that regard, and outside of an industrial census which I understand has been conducted by the War Department to enable the War Department to be familiar with the military capabilities and interchangeability of the plants in the United States, there has not been any substantial advance since the close of the last war in the matter of procurment at reasonable prices.

Lieutenant Colonel HARRIS. Yes, sir; I think there has been a marked advance. We have procurement plans for each of the major items, those plans covering the requirements, the plants we expect to make material and the specifications pertaining to that material, the estimated cost, and the raw-material situation has been carefully analyzed. The question of specifications has advanced far. And I think we have made marked advance.

Senator Clark. In other words, Colonel, what you are saying means that the War Department and the Navy Department procurement departments have a better idea of what they may need?

Lieutenant Colonel Harris. They have a better idea of what they may need and a better idea of where they are going to get it, a better standardization of specifications, a better knowledge of the raw materials required for the program, and a better understanding of how they are going to do it.

Senator Clark. But they are not at all advanced on the problem of coordinating the industry and man power and labor than they were at the close of the war in 1918, are they?

Lieutenant Colonel Harris. Again on that I may or may not agree to it, but I think we are. We have got a selective-service act which provides——

Senator Clark. That was at the close of the war. We had drafted 4,000,000 men by that time.

Lieutenant Colonel Harris. We have got it ready to submit again.

Senator Clark. I grant that, but I say that is no advantage over the close of the war, when you had a selective-service law. As I read this one, it does not differ in any particular from the law on the statute books at the end of 1918.

Lieutenant Colonel Harris. I thought you were introducing a question of drafting labor.

Senator Clark. I am trying to find out what change, if any, has been made as to the next war over the conditions that existed at the end of the last war.

Lieutenant Colonel Harris. I do not think there has been any material advance in that field.

Senator Clark. That is exactly what I was trying to find out.

Mr. Hiss. I would like to offer on the general point of some of the difficulties in fixing prices two excerpts, which I will not read in, but which I would like to have copied in the record, from meetings of the price-fixing committee with the representatives of the copper industry to determine what action was to be taken in regard to the price of copper, May 22, 1918. The first excerpt is a statement by Mr. Charles Hayden, then representing the Utah Copper Co.

(The excerpt referred to is as follows:)

> We have seen a plant being built at Hog Island at an estimated cost of $42,000,000, against a normal pre-war cost of $21,000,000. At first blush this seems extravagant, but a careful analysis shows that this excess cost of this yard, if it enables our country to get ships 6 months earlier, will, by that very fact, if it only shortens the war one-half of those 6 months or one-quarter of those 6 months, save many, many times its cost, as the daily expenses of the war are in excess of all the overcost of that one yard. The same applied to the situation in aircraft production. And now what are we confronted with in the copper industry?
>
> Our allies are crying for copper; representatives of foreign governments are telling me as an individual: "What do we care about a cent or so more in price? What we want is the stuff." And here we are sitting and theorizing as to whether or not the Federal Trade examination of costs, or a theoretical discussion of margins of profits, is meaning an undue profit to the copper industry, when there is already a shortage of over 100,000 tons of copper at the present time and when, in the interests of safety, there should be a surplus of at least that amount.

Mr. Hiss. And the second excerpt which I wish copied in the record is taken from the second meeting of the price-fixing committee with the copper representatives on May 22, 1918, being a statement by Mr. Joseph P. Cotton, representing the Consolidated Copper Mining Co., indicating that the prices fixed had been fixed in order to bring high-cost producers' products into the stream of supply for the Government without regard to the resulting profits for low-cost producers.

(The excerpt referred to is as follows:)

> You find the metal copper production in 1917 to be 1,888,000,000 pounds of copper. The same production in 1913 was 1,225,000,000 pounds of copper, showing an increase of 663,000,000 pounds of copper, an increase of 54 percent in the industry. Of that increase, 70 percent was produced by these large producers or low-cost producers and the other 30 percent was produced, if you please, by the companies of which I have just spoken—the smaller relatively high-cost producers. If you will analyze your figures carefully you will find that Mr. Ellis was right in his statement that these high-cost producers in the United States produced last year between 250,000,000 and 300,000,000 pounds of copper and their costs ran around 18 cents to 21 cents. That is the situation. Are they to be encouraged or are they to be cut off? Every man knows perfectly well that you cannot shut down a mine without great loss. You cannot open it up without great expense. It takes years and years to be established and to obtain an efficient organization. It takes time to do these things. Again, if you pull your pumps and let your underground mines fill up with water there is another expense. It seems to me that the Government ought to take these things into account. You don't want a shortage of copper. I cannot see for the life of me, when the statements were made here this forenoon, how these large producers are going to make up this difference. All of these companies didn't produce in 1917 as much as they did in 1916.

Mr. Hiss. Colonel, we have had some discussion at the close of the war in 1918 in regard to contracts, and the same problem comes up with respect to the fee on the question of amortization. I offer excerpts from a meeting of June 25, 1918, of the War Industries Board where consideration was given the placing of an order with the du Pont Co. for 30,000,000 pounds of lyconite. I offer that for appropriate number.

(The excerpt referred to was marked "Exhibit No. 1400" and is included in the appendix on p. 4445.)

Mr. Hiss. That reads in part as follows:

> The Board disapproves the placing of this contract so long as there is no provision made for a fair salvage value of the plant after the contract is completed; in other words, the Board is of the opinion that wherever the Government pays for a plant, all the salvage value of the same shall accrue to the Government after the contract or contracts are finished.

I also offer a memorandum from the du Pont Co. of a visit to Washington on August 30, 1917, during the war, referring to the conference that Colonel Buckner and Mr. Spruance apparently had with the War Industries Board with respect to increased orders which would necessitate building plants. I offer that for appropriate number.

(The memorandum referred to was marked "Exhibit No. 1401" and is included in the appendix on p. 4446.)

Mr. Hiss. That reads in part as follows:

> They—

apparently the War Industries Board—

> made a new statement in regard to this—that any plant which the Government amortized should belong to the Government after the war. This is a new phase in the question and one which it is going to be difficult to handle, but there seemed to be no argument to it.

In the contracts as drafted, is there any provision that amortization charged to the Government at cost is to be regarded as the Government really purchasing the plant?

Lieutenant BRANNON. Which form of contract do you have reference to, Mr. Hiss?

Mr. HISS. The adjusted compensation contract.

Lieutenant BRANNON. As I understand it, all the facilities which the Government pays for will be the property of the Government.

Mr. HISS. But does the amortization clause, to which we have referred previously, constitute a clause that was considered by the War Department as a purchase of the plant building?

Lieutenant BRANNON. I do not think there would be in that contract amortization, under that contract, Mr. Hiss. There will be a depreciation question, which we discussed this morning, and rehabilitation, but no amortization because the Government will own all the facilities which it pays for.

Mr. HISS. If the depreciation costs run long enough to constitute the entire life of the plant, who will be entitled to the salvage value of the plant?

Lieutenant BRANNON. It is hard to conceive of that situation, Mr. Hiss. As I said, the depreciation is on the plant that the contractor already owns, and it is assumed that the plant will depreciate during the life of the contract as near as it can be foreseen at the beginning.

Mr. HISS. Going from the question of contracts to the larger question of price fixing in general, if amortization is to be considered, as it was during the war, as an element of cost, on the basis of which such prices are to be fixed, is not the result of those prices that the Government, to a large extent, since it is a large purchaser, in any event, the general public—is it not the result that they become in effect purchasers of the plants, or they pay for the plants, for whatever they may be used, that are in the hands of the manufacturers at the end of the war?

Lieutenant BRANNON. Mr. Hiss, I do not think that that is covered in our discussion of price fixing, and I do not think that the War Department would care to make a statement on that. As I remember it, that question is not discussed.

Mr. HISS. I should like to refer to the question of price fixing again. I am quoting from page 796 of the War Policies Commission, from Mr. Baruch's statement:

> Those who suggest partial price fixing propose to create what amounts to an artificial price structure and * * * because they leave the generality of prices free, they will be obliged to adjust fixed prices so frequently—and always upward—that, at least in the usual circumstances of war, they would perhaps better leave the whole schedule free.

Because of Mr. Baruch's view in that regard, he, as I understand it, has proposed a price-freezing scheme. Is that correct, Lieutenant?

Lieutenant BRANNON. I understand it that way, Mr. Hiss.

Mr. HISS. I would like to bring out three or four points involved in the question of price freezing. If the War Department has considered those items, I would appreciate getting the War Department's opinion. If you do not feel qualified to discuss them, we will let it stand for the present in that way.

First, do you know as of what date price freezing would be considered? Would it be at the date of the declaration of war or would it be as of some prior date?

Lieutenant Brannon. Do you mean the date suggested by Mr. Baruch or the date which the War Department has in mind?

Mr. Hiss. My understanding of Colonel Harris' position on that is, that the War Department has not decided whether it will have partial price fixing or complete freezing of the price structure, but that that will have to be determined by conditions. So that my question is based on the supposition that the War Department decides, or whatever authority will have the decision at that time, in the event of war, that particular conditions then present require price freezing as opposed to a partial price control?

Lieutenant Colonel Harris. I do not think we are qualified to reply to your discussion on that plan.

Mr. Hiss. Is it not true that unless a period sufficiently far before the declaration of war is fixed, there will be inflation already since rumors of war generally precede war?

Lieutenant Colonel Harris. That might be.

Mr. Hiss. On the other hand, if, on a partially inflated price level, the Government decides to return to a previous price level, complications of forcing prices down throughout the country, including wages, would be an enormous one, would it not?

Lieutenant Colonel Harris. It would be great.

Mr. Hiss. The administrative task of determining whether every price and every wage on the schedule was being carried out is a difficult and enormous one, is it not?

Lieutenant Colonel Harris. That would add to the already great volume of work.

Mr. Hiss. We have requested such information as the National Industrial Recovery Administration has on the efficacy with which certain price-control measures adopted in some codes have been carried out. That has not yet been submitted.[1]

Furthermore, there is apparently provision for certain exceptions in the price-freezing scheme, in the event of costs that cannot be kept down, such as increased transportation due to the sudden shifting of need for ordinary transportation in the bringing of supplies to new supply depots and that sort of question.

As soon as exceptions are made in the general scheme, the problem reverts to the question of partial price fixing, and it is simply a question as to how many exceptions are made. Is not that true, Colonel Harris?

Lieutenant Colonel Harris. I think I do not feel qualified to follow the details of the plan, and you had so many thoughts in that particular question that I cannot quite follow you.

Senator Clark. It is perfectly obvious that if you are going to have a price-fixing scheme and provide in advance for exceptions, that the efficacy or the efficiency of the whole scheme will rest on the honesty and efficiency of the administration of the exceptions, is it not?

Lieutenant Colonel Harris. Yes, sir; I will agree to that heartily.

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[1] This information was later submitted to the committee and appears near the end of the memorandum on "Price Control as a Means of Eliminating War Profits", which was entered into the record as "Exhibit No. 1406." See text, p. 4334, appendix, p. 4457.

Mr. Hiss. Colonel, you will remember that Mr. du Pont pointed out that the prices of raw materials, particularly farm products, play an important part in the question of costs.

Lieutenant Colonel Harris. Cotton, particularly, and alcohol.

Mr. Hiss. In the entire price structure, considering not only arms and ammunition but the entire price structure, obviously farm products, the price of farm products, is an important item in that consideration?

Lieutenant Colonel Harris. That is true.

Mr. Hiss. That means, therefore, that the prices to farmers throughout the country would also have to be frozen?

Lieutenant Colonel Harris. Under a freezing system. I do not know what system you are talking about.

Mr. Hiss. I am limiting these questions to a freezing system. Assuming that the conditions on the outbreak of war were considered by those in authority to require price freezing, I am trying to develop how certain problems arising under price freezing would be taken care of.

Lieutenant Colonel Harris. If there were a general price-freezing program, it would cover everything.

Senator Clark. The only effect is the extent to which it does cover everything, is it not?

Lieutenant Colonel Harris. Yes, sir.

Senator Clark. If you once start in on a system of exemptions and differentiations, you are breaking down the whole system right at the start, are you not?

Lieutenant Colonel Harris. The more exemptions you make, the more you weaken it.

Mr. Hiss. You will remember during the war, in order to increase the production of wheat a price of $2 and later $2.12 was fixed on wheat, Colonel Harris.

Lieutenant Colonel Harris. Yes, sir.

Mr. Hiss. And that normal expansion was increased by that.

Lieutenant Colonel Harris. I have received that impression from reading the papers.

Mr. Hiss. Without increasing the price of farm products do you think it would be possible to get increased production of any particular lines you wanted?

Lieutenant Colonel Harris. I think that that falls exactly in the "bulk line" you were speaking of before. If you require more farm products, you must pay a higher price to get farm products from marginal land, and would have to bring in high-cost producers.

Mr. Hiss. That would be a big exception to the general freezing scheme, would it not?

Lieutenant Colonel Harris. I think any freezing scheme has got to take into consideration the two points of view which we have been discussing: The fact that where you have to have a thing, as you very well illustrated the fact, that some will cost more than others.

Mr. Hiss. You are familiar with the fact that farm products and general prices in certain lines frequently run along a curve of production with peaks and troughs and varying production curves and price curves?

Lieutenant Colonel Harris. I do not feel qualified to answer on the price-freezing problems.

Mr. Hiss. I just wanted to call your attention to the fact, that whatever period is chosen may be an arbitrary period, indeed it is bound to be an arbitrary period, and may be very unfair for certain industries that happen to be in a depression or trough phase of their production cycle. Also, suppose that we had gone into a war a year or so ago and had had to freeze farm products at the extremely low levels that were then existing, it would have meant an extreme hardship on the farmers, would it not?

Lieutenant Colonel Harris. As I recall it—I do not know anything about it—but was it not a ceiling rather than a fixed price?

Mr. Hiss. On Mr. Baruch's statement?

Lieutenant Colonel Harris. I do not know whether it was Mr. Baruch's statement or not, but I have in mind a ceiling on prices.

Mr. Hiss. I understand the freezing of prices means a return to some level considered a normal level, without inflation due to war.

Lieutenant Colonel Harris. I think I will have to repeat, Mr. Hiss, I am not qualified to discuss the price-freezing arrangement, and isolated questions might get a proper answer, and otherwise might not. I do not know enough to discuss that.

Mr. Hiss. I would like to bring out one more point before we close this line of inquiry. When 2 million or 4 million men, or however many may be called for a war, are drafted, that means a decrease in skilled labor available for industrial processes, does it not?

Lieutenant Colonel Harris. If the skilled labor is drafted.

Mr. Hiss. Is it not likely that if 4,000,000 men are drafted, a great many of them will be skilled labor?

Lieutenant Colonel Harris. The draft will cover originally skilled labor. Whether they will be deferred or not is a question for local boards to determine under the Selective Service Act, as I understand it.

Mr. Hiss. Returning to the specific question, if 4,000,000 men had to be drafted, do you not think it likely that a considerable number of those four million would be reasonably skilled labor?

Lieutenant Colonel Harris. I think quite likely.

Mr. Hiss. Their places will have to be taken by less skilled labor. Furthermore, increased production will probably require overtime. So that the less skilled labor and labor working overtime will probably be less efficient than the labor during the period chosen for the frozen system. That means an increased cost that would not be compensated for, which might require further exception.

Furthermore, many of the factories would be converted into making new items, with which they are not familiar, and that will, in addition, increase costs.

PROBLEMS OF REDUCTION OF EXCESSIVE PROFITS BY TAXATION

Mr. Hiss. I would like to take up one more subject, Colonel Harris. You have referred from time to time to the use of excess-profits taxes in order to reduce excessive profits in time of war. That is part of the mobilization plan, is it not?

Lieutenant Colonel Harris. Yes, sir.

Mr. Hiss. Are you familiar with some of the difficulties experienced during the war in the assessment and collection of excess-profits taxes?

Lieutenant Colonel Harris. I am not.

Mr. Hiss. I call your attention to the following in a report of the United States Joint Committee on Internal Revenue Taxation, volume 3, November 15, 1927, page 41, which shows that in 1927, 9 years after the termination of the war and 6 years after the repeal of the excess-profits tax, there were still approximately 4,000 cases pending, although the Bureau had the power of compromise.

I call your attention further to a statement of Mr. P. S. Adams, of Yale University, who was formerly chairman of the advisory tax board of the Bureau of Internal Revenue. This statement is from the thirty-fifth Quarterly Journal of Economics, pages 371 and 372:

> The intricacy of the excess-profits tax is such that it is hardly an exaggeration to say that it takes more time to teach an accountant to master its mysteries than the average accountant can be retained in the service after he has attained such mastery.

Mr. Ballantine, former Assistant Secretary of the Treasury, testified before the War Policies Commission, according to a summary of his testimony appearing in a volume entitled "Documents by the War Policies Commission", being House Document No. 271, at page 21:

> The determination of what constituted invested capital was an insoluble problem during the continuance of the tax and is still unsolved. Some of the fundamental principles of invested capital are now in the courts and will be there for years to come.

He said that some of the provisions of the law were so highly complicated that they could not even be litigated because they could not be reduced to logical arguments pro and con.

In order to make exceptions for those industries or those companies who simply could not compute their invested capital, a special assessment provision was contained in the law permitting an administrative determination of the assessment not directly under the statute.

I would like to have marked as an exhibit a chart contained at page 221 of Senate Report No. 27, Sixty-ninth Congress, first session, which shows that under that system $39,000,000 less than the taxes that would have otherwise been collected were in essence refunded by virtue of such procedure.

(The chart referred to was marked "Exhibit No. 1402" and is included in the appendix on p. 4447.)

Mr. Hiss. There has been some suggestion that instead of the invested-capital base, which has been referred to in these excerpts as so difficult to determine, that instead there be a tax on the excess earnings over the earnings of some base period.

I would like to read into the record a statement of Mr. Colver, the Chairman of the Federal Trade Commission, who stated:

> As a group men are patriotic; as individuals they will pay as small a tax as can be calculated and will secure as high prices and as great profits as can be extracted.

So that under any system of taxation there will always be the difficulty of collecting it under a law which must be very complicated in order to cover the entire tax field.

That is correct, is it not, Colonel?

Lieutenant Colonel Harris. That is correct in war and peace, both.

Mr. Hiss. In time of war the income from taxes is doubly important because of the demand upon the Public Treasury, is it not?

Lieutenant Colonel Harris. And it is also important in time of peace to give national income.

Mr. Hiss. I would like to offer for the record a copy of a notice of protest filed by the du Pont Co., dated February 27, 1917.

(The document referred to was marked "Exhibit No. 1403" and is included in the appendix on p. 4448.)

Mr. Hiss. This was a protest against the very light 2 percent tax in effect with respect to the taxable year 1916. The du Pont Co. claim is that that tax should not be applied to profits which would be derived from shipment of articles exported to foreign countries, on the ground that that would violate the article of the Constitution which prohibits a tax or duty on articles exported from any State.

It was shown in evidence yesterday that the du Pont foreign customers, five of them, were among those nations which received the largest war loans from the United States.[1]

I should like to offer for the record a summary of expenditures prepared by the Treasury, by classes, reported by foreign governments, which expenditures are specified as made in the United States between April 6, 1917, and November 1, 1920.

(The tabulation referred to was marked "Exhibit No. 1404" and is included in the appendix on p. 4448.)

Mr. Hiss. They show that munitions expenditures out of these loans totaled $2,493,000,000.

In connection with the proposal of a tax based upon a percentage of earnings over earnings made during the base period, would it not be necessary to make some exceptions for new capitalization, in your opinion, Colonel Harris? If new capital is to be encouraged to expand production in time of war, earnings out of that capital must be permitted in addition to the normal earnings received from capital which the company had already invested? Is not that correct?

Lieutenant Colonel Harris. Would you mind repeating that again?

Mr. Hiss. I am now directing myself to the proposal which has been made that instead of a complicated excess-profits tax based upon a percentage of return on invested capital, there should be a tax based upon a high percentage of all earnings over an amount equal to the average earnings during some base period prior to the war. I am asking you in respect of that principle if it will not be necessary to make an exception for earnings derived from new capital, newly invested capital; that is, capital invested in time of war in expanding plant.

Lieutenant Colonel Harris. I am not an expert on financial matters. If I could have your question in front of me so I could read it over and study it, I could answer it, but I do not feel that I should answer it.

Mr. Hiss. May I state it another way, and try once more?

In time of war there will be certain industries which the Government will wish to encourage to expand production. Is that correct?

Lieutenant Colonel Harris. That is correct.

Mr. Hiss. That expanded production may very likely involve expanded plant and capital investment.

Lieutenant Colonel Harris. Yes.

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[1] Exhibits Nos. 1390 to 1394", inclusive, see text, p. 4262.

Mr. HISS. If a tax were to be so phrased as to prevent any increase above peace time earnings any company which increased its capital by expanding plant in time of war would get no return on that increased capital, would it?

Lieutenant Colonel HARRIS. I agree.

Mr. HISS. Would not an exception have to be made to permit some return on that capital, in order to carry out the policy of expanding production?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. Once that exception is made, you are immediately back into all the difficulties of determining invested capital, which we have been discussing, at least, as to that particular expansion. Is not that correct?

Lieutenant Colonel HARRIS. I accept it.

Mr. HISS. One final point on that:

Any corporation which was formed in time of war and which had no past earnings to which you could refer as a base, would also have to be an exception or otherwise it would not be permitted to make any earnings. That is correct, too, is it not?

Lieutenant Colonel HARRIS. Yes.

Mr. HISS. Therefore there would be the danger of companies forming new corporations and transferring their assets in order to evade the tax based on average earnings?

Lieutenant Colonel HARRIS. You answer these questions for me.

Lieutenant BRANNON. The law might not be phrased in such a way as to take care of a case of that kind. I think clearly that as to new capital there would have to be some exception made.

Mr. HISS. The device of new incorporation would raise doubtful questions of interpretation?

Lieutenant BRANNON. Oh, yes; it would be difficult, but I think a law might be framed to take care of certain more flagrant cases of that kind.

Mr. HISS. I should also like to offer one more exhibit. This is a chart from the same report of the investigation of the Bureau of Internal Revenue, being report No. 27. This is a chart appearing at pages 176 and 177, summarizing amortization allowances under that provision of the tax statutes for 1918 to 1924 which allows deductions from income for amortization of war-time plants.

In that list it appears that the du Pont Co. received a final allowance for amortization of war-time plants to be deducted from income in years between 1918 and 1924 of $15,369,000, although it has already been testified that the du Pont Co. amortized its plants currently out of increased sales prices.

(The chart referred to was marked "Exhibit No. 1405" and is included in the appendix on p. 4449.)

Mr. HISS. One final point: Colonel Harris, do you know whether or not it is customary for industrial concerns to attempt to pass on to their purchasers a tax as an item of cost?

Lieutenant Colonel HARRIS. I think that is correct.

Mr. HISS. I would like to quote a statement of Mr. Colver's:

> I dissent wholly and entirely from the theory that excess-profits taxes justify unreasonable price structures and purge unreasonable profits. Not a penny of excess-profits tax has been or will be paid to the Government that has not first been collected with many other pennies from the people of the country,

either as consumers or as taxpayers. Since the Government is by far the largest of all buyers at fixed prices—

referring to the war time—

it seems to be absurd to take an excess dollar out of the Treasury in order to get 34 cents of it back in by way of excess-profits taxes. In the main, it is not industry which ultimately pays excess-profits taxes but the consumer.

Lieutenant Colonel **Harris**. Mr. Hiss, you have convinced me we should never go to war. It is too much trouble.

Mr. **Hiss**. I would like to mark as exhibits memoranda on the general subject of price control and excess profits.

(The memoranda referred to were marked "Exhibits Nos. 1406 and 1406–A", respectively, and are included in the appendix on pp. 4457 and 4473.)

Mr. **Wohlforth**. I have just one point to clear up for the record, Mr. Chairman. Page 21 of the annual report of E. I. du Pont de Nemours & Co. for the year 1932, in part, reads as follows:

Your company—

that is, the du Pont Co.—

acquired through a New York banking house 300,000 shares of that stock—

meaning General Motors Corporation common stock—

at a price which at the time was less than the price at which it was selling on the New York Stock Exchange.

We have secured some information about that transaction. To clear up the record, I want to offer a telegram to Mr. W. S. Carpenter, Jr., of the du Pont Co., who is chairman of the finance committee, requesting such information on that transaction. I will offer that for appropriate number.

(The telegram referred to was marked "Exhibit No. 1407", and is included in the appendix on p. 4488.)

On further request we received a telegram from Mr. W. S. Carpenter, Jr., of the du Pont Co., addressed to Mr. Hiss, which reads as follows:

Reference your wire December 15. Shares were purchased October 29, at $24 per share, through J. P. Morgan & Co.

I will offer that for appropriate number.

(The telegram referred to was marked "Exhibit No. 1408", and is included in the appendix on p. 4488.)

Mr. **Wohlforth**. According to the Securities Exchange Commission, from data compiled from the Wall Street Journal and the New York Times, the price of General Motors common on October 29, 1931, was as follows:

High, 25¼; low, 24⅝; last, 25¼.

Also for the record it should be noted that two members of the firm of J. P. Morgan & Co.—Junius Spencer Morgan, Jr., and George Whitney—in 1931 were also directors of General Motors Corporation. I think the directorships and relationships between General Motors and the du Pont Co. have already been placed in the record.

I also wish at this time to submit some data for appropriate number from the Colt's Patent Fire Arms Manufacturing Co., Hartford, Conn. The first document is titled "All Stockholders on Stock List, Dated September 8, 1934, Owning Over 1 Percent of Our Capital Stock."

(The memorandum referred to was marked "Exhibit No. 1409", and is being kept in the committee files until the Colt officials will be recalled, at which time it will appear in the appendix to that part of the hearings in which the Colt testimony appears.)

Mr. Wohlforth. The next item is the stockholdings of the officers and directors of Colt's Patent Fire Arms Manufacturing Co., in the form of letters in reply to a general request of this committee.

I will offer that for appropriate number, and suggest that the letters attached be numbered (a), (b), (c), (d), and so forth.

(The documents referred to were marked "Exhibits No. 1410–A to 1410–J", both inclusive, and are being kept in the committee files until the Colt officials will be recalled, at which time they will appear in the appendix to that part of the hearings in which the Colt testimony appears.)

Mr. Wohlforth. I also offer for the record at this time political campaign contributions and outside stockholdings of the officers and directors of the Colt's Patent Fire Arms Co. for appropriate number. They are also in the same form letters in reply to a general request. I suggest that they be given a number and (a), (b), (c), (d), and so forth.

(The letters referred to were marked "Exhibits Nos. 1411–A to 1411–L", inclusive, and are being kept in the committee files until the Colt officials will be recalled, at which time they will appear in the appendix to that part of the hearings in which the Colt testimony appears.)

Mr. Wohlforth. That is all I have, Mr. Chairman.

OFFICIAL STATEMENT OF WAR DEPARTMENT AS TO PRODUCTION OF MUNITIONS

The Chairman. Colonel, you had requested what would approximate a half hour in which to present a thought which you had on a given subject. Do you wish to do that at this time?

Lieutenant Colonel Harris. I would like to, sir.

The Chairman. Do you wish to offer anything you have prepared for the record, or do you prefer to speak to the committee on that subject.

Lieutenant Colonel Harris. I prefer to speak to the committee, if I may.

The Chairman. Very well, then, Colonel. Now is the time to proceed.

Lieutenant Colonel Harris. Mr. Chairman, I very much appreciate the courtesy you have extended to me in permitting me to present the official and approved views of the War Department on the subject of the production of munitions. I should like to read a small portion of this, and ask Lieutenant Brannon to read the remainder.

The War Department is convinced that in the event of war, American industry must produce the major portion of the required munitions. Assuming this premise, it follows that so far as practicable industry should be prepared to perform its war mission. Therefore, the War Department has consistently favored the participation of American industry in munitions manufacture and has encouraged the production of munitions not only for the United States Government but also for export where such export is not contrary to the policies of the State Department and does not divulge vital military secrets of design. This policy has been followed because it is believed that an organization or an industry that has produced munitions in peace will be better qualified thereafter to produce munitions in war.

The War Department does not oppose in any way the licensing of American industry in the manufacture of munitions, as it does not believe that control by licensing will in any way impair the efficiency of American industry for munitions manufacture in war.

The War Department does not favor the nationalization of munitions manufacture, that is, the full manufacture in Government establishments. Such a policy would fail in war and, therefore, does not appear logical in peace.

The War Department's policy in this matter agrees completely with the British policy regarding the same matter, as set forth by Sir John Simon in a statement before the British Parliament as follows [reading]:

> Our system for the supply of munitions of war to the Government combines a nucleus of state production with production by armament firms and private shipyards. A nucleus of state factories is useful not only for the weapons that they themselves produce, but as a check on the prices and qualities of those produced by private companies. The private armament firm has its skilled staff, its organization, its machinery—some of it extremely heavy and important. The armaments side of its business could not be maintained without foreign orders. If we are plunged into war, these armament firms and private shipyards are able to switch over rapidly from their level of peace production to their maximum of war production.

A statement outlining the considered thought of the War Department in connection with the production of munitions has been prepared and, with the permission of the committee, will now be read.

Lieutenant BRANNON. The production of munitions [reading]:

A. REQUIREMENTS

1. QUALITY

In time of peace the War Department spends approximately $100,000,000 annually for supplies and equipment. The present strength of the Regular Army and the National Guard is, roughly 300,000 men. During the first year of a major war we may expect this force to be expanded to at least 3,000,000 men, or 10 times the strength of the peace establishment. The requirements for food, clothing, medical supplies, and personal equipment would be increased more than twentyfold, since ordinarily less than half of the troops are on active duty. It would be necessary to obtain within a short period of time an initial supply of equipment equal to 10 times that in use by the Regular Army and National Guard. Maintenance allowances would be more than 10 times the normal, since the wear and tear in war is much greater than in peace. During the World War each machine gun in active service fired 47 times more rounds and each 3-inch field gun 180 times more rounds of ammunition than the peace-time allowance for the same period. Thus, based on World War experience, if the number of guns is increased tenfold, the expenditure of machine-gun ammunition will be increased 47,000 percent and artillery ammunition 180,000 percent. These figures give some idea of the quantity of munitions required in war.

2. COMPLEXITY

Most items of munitions are highly complex and present serious difficulties in production. Field guns are made from the finest steel. Both guns and recoil mechanisms are machine finished with a nicety unusual in commercial practice. Fire-control instruments require a high degree of precision. Motorization necessitates development of prime movers and the adapting of gun carriages, limbers, and caissons to high-speed conveyance. The manufacture of artillery ammunition presents several difficult problems. Shell casings are carefully forged and machined. The fuze for a shell is as delicate as a watch. Complete interchangeability of parts is required. Cannon powder must be as nearly uniform as it is humanly possible to make it, since even relatively slight variations in quality will cause serious variations in range. Loading shells is an especially hazardous process, due to the danger of explosion. Mechanization is opening up a comparatively new field, where the production of such engines of war as tanks and armored cars is rapidly becoming more important. The bitter experience of the United States in the World War illustrates the diffculties of producing military airplanes in quantities.

3. TIME

Not only are complex items of munitions required in enormous quantities in war, but these munitions must be available at the time and place they are needed by the troops. Time is one element in war that cannot be purchased at any price. Due to its fortunate geographical position, this country has been able to maintain a relatively lower degree of preparedness for war than most other nations. This applies both to raising troops and supplying them with munitions.

The speed with which effective mobilization can be carried out is dependent upon three factors:

(*a*) The rapidity with which personnel can be procured.

(*b*) The length of time required to organize units and train them for combat.

(*c*) The rate at which munitions can be manufactured and supplied.

For purposes of planning the rate at which men can be procured is made the standard, and every effort is bent toward increasing the speed of the other two factors.

B. Productive Facilities in the United States

1. GOVERNMENT ARSENALS

At present the Government has 6 manufacturing arsenals for the production of ordnance supplies and 1 for gas defense equipment. There are no Government facilities for making airplanes or communications equipment. Edgewood Arsenal, which is operated by the Chemical Warfare Service, manufactures all gas masks used by the Army, Navy, and Marine Corps. The six ordnance arsenals manufacture all artillery, artillery and small-arms ammunition, rifles, and pilot models of tanks and armored cars. After models have been adopted, quantity production may be secured through competitive bids or undertaken at the arsenals, depending upon comparative costs and availability of facilities. The patented Browning automatic rifles and machine guns are purchased commercially. The arsenals produce about 85 percent of the powder used by the Army. Only special powders for particular purposes are procured from private sources. At present the arsenals are producing some explosives but there are no facilities for manufacturing TNT, lead azide, and mercury fulminate.

From the foregoing, it is apparent that with some expansion the arsenals could meet all peace-time requirements except for aircraft and communications equipment. However, the maximum capacity of the arsenals is only a small part of the war requirements. Present war plans contemplate the maximum utilization of existing Government plants with such additions as are necessary to round out production. It is expected that such Government plants will be able to produce approximately the following percentages of the estimated war requirements of 12 vital items.

Item 1, 0 percent; item 2, less than 1 percent; item 3, 0 percent; item 4, 0 percent; item 5, 23 percent; item 6, 25 percent; item 7, 0 percent; item 8, 0 percent; item 9, 35 percent; item 10, 23 percent; item 11, less than 1 percent; item 12, 0 percent.

2. THE PRIVATE MUNITIONS INDUSTRY

For present purposes manufacturers of the following products may be classed as the essence of the munitions industry of the United States:

(*a*) Powder and explosives.

(*b*) Small arms and small-arms ammunition.

(*c*) Airplanes.

There are no facilities equipped for quantity production of artillery or artillery ammunition. Neither naval construction plants nor mere dealers are considered.

Generally speaking, the above plants manufacture both commercial and military items. The speed with which they can get into quantity production of particular items immediately following a declaration of war will depend upon the extent to which they have been manufacturing the same or similar items in peace. No private enterprise can be expected to maintain a plant in a stand-by condition merely because such plant may be needed by the Government in war. Military equipment is sold only to governments. Therefore, the business of manufacturing such equipment in this country can be kept alive only through orders from the United States Government or the development of an export business.

The status of each branch of the industry will be briefly considered.

(*a*) *Powder and explosives.*—Several kinds of explosives are used in war. To a very limited extent one kind may be substituted for another depending upon availability. Two kinds of powder are required—namely, small-arms powder and cannon powder. Almost every size of cannon takes a different size of powder. No substitution is practicable as even a slight change in the powder will seriously affect the range of a gun. Considerable quantities of certain types of powder and explosives are sold commercially in the United States every year. However, the total production is only a small part of the amount that will be required in war. Moreover, some of the most important military types are not used to an appreciable extent for commercial purposes. This is especially true of cannon powder. Hence, the productive capacity of existing plants will have to be expanded to the utmost. Manifestly this expansion will be facilitated if the concerns involved have peace time experience in the production of the particular types of powder and explosives they will be called upon to furnish in war.

(*b*) *Small arms and small arms ammunition.*—Between August 1914 and April 1917 the small arms industry in the United States built up a large manufacturing capacity under the stimulus of orders from the Allies. As a result, after this country entered the war, requirements in small arms and small-arms ammunition were more satisfactorily met than in almost any type of military supplies and equipment.

Generally speaking, the same firms are in business today, but are not engaged to any considerable extent in the production of military items. As has already been pointed out, the United States Government is not purchasing any standard small-arms ammunition at the present time, and only a few small arms, such as the patented Browning machine guns and automatic rifles. Except for a limited export business, these firms are engaged mostly in the manufacture of such commercial items as sporting arms and ammunition, washing machines, refrigerators, cutlery, etc. In the event of war, manufacturing experience in the production of sporting types of arms and ammunition will be valuable.

However, there will be a serious initial delay due to the necessity of installing new machinery and machine tools. While concerns cannot be expected to maintain their respective facilities in a constant state of readiness for maximum production, a small flow of Government orders would enable them to start production immediately after M-day. At present, Frankford Arsenal is the only plant in readiness to produce small-arms ammunition during the first 2 or 3 months of a war. It is apparent that either the existing Government facilities should be expanded or commercial sources should be developed.

(*c*) *Airplanes.*—The World War experience of the United States demonstrated the need for a healthy aviation industry. Since the war, that industry has developed to a point where it will compare favorably with the aviation industry of any foreign country. The development has been facilitated by civilian and Government orders and exports. Procurement plans indicate that in case of war, military airplanes would be produced rapidly and efficiently. The present rapid development of aviation with frequent changes in types and designs militates against any change to Government factories.

3. OTHER INDUSTRIAL FACILITIES

The total combined output of the existing Government arsenals and the so-called "munitions industry" will be inadequate to meet the munitions requirements of a major war. Under present conditions, a large number of facilities engaged in the manufacture of strictly commercial items would be called upon to produce munitions. The extent to which existing facilities are adapted to the particular task will vary in each case. In practically all instances new machine tools will be required, and in most, some new machinery will be necessary. Many facilities will have to be converted, and a few entirely new plants will have to be erected. The shortage of properly equipped facilities presented one of the chief reasons why anticipated production of many important items will not meet requirements in the early months of a war.

We may reasonably expect that in the event of war private plants would have fairly complete complements of personnel. One serious element of delay will be the unfamiliarity of the working forces with the manufacturing technique of noncommercial items. This will be overcome somewhat by assigning to each facility an item or items as nearly as possible like its peace-time products. It may be stated as axiomatic that an existing highly skilled organization can be instructed in a new manufacturing technique much more quickly than a new organization can be gotten together and trained.

4. PLANS FOR THE MOBILIZATION OF INDUSTRY

Under the mandate of Congress expressed in section 5a of the act approved June 4, 1920, the War Department, in cooperation with the Navy Department, has striven to improve the state of industrial preparedness of the United States. Generally speaking, this effort has taken the form of detailed plans for war procurement and for the mobilization of industry. In order to prevent confusion and delay in placing orders and to acquaint industry with what it will be called upon to do in war, tentative tasks have been assigned to particular facilities. In selecting plants for allocation, every effort has been made to secure the maximum utilization of existing facilities and manufacturing experience.

It must be recognized that while adequate plans will save valuable time, they will not alone assure immediate production of many important items. A factory can start producing at once only if the necessary machinery and machine tools are installed and the personnel is familiar with the manufacturing technique. This condition will exist only where the factory has had actual orders in peace time. Munitions in the narrow sense are sold only to governments. Hence for American plants, orders will come only from the United States Government or from export trade.

Government orders are of two classes, viz, competitive and educational. Competitive orders are placed after advertising in the same manner that other Government purchases are made. It is estimated that in the normal case a firm which receives an order will be in a position for several years to start work immediately on a new order. However, competitive orders do not always reach the firms that would be most valuable in war.

Educational orders are placed after negotiation with selected firms. Their purpose is to acquaint the firm with the work it will be called upon to do in war. In order to produce the material, machinery is installed, and factory operatives receive valuable experience. Educational orders are not necessary for all classes of munitions, but are highly desirable for items such as small-arms ammunition, which will be required in enormous quantities immediately after war is declared. At present such orders are not authorized by law.

The development of an export trade in munitions tends to keep available a certain productive capacity. The more closely exported items resemble standard United States Government items the more valuable will this capacity prove. It is for this reason that the War Department has not opposed the sale of standard items to foreign governments except where military secrets are involved.

The CHAIRMAN. Colonel Harris, would you mind being interrupted at this point?

Lieutenant Colonel HARRIS. Not the slightest.

The CHAIRMAN. As respects the ground which has just been gone over, showing the plan which has private industry in mind to be the recipient of these large orders in time of war, do we not really have a situation which has about 12,000 industrials with their tongues hanging out, so to speak, waiting for war to come?

Lieutenant Colonel HARRIS. The whole industrial structure of this country is now looking for business. In times of prosperity they are not interested in Government orders, generally speaking, except a certain limited field. Right now, if we are going to buy anything, they just run over us trying to get the order. If one firm does not get the order, they try to find some reason to go and protest to somebody to keep the other fellow from getting it. So there is a great desire at the present time to receive Government business.

The CHAIRMAN. That is not just the point I was trying to make.

Lieutenant Colonel HARRIS. I am afraid I did not understand it.

The CHAIRMAN. Is there not naturally an anticipation for the orders that would exist with a declaration of war?

Lieutenant Colonel HARRIS. If you mean that they would like to have war to get the business, I do not think they would.

The CHAIRMAN. The more severe the depression, the more keen the desire for war?

Lieutenant Colonel HARRIS. The more keen the desire for business.

The CHAIRMAN. You do not think that that is the effect?

Lieutenant Colonel HARRIS. I do not think that American industry wants us to go to war. I have a high regard for American industry, and I do not believe they want us to go to war. I do not believe these munitions firms want us to go to war.

The CHAIRMAN. Colonel, perhaps it is wrong to ask you, but there is a decided tendency here and there—you encounter it, we all encounter it—people declaring that maybe what we need to get back on our feet in an economic way is another little war. Do you suppose there is any central spot responsible for that talk?

Lieutenant Colonel HARRIS. I do not know, sir. It is certainly a wrong doctrine. Wars put us where we are today, in my opinion.

The CHAIRMAN. Exactly.

Lieutenant BRANNON (reading):

GOVERNMENT CONTROL AND OPERATION OF THE MUNITIONS INDUSTRY

1. GOVERNMENT CONTROL

It does not appear that Government control of the munitions industry would adversely affect the state of industrial preparedness of the country. For instance, the licensing of manufacture or export should not reduce productive capacity.

2. GOVERNMENT MONOPOLY IN PEACE

The construction and operation of factories for the manufacture of military aircraft would present a difficult problem. However, with a comparatively small increase in existing plants, Government arsenals could produce all other munitions required in peace. Even with such increase, the Government plants would be able to meet only a small part of the initial war load. A policy of exclusive Government manufacture would tend to deprive the country of commercial sources of supply. The curtailing of orders with industrial plants will greatly increase the importance of procurement planning.

If, for reasons of policy, a decision is reached to manufacture all peacetime requirements in Government plants, action along the following lines should be taken to offset to some extent the additional time that will be required to secure production from industry:

(a) Increase the war reserves of items that do not deteriorate and are not likely to become obsolete.

(b) Increase the manufacturing capacity of the arsenals, especially for the production of all types of ammunition. Moreover, all facilities should be kept in readiness to go into production. By utilizing regular personnel in key positions such an increase can be accomplished in a reasonable space of time. Any new construction should be located with due regard to security from hostile attack, distribution of products to any part of the country, raw materials, power, fuel, and labor. The expansion program for artillery ammunition should contemplate the utilizing of private industry for those operations that may be performed with standard machinery and little added training.

(c) Increase the present war procurement planning activities especially with regard to the preparation of factory plans, descriptions of manufacture, and the furnishing of technical information to allocated facilities.

3. GOVERNMENT MONOPOLY IN WAR

(*a*) *Initial cost of necessary manufacturing plants.*—Senate Document No. 664, Sixty-fourth Congress, second session, contains the report of a board appointed pursuant to section 121 of the act of Congress approved June 3, 1916, to investigate and report upon the feasibility, desirability, and practicability of the Government manufacturing arms, munitions, and equipment.

Let me say that is the report of the Kernan Board, that was referred to by Mr. Hiss.

On page 29 of that report is set out an estimate of the Chief of Ordnance as to the cost of additional facilities necessary to equip and supply forces of 2,000,000 and 4,000,000 men, respectively. The figures were:

(a) Cost of plants (additional to existing plants) required to run 1,000,000 men through first year of war, equip a second million men and run them through as much of that year's war as they will get into, and supply the necessary seacoast matériel (one-shift basis):

For seacoast matériel	$83, 000, 000
For mobile artillery matériel	246, 000, 000
For machine guns	15, 000, 000
For small arms, small-arms ammunition, and infantry and cavalry equipments	152, 000, 000
Total	496, 000, 000

(b) Cost of plants (additional to existing plants) required to run 1,000,000 men through first year of war, equip 3,000,000 more men and run them through as much of the first year of war as they could get into, and supply the necessary seacoast matériel (one-shift basis):

For seacoast matériel	$83, 000, 000
For mobile artillery matériel	608, 000, 000
For machine guns	56, 000, 000
For small arms, small-arms ammunition, and infantry and cavalry equipments	180, 000, 000
Total	927, 000, 000

The plants estimated for under (a) and (b) would be capable of fully maintaining and supplying during the second and any succeeding year of war the forces named.

The above estimate has not been revised to date, but it is believed reasonable to assume that the present cost would be greater. No allowance was made for the manufacture of tanks, armored cars, airplanes, and gas-defense equipment. All told, the initial cost of a complete system of Government manufacturing plants capable of equipping and supplying a force of 4,000,000 men would be not less than $1,000,000,000.

(*b*) *Upkeep.*—To the initial cost must be added the cost of upkeep. Plants start to depreciate as soon as they are built. New machinery and machine tools are necessary by improvement in types of military equipment. It is believed safe to assume that the annual charge necessary to cover upkeep, depreciation, and additions would be not less than 5 percent, or for a billion-dollar plant, $50,000,000. If to this be added 3 percent to cover interest on the original investment, it is apparent that the sum of $80,000,000 would be added to the annual cost of national defense.

The CHAIRMAN. Just at that point let me interrupt you.

This obviously is the result of a study that was made to ascertain what it would cost the Government to provide its own machinery of national defense in time of war. Has there been any like study concerning the outlay that would be required to maintain or to produce America's peace-time national defense requirements?

Lieutenant Colonel HARRIS. I do not think such a study has been made covering the aircraft and tank elements.

The CHAIRMAN. What are the other elements?

Lieutenant Colonel HARRIS. The elements as far as artillery and ordnance items are concerned, with very little expansion of the arsenals they could do that now, as stated in this paper.

The CHAIRMAN. In other words, we are virtually producing our own peace-time requirements now?

Lieutenant Colonel HARRIS. With the very important exception of aircraft and gas defense appliances and certain elements of the artillery ammunition group.

The CHAIRMAN. Colonel, there comes to my mind the experience which we encountered in September, which found the naval experts perfecting and developing an air-cooled motor, which found in 1925 a private corporation organized to go into the production of this air-cooled motor. If I remember aright, we loaned that private corporation the expert advice of the naval experts who had been perfecting and developing this motor. From 1925 up to the present time a very large proportion of that corporation's business has been with the United States Navy.

There were introduced in September figures revealing that this corporation's return upon its investment, its return by reason alone of the business done with the United States, was something like 1,144,000 percent, upon its invested capital.

Now, obviously, the Navy afforded the largest part of that profit for that corporation. Why could not, to its advantage, the Navy produce its own air-cooled motors? What has the private corporation contributed to our war-time requirements that would not have been produced if we had been turning out our own air-cooled motors?

Lieutenant Colonel HARRIS. I hesitate to express an opinion on Navy affairs. The answer seems to be obvious.

Senator POPE. Colonel, at this point may I ask you this question: Who took part in the preparation of this statement, exactly?

Lieutenant Colonel HARRIS. You have us before you. You say the preparation of this paper?

Senator POPE. Yes.

Lieutenant Colonel HARRIS. Here we are.

Senator POPE. The two of you?

Lieutenant Colonel HARRIS. Yes.

Senator POPE. And no others?

Lieutenant Colonel HARRIS. We used records, we used data available throughout the Department. This paper has been examined by all of the authorities of the War Department and approved, but in the preparation, answering your question, Lieutenant Brannon and I did that.

Senator Pope. Did General MacArthur approve of this statement?

Lieutenant Colonel Harris. I think General MacArthur has seen it.

Senator Pope. Did Secretary Dern see it?

Lieutenant Colonel Harris. Yes.

Senator Pope. And approve of it?

Lieutenant Colonel Harris. Yes.

Senator Pope. He did not take part in the preparation of it; the two of you prepared it?

Lieutenant Colonel Harris. We prepared it, because it is our job.

The Chairman. Colonel, having done that, are you prepared now or would you wish to add to your statement an approximation of 1 year's cost for all of the additional supplies that a war such as you plan for would call for?

Lieutenant Colonel Harris. I do not believe I get the question, Senator.

The Chairman. Can you approximate what 1 year's cost would be of the added supplies that the Government would need to have to carry itself for 1 year's war?

Lieutenant Colonel Harris. You mean to properly fill this out, to take into consideration these items?

The Chairman. Yes.

Lieutenant Colonel Harris. I think it is possible we would have to consult people. And, by the way, Senator, don't think that is a creation of our minds. This is a compilation of all of the experience and records of the War Department.

Senator Pope. Yes; I understand that.

The Chairman. And the studies that have been made by the War Department?

Lieutenant Colonel Harris. Yes.

Senator Pope. Yes; I understood that, but I was interested to know if Secretary Dern, for instance, is thoroughly familiar with the contents of this and he approved it, this statement that you are now making.

Lieutenant Colonel Harris. This has been given me as being approved by the Secretary of War.

Senator Pope. Given to you as being approved?

Lieutenant Colonel Harris. Yes. It was sent to me yesterday morning. I received it yesterday morning in this room.

Senator Pope. It was not prepared by you, then?

Lieutenant Colonel Harris. It was prepared by Lieutenant Brannon and myself and submitted to the Secretary of War for approval.

The Chairman. Coming back to the question, can you approximate the first year of cost to the Government for the supplies it will need under the plan which has been outlined?

Lieutenant Colonel Harris. I believe that would be possible; yes, sir.

The Chairman. Can you tell the committee now about what it might be?

Lieutenant Colonel Harris. I believe if you added $200,000,000, you would cover the items we have omitted.

The CHAIRMAN. No; I do not think you get my question, Colonel. In the early part of your paper there was a discussion of the plan to utilize industry, in turning out the production that the Government would require in time of war. What would the outlay for the first year be to cover the cost of production of industry?

Lieutenant Colonel HARRIS. In giving productions, I explained how the Government——

The CHAIRMAN. Oh, no.

Lieutenant Colonel HARRIS. You mean on procurement planning?

The CHAIRMAN. That is right.

Lieutenant Colonel HARRIS. Oh, I misunderstood you entirely, sir.

The CHAIRMAN. Yes.

Lieutenant Colonel HARRIS. I should like to give serious thought to that subject, Senator.

The CHAIRMAN. We have discussed, rather privately, what the cost would be as respected certain industries, Colonel, in our conversations from day to day, and there was an approximation by you on one morning of what a certain number of industrials would be receiving in the event of war. Could you not extend that now and say what the entire program would call for?

Lieutenant Colonel HARRIS. I am afraid I am not following you. Do you mean the cost of 1 year of war?

The CHAIRMAN. Yes.

Lieutenant Colonel HARRIS. I think the cost of 1 year of war would be in the neighborhood of $4,000,000,000.

The CHAIRMAN. You mean for procurement purposes alone?

Lieutenant Colonel HARRIS. For the industrial phase of war.

The CHAIRMAN. Yes. That does not cover the pay of the military?

Lieutenant Colonel HARRIS. I am excluding that.

Senator VANDENBERG. You mean the Army alone; you do not mean the Navy.

Lieutenant Colonel HARRIS. I mean the Army. It is almost impossible for the human mind to conceive the expenditure of artillery ammunition and the cost involved in that expenditure in modern war.

The CHAIRMAN. You may proceed, Lieutenant.

Lieutenant BRANNON (reading):

(*c*) *Personnel.*—Manifestly the capacity of plants sufficient to supply an army of either two or four million men in war would be far in excess of the needs of the peace establishment. Under any reasonably economic method of operation the number of persons employed in peace would be only a small part of the total number required in war. It would be necessary, therefore, after an emergency arose, to build up a large force of skilled mechanics, foremen, and superintendents. As a result, considerable time would elapse before the plants could be expected to reach maximum production.

(*d*) *Location.*—A large percentage of the existing private plants that would be relied upon to furnish munitions in war are located near the North Atlantic seaboard, where they are dangerously exposed to hostile attack. The same is true of most of the present Government manufacturing establishments except Rock Island Arsenal. The heavy concentration of industry in the northeast section of the country increases the problems of labor, power, fuel, and transportation in war. Should the Government build new facilities, these could be located in the interior where they would be relatively safe from attack and where distribution to all parts of the country would be facilitated. However, location away from the centers of industry would increase the difficulty of securing adequate skilled labor.

(*e*) *Expansion.*—Plans for war procurement must be sufficiently flexible to allow for the maximum capacity a country can reach. No one can tell what kind of situation may develop in war. When the World War started the French Army had very complete plans for the production of ammunition. The following table gives the daily production as planned in 1914, actual daily production during the closing months of the war, and the rate of increase:

	Planned 1914	Produced 1918	Ratio 1918 to 1914
Small-arms ammunition, rounds	2,470,000	4,661,500	1.89
Artillery ammunition, rounds	14,065	222,030	15.78
Powder, pounds	48,000	577,000	12.00
Workers in munition plants	50,000	1,600,000	32.00

(*f*) *Artillery and ammunition.*—It is in the field of artillery and artillery ammunition that exclusive Government manufacture would be most uneconomical. Both are required in enormous quantities, and their manufacture is highly intricate. However, many of the processes of manufacture may be performed with standard machines. Both lend themselves readily to the production of component parts in different plants and later assembly at a central point. Should the Government undertake to erect plants for the exclusive manufacture of these classes of equipment, it would mean that in time of peace there would be standing idle several hundred million dollars' worth of machinery. In time of war this machinery would be devoted to work that might just as well be done by utilizing the machinery in a hundred private plants. In other words, the Government plants would represent a needless duplication and sheer economic waste.

Under this system there will be a serious delay following a declaration of war before anything like maximum production can be reached. This situation will not be quite so serious with respect to cannon, since a relatively long time is required for manufacture under the most favorable conditions. On the other hand, early production of artillery ammunition presents one of the most important problems of war procurement.

5. RELATIVE EFFICIENCY OF GOVERNMENT AND PRIVATE PLANTS

In time of peace Government arsenals can manufacture at slightly less cost than commercial facilities. It has been estimated that this saving will average 11 percent.

The CHAIRMAN. Pardon me. A few days ago, Colonel, or possibly day before yesterday, I believe we had introduced here the results of a study made by the private industries revealing the cost of production of .30-caliber ammunition in the Government arsenals and in private manufacture.[1]

Lieutenant Colonel HARRIS. Yes.

The CHAIRMAN. Has the War Department made any study along similar lines?

Lieutenant Colonel HARRIS. You mean with reference to Frankford Arsenal production?

The CHAIRMAN. Yes; but more particularly with regard to the general subject of the Government production of ammunition.

Lieutenant Colonel HARRIS. It so happens that small-arms ammunition is the most favorable item to develop a good cost on, because it is the one thing we are producing in volume and of uniform production. The rest of our arsenal production is more jobbing shop work, and it is more difficult to form an estimate under jobbing shop conditions. We naturally keep a record of the cost of all of the stuff we are producing, but I do not think our records would be as favorable in comparison with industry on some other items as in that case.

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[1] "Exhibit No. 1294", Hearings, Part XVI, p. 3953.

The CHAIRMAN. Lieutenant Brannon has just spoken of 11-percent differential. As shown through this study by private industry as respects .30-caliber ammunition, it reached a differential of about 33 percent.

Lieutenant Colonel HARRIS. Yes.

The CHAIRMAN. Does this 11 percent refer to the entire picture?

Lieutenant Colonel HARRIS. The entire field.

The CHAIRMAN. Not to ammunition alone?

Lieutenant Colonel HARRIS. No, sir. That is correct.

The CHAIRMAN. All right.

Lieutenant BRANNON (reading):

> The difference is due in large part to the following factors:
>
> (a) Arsenals make no allowance for profits.
>
> (b) Overhead expenses are slightly lower in the arsenals and there are no selling costs.
>
> (c) Depreciation charges are less in the arsenals because there is no question of future business. Sporadic Government orders necessitate private plants entering a relatively high depreciation charge against each other.
>
> It does not follow, however, that because arsenals now manufacture more cheaply than private plants they could do so if operated as a war monopoly. During years of peace the enormous carrying charges on reserve facilities would more than double present costs; i. e., instead of costing 11 percent less, current supplies would cost from 90 percent to 100 percent more than if procured commercially. In war the necessity of building up new organizations from untrained personnel would tend materially to increase unit costs. It takes more time and costs more money to acquire these organizations than any other element of manufacture. It is doubtful, therefore, whether Government plants could show any operating advantage in war to offset the deficits that would have accumulated in peace.
>
> ### D. WAR PROFITS
>
> Present procurement plans should go far in preventing contractors making excessive profits. Government departments will not compete with each other in the purchase of supplies. Forms for war contracts are being developed by which it is expected contractors' profits will be limited to a reasonable amount. Should any manufacturer refuse to accept a Government contract at a reasonable price, the law authorized the placing of a compulsory order; and in the event of further refusal, the commandeering of his plant or factory. Attempts of the War and Navy Departments to prevent profiteering will no doubt be supplemented by Government regulatory measures and excess-profits taxes. However, any control measures that may be adopted should not be so binding as to prevent reasonably prompt negotiations and agreement with industry to produce materials required, since any failure to procure munitions when needed may have to be paid for, not in dollars and cents but in the consequences of possible defeat.
>
> It should be remembered that war profits are not limited to munition makers. The exorbitant demands for food, farm products, raw materials, labor, power, and fuel, and the withdrawal of a substantial part of industry from the ordinary channels of trade, tend to cause a sharp rise in the general price level. Under any control measures that may be instituted by the Government to prevent excessive prices, munition makers will fare no better than anyone else.

The CHAIRMAN. Colonel, can you furnish for the information of the committee the base figures which were used in reaching these conclusions relative to governmental costs?

Lieutenant Colonel HARRIS. The 11-percent figure?

The CHAIRMAN. Yes.

Lieutenant Colonel HARRIS. I shall endeavor to get those. The minutes of the Kernan Board which cover this do not seem to come to light. I do not know where they are. We all have been searching for them, and we shall endeavor to search further and shall be glad to furnish any information we have concerning the matter.[1]

The Chairman. Do not the findings of that board show lower production costs on all of the items they investigated?

Lieutenant Colonel Harris. I cannot answer that question. Can you, Lieutenant Brannon?

Lieutenant Brannon. In most of them they did, I think.

The Chairman. On the most of them they did?

Lieutenant Brannon. Yes. I do not recall for sure that they did on all of them or not, sir.

Mr. Wohlforth. It was on all of them, was it not, Lieutenant?

Lieutenant Brannon. I do not remember, Mr. Wohlforth.

Lieutenant Colonel Harris. Mr. Hiss, you haven't that Kernan Board record, have you?

Mr. Hiss. We have been looking for it ourselves.

Lieutenant Colonel Harris. So have we.

The Chairman. Your conclusion that the cost would be 190 percent in time of war——

Lieutenant Colonel Harris. That is based on two figures—that we ordinarily spend about $100,000,000 in time of peace and then we have this carrying charge of $90,000,000.

The Chairman. Is that the sum total of what you consider basic to that conclusion?

Lieutenant Colonel Harris. Yes, sir. It is the carrying charge plus the base.

The Chairman. You may proceed.

Lieutenant Brannon. A very pertinent paragraph of the foreword to the industrial mobilization plan is here quoted.

> The tendency to overemphasize administrative efficiency and underemphasize national effectiveness has been guarded against. The objective of any warring nation is victory, immediate and complete. It is conceivable that a war might be conducted with such great regard for individual justice and administrative efficiency as to make impossible those evils whose existence in past wars is well known. It is also conceivable that the outcome of a war so conducted might be defeat. In all plans for preparedness and policies to be pursued in event of war it must never be overlooked that while efficiency in war is desirable, effectiveness is mandatory.

The Chairman. Speaking of the Kernan Board findings again, what other studies has the War Department made on that subject of war costs?

Lieutenant Colonel Harris. I will ask Lieutenant Brannon to state that phase of it. I think this study is based almost entirely on the Kernan Board findings.

The Chairman. Can you state, Lieutenant?

Lieutenant Brannon. It is based almost entirely on Kernan Board findings.

The Chairman. It occurs to me that your study, which has just been summarized, affords a study of costs for an offensive war. Has there been any study made on the cost to the Government on a strictly defensive war?

Lieutenant Colonel Harris. The kind of a war, whether defensive or offensive in base—in other words, a defensive war may turn into an offensive war. You may be in danger of being attacked. To repulse that attack you may have to attack, and it then becomes an offensive war.

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[1] Hearings, Part XVI, footnote, p. 3975.

Senator VANDENBERG. Offense is the best defense sometimes.

Lieutenant Colonel HARRIS. That is an expression often used. That is a military axiom, incidentally.

Senator VANDENBERG. Yes.

The CHAIRMAN. Colonel, we do not have exact figures, but for the purpose of making clear the record, I wonder if we can agree as to the approximate strength of our military force at the present time as respects the Army. The Regular Army is about 118,000?

Lieutenant Colonel HARRIS. Yes, sir.

The CHAIRMAN. The National Guard approximately 196,000?

Lieutenant Colonel HARRIS. Yes, sir.

The CHAIRMAN. The Organized Reserves, 125,000?

Lieutenant Colonel HARRIS. The 300,000 we used here was only the Regular Army and the National Guard.

The CHAIRMAN. In addition to that you have Organized Reserves of approximately 125,000?

Lieutenant Colonel HARRIS. We have, of whom a limited number are trained 2 weeks each year.

The CHAIRMAN. What of the so-called "Auxiliary Reserve"; what is its strength?

Lieutenant Colonel HARRIS. I have not the strength of that.

The CHAIRMAN. About 20,000?

Lieutenant Colonel HARRIS. I could not express an opinion, because I do not know.

The CHAIRMAN. How many in the R.O.T.C.?

Lieutenant Colonel HARRIS. Do you know, Lieutenant Brannon?

Lieutenant BRANNON. It is something over 100,000, I think, but I am not sure of it. The R.O.T.C. I am not sure about.

The CHAIRMAN. Approximately 100,000?

Lieutenant BRANNON. I do not know about that. I was thinking of the Reserve Officers Corps.

Lieutenant Colonel HARRIS. The R.O.T.C. cannot be that large, I don't think, sir.

Lieutenant BRANNON. No.

The CHAIRMAN. Do you know of the Junior R.O.T.C.?

Lieutenant Colonel HARRIS. I do not know.

The CHAIRMAN. The committee is advised that approximately 50,000 are there. Do you know how many civilian employees there are in the War Department?

Lieutenant Colonel HARRIS. I have not those figures.

The CHAIRMAN. Does 70,000 approximate it?

Lieutenant Colonel HARRIS. I could not take issue with that figure, but I could not check it from memory very accurately. That probably is a proper figure.

The CHAIRMAN. In addition to all of that there are those receiving instruction and being furnished by the Government with rifles for practice, are there not?

Lieutenant Colonel HARRIS. There are, sir.

The CHAIRMAN. Would an estimate of 125,000 be too much for that?

Lieutenant Colonel HARRIS. I would have thought it would be too much, but I do not know.

The CHAIRMAN. I wonder if you could furnish to the committee more accurate figures covering that entire picture.[1]

Lieutenant Colonel HARRIS. All of the elements?

The CHAIRMAN. All of the elements; yes.

Lieutenant Colonel HARRIS. I would be very glad to, sir.

The CHAIRMAN. As it is before the committee at the present time, it is something in excess of 800,000.

The committee has contemplated, before completing its study, a very extended investigation of the matter which Colonel Harris and Lieutenant Brannon have been discussing for the last half hour. Sometime in January the committee hopes to go into the matter in a thoroughly technical way, so far as it has to, to ascertain, as well as it can ascertain, the comparative costs as between Government production and production of munitions by private industry, which, incidentally, is a matter which we are under instructions to go into more thoroughly by far than we have.

Is the War Department engaged at the present time in any studies along that line?

Lieutenant Colonel HARRIS. The War Department will engage—I am not familiar with any instructions issued on that basis—the War Department will engage in studies to be prepared to give you the data, having notice served upon it.

The CHAIRMAN. Very well.

Senator POPE. I just want to ask one question, Colonel Harris.

Are there now any Army officers, to your knowledge, United States Army officers, employed in foreign countries in their military plants, training armies and the like?[2]

Lieutenant Colonel HARRIS. We have some officers in language schools in the Far East. I do not think we have any officers loaned to foreign governments at the present time, but I would like to verify that and supply the information.

Senator POPE. Do you happen to know about the Navy, whether there are any officers of the Navy who are in the employ of foreign governments, engaged in that service?

Lieutenant Colonel HARRIS. No, sir; I do not know.

The CHAIRMAN. The committee is adjourned until further call of the Chair.

(Whereupon, at 4 p. m., Friday, December 21, 1934, the committee adjourned, subject to the call of the Chair.)

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[1] Under date of Apr. 4, 1935, the War Department furnished the committee with a compilation showing military strength of the United States with the exception of the Auxiliary Reserve and Civilian Rifle Clubs. The latter were submitted on May 14, 1935. Both lists appear in the appendix on p. 4515.

[2] Under date of Apr. 4, 1935, the War Department notified the committee that there is a total of four officers on duty with foreign governments. One of these is in charge of the Military School in Guatemala and three are instructors in the Military School in Brazil.

APPENDIX

EXHIBIT NO. 1342

MEMORANDUM ON FOREIGN COMPANIES WITH WHICH THE DU PONT COMPANY HAS OR HAS HAD RELATIONSHIPS OF VARIOUS KINDS

The following is a list of foreign companies in which the du Pont Company has a stock ownership (direct and indirect):

Associated Securities of Canada, Ltd., holding company for du Pont Co. interest in Canadian Industries, Ltd.

British Australian Lead Manufacturers Proprietary, Ltd., Duco plant, Australia.

Canadian Industries, Ltd., manufactures dynamite, chemicals, sporting ammunition, finishes, artificial leather in Canada, and imports other products for resale. (See note 1.)

Canadian Safety Fuse Co., Ltd., manufactures safety fuse in Canada.

Canadian Pyrites, Ltd., holding company.

Compania Mexicana de Explosivos, S.A., dynamite plant, Mexico. (See note 1.)

Compania Sud-Americana de Explosivos, S.A., dynamite plant, Chile. (See note 1.)

Deutsche Gold und Silber Scheideanstalt, manufacturer of chemicals in Germany, du Pont investment is less than 5 per cent.

Duco, A.g., Duco plant, Germany.

Duco Societa Anonima Italiana, Duco plant, Italy.

Du Pont, S.A., imports certain du Pont products for resale in Mexico.

Dynamit Actien-Gesellschaft, manufactures commercial explosives, celluloid, etc., in Germany. Du Pont holding is less than 10 per cent and is entirely of an investment nature. (See note 1.)

Explosives Industries, Ltd., buy du Pont commercial explosives for resale in various South American countries.

I.G. Chemische Unternehmungen, A.G., I.g. Chemie Basle & I.G. Farbenindustries, A.G., du Pont investment is considerably less than 1 per cent and is entirely of an investment nature. (See note 1.)

Industries Quimicas Argentinas Duperial, S.A. This company which is in process of formation is taking over the business of du Pont-Argentina. It is engaged in the manufacture of chemical products in the Argentine and in the import of other products including du Pont products for resale there. Also manufactures sporting ammunition.

Leathercloth Proprietary Ltd., fabrikoid plant, Australia.

Frederick Crane Chemical Company & Nobel Chemical Finishes, Ltd., plants for paints and lacquers in England.

Remington Arms Union Metallic Cartridge Company, Ltd., imports Remington ammunition and components for resale in England and conducts shot shell loading operation.

Remington U.M.C. of Canada, Ltd., nonoperative.

Societe Francaise Duco, S.A., Duco plant in France.

Societe Francaise Fabrikoid, S.A., fabrikoid plant in France.

Societe Italiana della Celluloide & Societa Anonima Mazzucchelli, celluloid sheeting and articles plants in Italy.

Travancore Minerals Company, Ltd., produces ilmenite in India, large quantities of which are purchased by Krebs Pigment and Color Corp.

Ventube, G.m.b.h., in liquidation.

Du Pont do Brazil, S.A., imports certain du Pont products for resale in Brazil.

NOTE 2.—The above list is believed to be complete although there may be indirect holdings of minor importance which have not been included. Indirect holdings through companies owned less than 10 per cent have been omitted.

The following foreign companies and individuals are major shareholders in one or more of the companies listed under no. 1 above:

Imperial Chemical Industries, Ltd.

Kokswerke Chemische A.G.

Soc. Montecatini (through its subsidiary Soc. Italiana dinamite Nobel).

Mr. Silvio Mazzucchelli.

Societe Centrale de Dynamit S.A.

Du Pont has or has had arrangements involving licenses under or purchases and/or sales of patents and/or secret processes with the following companies in addition to some of those listed above:

Soc. Rhone-Poulenc, fine chemicals (perfume, photographic, etc.), cellulose acetate, rubber chemicals.

Comptoir des Textile Artificiels & Associated Companies, rayon.

Deutsche Hydrierwerke, organic chemicals such as hydrogenated hydocarbons and sulphonated higher alcohols.

H. Th. Boehme, organic chemicals such as sulphonated higher alcohols.

Kalle, A. G., transparent viscose sheeting.

Soc. La Cellophane, France, transparent viscoe sheeting.

Etbls. Kuhlmann, France, license under two individual dye patents for France.

Ammonia Casale, S.C., Ammonia, American rights for process for synthesis of ammonia.

Air Liquide, ammonia, American rights for process for synthesis of ammonia.

Laporte & Co., Ltd., chemicals, American rights to hydrogen peroxide process.

Chemische Fabrik Pott, A.G., chemicals (perfume materials).

Mitsui, Japan, sale of our hydrogen conversion process in Japan.

Alexander Wacker, A.G., licenses under certain U.S. patents on chemicals. (Chlorinated hydrocarbons and acetylene derivatives useful as solvents and synthetic resins).

Lurgi, A.G., Germany; Chimstroy, Russia; Union Chimique Belge, Belgium; rights to our ammonia oxidation process.

Schering-Kahlbaum, A.G.; J. D. Riedel-de Haen, A.G.; Elchemie G.m.b.H.; Leolowenstein, Berlin, Germany; Schering-Lowenstein hydrogen peroxide process.

Edmund von Herz, priming compounds aud detonators.

Dynamit, A.G., commercial explosives.

Pathe Cinema, American rights to film process.

Imperial Chemical Industries, Ltd., licenses under patents covering a wide field of commercial chemicals and related products. Military powders specifically excluded from patents and processes under which their licenses were granted.

Montecatini, license under Italian Neozone patent (rubber accelerator).

General Note.—The above is intended to include the companies with whom we have common financial interest or from whom we have bought or to whom we have sold processes and manufacturing information. The list does not include every firm from whom we may have purchased individual processes and/or patents of relatively minor importance nor does it include all the foreign firms who may have purchased or to whom we may have sold materials. In view of the diversity of the interests of the du Pont Company and the many fields in which it operates and the nature of the chemical industry, such a list would include most every chemical company of any importance in the world. The preparation of such a list would involve the examination of all of our sales and purchases accounts not only of the parent company but of the subsidiary companies and would be little else than a partial list of our customers in export markets and of suppliers of raw materials.

So far as we know none of the inventions listed above refer to military explosives or ammunition except the Von Herz tetrazene agreement, which involves priming mixtures which can be used in either military or commercial ammunition.

Note 1.—The Mexican, Chilean, Canadian, and D.A.G. companies are the only ones who manufacture explosives, none of which is military. The Remington Company, Ltd., of England, Duperial, and Canadian Industries, Ltd., manufacture commercial ammunition. As a possible exception, though not a material one, to this general statement, Canadian Industries, Ltd., did at one time manufacture TNT which may be used as a military explosive as well as a commercial one. Canadian Industries, Ltd., also manufactured military ammunition during the war but is not so engaged at present. Military inventions are excluded from our contractual relations with this company.

EXHIBIT No. 1343

MEMORANDUM RE VALUATION

1. VALUATION WORK OF THE INTERSTATE COMMERCE COMMISSION

The difficulties attendant upon valuation are perhaps illustrated most graphically by the work of the Interstate Commerce Commission in connection with its valuation of the railroads of the country.

"* * * the Interstate Commerce Commission in valuing only the properties of the railroads of the country has spent more than 13 years on the task and more than $27,000,000, and the carriers themselves in working on these same valuations have spent the same period of time and more than $85,000,000." (Mr. Ernst's Report, Senate Investigation of the Bureau of Int. Rev., report 27, pt. 3, page 4, 2/1/26.)

This statement is all the more significant in view of the fact that railroads have for a long time had their rate of profit regulated in the public interest by both State and Federal Governments.

"For years past railroads, pipe lines, and express companies have been obliged to keep their books in accordance with accounting methods prescribed by the Interstate Commerce Commission. * * * There are also State and municipal regulations prescribing the form of accounting to be followed by various public utilities, banks, insurance companies, and other forms of business closely connected with the public interest." (Couzens' Report, Senate Investigation of the Bureau of Int. Rev., rep. 27, pt. 2, pp. 130–131, 2/1/26.)

Since the rate of profit which has been allowed public utilities has characteristically been based on a fixed return on "value", it is apparent that a considerable store of information must have been present on the subject of valuation and on the techniques of attacking the problem. If so great difficulty has been encountered in connection with a business which was the first to be subject to supervision in the public interest; it is impossible to set forth the extent of the difficulties which will be encountered in connection with the valuation of industries not subject to similar prior scrutiny.

Expenditures in connection with valuation work of the Interstate Commerce Commission have kept on since the time of the Couzens' Report. In the account of the appropriation and expenditures of the Interstate Commerce Commission for each fiscal year there appears an item:

"Valuation of property of carriers: To enable the Interstate Commerce Commission to carry out the objects of the act entitled 'An act to amend an act entitled "An act to regulate commerce," approved Feb. 4, 1887, and all acts amendatory thereof,' by providing for a valuation of the several classes of property of carriers subject thereto and securing information concerning their stock, bonds, and other securities, approved Mar. 1, 1913."

For the respective years 1926–29, the amounts listed under this item were as follows:

Year:	*Amount*
1926	$1, 883, 232. 97
1927	1, 715, 140. 97
1928	2, 563, 214. 00
1929	2, 336, 670. 00

(See 40th–43rd Annual Report, Interstate Commerce Comm., 1926–29.)

The size of the appropriation in these years is all the more significant in view of the note of optimism present in the 1922 report of the Interstate Commerce Commission to the effect that the valuation job had been practically completed.

"We have reached the state in valuation of the steam railroads of the country where, except for rechecking, the inventorying of roads recently constructed, and a few minor details, the original field work has been completed. Underlying reports are being issued in large numbers, and hearings and final arguments on protested tentative valuations are in progress. Of 287 tentative valuations served, 101 have become final through absence of protest, which under the act any interested party may file within 30 days after service of the tentative valuation. Full hearings upon protests have been had in 39 cases. Six cases have been partly heard and 33 cases are assigned for hearing before December 31, 1922. Final arguments have been had in three cases and 12 were set for argument in

November. Issues raised by protestants in 19 cases have been submitted without argument."

* * * * * * *

"We have completed the transfer of all forces and records of the Bureau to the central office in Washington, and have closed the San Francisco, Kansas City, Chicago, Chattanooga, and Washington district offices. This has been accompanied by reorganization and closer coordination. The number of employees has been reduced to approximately 550, or about one-third of the maximum reached in 1918. Expenditures have been reduced from approximately $3,000,000 per annum during the first few years, $2,735,911 for the fiscal year 1920–21, and $1,597,572 for the fiscal year 1921–22, to approximately $1,300,000. This reduction has, in large part, been made possible by the termination of original field work." (36th Annual Report of Interstate Commerce Commission, 1922, p. 70.)

The report of the Commission two years later is much less hopeful in outlook.

"Based on our experience thus far we estimate that the hearings to be held on protests to tentative valuations will exceed 500 in number. We cannot estimate their length. It is apparent that satisfactory completion of the work, already over 10 years in progress, is seriously menaced by delay in completing these primary valuations. Most of them are already from 6 to 10 years old. In administering the act present-day valuations are needed, but before they can be had primary valuations must have been completed to serve as bases for carrying the valuations forward. There is serious disadvantage in the lapse of so many years between the primary and the present-day valuations. With the passage of time come cumulative changes in the property by reason of additions, betterments, and retirements, thus rendering the original inventories increasingly unrepresentative of present conditions." (38th Annual Report of Interstate Commerce Commission, 1924, p. 14.)

The above cited passage supplies clear indication that it is much more than a mere routine matter to keep a valuation, once arrived at, up-to-date. The 39th Annual Report of the Interstate Commerce Commission (1925) is in agreement.

" * * * Our valuation order no. 3 requires carriers to keep a record of additions, betterments, and retirements made subsequent to date of the primary valuation; to render annual reports to us showing, by primary accounts, the cost of such property; and to report the units of property installed and retired at such times and for such periods as we may request.

"During the year the force assigned to the administration of this order averaged 54 persons. Of this number an average of 29 were assigned to policing and checking the carriers' records in the field. * * * " (39th Annual Report of the Interstate Commerce Commission, 1925, p. 16.)

This same report also contains a significant statement as to the difficulties of securing sufficient competent personnel at salaries that the Government can afford to pay. Explanation of the difficulty of keeping a valuation current is to be found in the 1930 Report of the Commission, which describes the extent to which property values in the railroad industry fluctuate in the course of a year.

"Changes in the property of the carriers, consisting of additions, betterments, and retirements, varying in amounts from more than one-quarter billion to more than one billion dollars, occur annually. Price levels, likewise, fluctuate continually. Therefore, unless, as provided by paragraph Fifth (f) of section 19a, we keep informed of such changes, both in the property and its value, the valuations quickly become obsolete. The United States Supreme Court has held that substantial fluctuations in price levels affect values, and it is the settled rule of that Court that the lawful rate base is present value. It follows, therefore, that if valuations are to be of practical use they must not become obsolete." (46th Annual Report of the Interstate Commerce Commission, 1932, p. 89.)

It was not until 1932 that the Interstate Commerce Commission completed the valuation process which it had so hopefully described in 1922 as practically complete as far as field work was concerned and which had been entrusted to it by Congress in 1913.

"During the year we have completed the last of the primary valuations of the 1,685 steam railroads listed for valuation as existing on March 1, 1913, the date of the enactment of the valuation act. These valuations are incorporated in 1,035 final valuation reports, although a few have not yet been published." (46th Annual Report of the Interstate Commerce Commission, 1932, p. 86.)

The recapture provision of the Transportation Act of 1920 added very measurably to the work of the Bureau of Valuation of the Interstate Commerce Commission:

"* * * By increased appropriation we have been enabled to assign a somewhat increased force to the administration of this order. This has averaged 64 employees, 40 of whom have been engaged in the field work of policing and checking the carriers' records. Up to the present time preliminary examinations have been made in the offices of 460 carriers. Complete field examinations, covering an average period of seven years subsequent to the various dates of valuation, have been made of the records of 205 carriers, aggregate mileage 68,000. Field examinations covering an average period of eight years are now in progress on 30 carriers, aggregate mileage 48,000. The present force available for this work still falls short of the requisite number." (40th Annual Report of Interstate Commerce Commission, 1926, p. 15.)

In fact, in one year, 1930, the Interstate Commerce Commission reported that its valuation bureau restricted itself in large measure to recapture cases.

"The activities of the Bureau of Valuation have in a large measure been restricted during the year for which this report is made to valuation work in recapture cases. This is in conformity with instructions issued July 18, 1929, that the 'Bureau give precedence in its valuation work to recapture cases'." (44th Annual Report of Interstate Commerce Commission, 1930, p. 59.)

It should be noted that the valuation work commenced in 1913 was, in comparison with the recapture valuations, a more or less disinterested scientific inquiry. Valuation in connection with recapture was specifically linked up with the enforcement of a policy designed to limit the profits of the more favorably situated carriers. Anticipation of the resultant legal difficulty in courts which it was feared the recapture provision would run into, necessitated an even more elaborate personnel and much fuller investigation than valuation carried on from a purely scientific basis.

"* * * It soon became manifest that the protests were to test with meticulous detail the inventories, prices, methods, theories, and conclusions, and even administrative procedure, and that as to any and all of these there would probably be appeal to the courts. Consequently the work had to be done with the greatest care, not only for the sake of the undertaking itself but also to withstand attack in the courts. This in turn required an army of experts consisting of engineers, land appraisers, auditors, accountants, and attorneys. Protests were filed in 748 cases and hearings held in 503 cases. Under the broad latitude afforded by the law, which gave to every protestant his right fully to be heard, hearings on individual properties ran many months. In addition there have been suits attacking our decisions. To these long-drawn-out proceedings during the later years is attributable much of the delay in the completion of the primary valuations.

"It is obvious that this act requires the most extensive, detailed, and exhaustive investigation, culminating in a valuation of the complex property of the railroads extending over 250,000 miles of main track, and 400,000 miles of all tracks, together with equipment, terminals, and all other holdings. The result was a much greater undertaking than those who wrote the many detailed requirements into the law could realize at the time of its enactment." (46th Annual Report of the Interstate Commerce Commission, 1932, p. 88.)

That a provision such as the recapture provision demands excessive policing is apparent from comparing the amount of excess income which the carriers reported, with the Interstate Commerce Commission's estimate of the recapturable excess which they had actually earned.

Recovery of excess net railway operating income, general railroad contingent fund

Period	Number of reports	Number of reports in which excess income is reported	Total amount of excess income reported
Applicable period, 1920	993	34	$2, 505, 006. 03
Calendar year:			
1921	975	27	458, 535. 72
1922	931	50	1, 867, 239. 33
1923	902	53	6, 909, 296. 66
1924	902	23	1, 196, 261. 90
1925	897	32	2, 402, 198. 71
1926	882	24	1, 090, 490. 78
1927	870	10	177, 566. 32
1928	851	19	1, 115, 087. 16
1929	843	27	5, 378, 101. 20
1930	810	9	381, 266. 47
1931	753	2	67, 821. 48
Total excess			25, 548, 871. 76

While the carriers reported a total excess income of only $23,548,871.76, one-half of which is subject to recapture, for the period 1920 to 1931, inclusive, our estimates of recapturable excess income for the period 1920 to 1930, inclusive, amount to considerably over $300,000,000. * * * (46th Annual Report of Interstate Commerce Commission, 1932, p. 93.)

Finally, despite all of the Commission's wrestling with the problem of valuation for recapture purposes, the Supreme Court in the *O'Fallon case*, 279, U.S. 461 (1929), by insisting that the Commission had not paid sufficient attention to the factor of reproduction cost in its valuation, necessitated a wholesale revision of the Commission's work.

"The amount due from the carriers, according to preliminary computations made in the manner outlined above, is approximately $300,000,000 for the years 1920–28. As a result of the Supreme Court's decision in the St. Louis & O'Fallon case, this estimate must be changed. It is estimated that under the present system of quasi-judicial hearing procedure a minimum of six years would be required to dispose of the present arrearage, and even at the end of that period the work would hardly be current, owing to accumulations during the interval" (43rd Annual Report of Interstate Commerce Commission, 1929, p. 87.)

Even with the recapture provision repealed, the appropriation for valuation available to the Interstate Commerce Commission was $1,000,000 for the year 1933–34, and its active personnel included 381 employees.

"The amendment above referred to, together with repeal of provisions of section 15a relating to excess net railway operating income, greatly simplify the valuation work. Together with the completion of the primary valuations it has enabled us to reduce materially the personnel and expenditures in the Bureau. The reduction was possible, also, because of the progress made in correcting and revising the original inventories and underlying records and data. For the last fiscal year 1932–33) the appropriation for the Bureau was $2,750,000. Its personnel on June 1, 1933, consisted of 910 employees. The appropriation for the current fiscal year (1933–34) is $1,000,000, and its active personnel on July 1, 1933, consisted of 381 employees" (47th Annual Report of the Interstate Commerce Commission, p. 74, 1933).

This appropriation is insufficient to allow the Commission to make any considerable progress far in connection with the valuations of carriers other than railroads.

"Section 19a is applicable to all carriers subject to the provisions of the act. Insufficient appropriations have prevented us from proceeding with the valuations of carriers other than railroads with the exception of the Pullman and telegraph companies. The valuation of these latter companies is being prosecuted as far as appropriations permit. Requests for additional appropriations to value other carriers such as pipe line and telephone companies have been made from time to time" (47th Annual Report of the Interstate Commerce Commission, 1933, p. 76).

This situation exists in an industry with a well-established tradition of regulation in the public interest, and an industry whose books and records were consequently in much better shape than the mass of American industry. Furthermore, the statute (37 Stat. 701; 48 Stat. 221) was liberal in its provisions in aid of investigation; also to a certain extent comparative checks could be made with data which had been acquired by the State public-utility commissions which had preceded the Interstate Commerce Commission in the field.

2. GENERAL DIFFICULTIES OF PUBLIC-UTILITY VALUATION

The difficulties which have only sketchingly been brought out in connection with the valuation of interstate carriers are paralleled throughout the public-utility field. Frequently, of course, the issues which are raised in specific controversies do not directly concern themselves with the problems of valuation. If there be an incentive on the part of the utility to provoke delay, obstacles or confusion, resort is often had to legal technicalities and to statutory issues. The real motive underlying the attempt to thus confuse and becloud the issue will, in the usual instance, be the utility's contention that it is being unconstitutionally deprived of a fair return on its investment. The two major considerations which are germane to such a contention are the value of the utility's investment, and the rate of return on its investment to be accorded the utility. Complexity, volume, delay, and the other features which characterize rate regulation can in the usual instance be referred to the problem of valuation.

Voluminous records are the rule in public-utility rate controversies. Thus, "An illustration of the experience of the commissioner is found in the case of *The Pacific Northwest Public Service Company* v. *Oregon Public Utilities Commissioner* in the district Federal court at Portland, Oreg.

* * * * * * *

"The commissioner's hearing developed a transcript record of 500 pages and 43 exhibits. Among these exhibits was a voluminous study and analysis prepared by the engineers of the commission." (Hearings before the Committee on the Judiciary, House of Rep., 73d Cong., 2d session, on S. 752, Serial 4, p. 18, February 27, 1934.)

Mr. Minton, of the Public Utilities Commission of Indiana, testified before the House Committee on the Judiciary, as to one case involving his commission:

"Mr. MINTON (Public Utilities Commission of Indiana). If we are taken into the Federal court, as we are threatened with in the *Electric case*, as we have just heard, we will be confronted, of course, with the great array of volumes of exhibits, as to the inventory and appraisal of that property, some sixty-odd volumes of it, and perhaps another array of engineers." (Hearings before the Committee on the Judiciary, House of Rep., 73d Cong., 2d session, on S. 752, Serial 4, p. 49, February 27, 1934.)

He had an even better illustration in his testimony, that of the *Indianapolis Water case* which re-opened a controversial situation which the Supreme Court had already passed once.

"The *Indianapolis Water case* was before the Supreme Court of the United States in 1926; its title was *McArdle* v. *Indianapolis Water Company.* The higher rates were sustained by the Supreme Court of the United States. During the time of the depression out there, they instituted a proceeding against this water company to reduce their rates again. And the case was again taken into the Federal court.

"Now, that the case started early in the fall of 1931. The commission wrote its order in April 1932. They were promptly enjoined in the Federal court, and in May 1933, we appeared before the special master in the Federal court to start to take testimony in that case. The special master in that case is a distinguished ex-judge in our State, a former United States attorney, and he was master in chancery, who has heard a number of utility cases before. We started on the 1st of May to take testimony, took the testimony all summer long, and finished about the middle of August; and we had compiled the largest record of testimony that had ever been taken in the Federal court in Indianapolis, according to the statement of the reporter who reports in that court, and has been reporting there for 30 years; a record of 15,000 typewritten pages, with hundreds of pounds of exhibits—books of exhibits, running from 200 to 400 pages each.

"Now, that utility had been before the commission, with its engineers and its experts, and had gone into this thing rather thoroughly before the Commission. They brought this firm of engineers from New York, a distinguished firm; and when they came into the Federal court, the record which was made before the Commission was utterly ignored, and there was no attention paid to it at all. They started *de novo.* And they used not only the engineers used before the Commission, but they employed in the meantime an additional firm of engineers in the city of New York, a very distinguished firm, I understand the outstanding firm in New York—and they brought both firms out there.

"And so we had two great firms of engineers out there in that water case. And in addition to that they brought a very noted utility expert from New York to testify about the rate of return. They brought New York counsel out there.

"So we spent the whole summer there taking the testimony in that case. The briefs have just been filed on behalf of the attorney general, who represents the commission in that matter and he just last week filed his brief before the master. The brief is a document of some 200 or 300 pages, and the brief filed by the utility is some 300 pages, I suppose." (Hearings before the Committee on the Judiciary, House of Rep. 73d Cong., 2nd session on S. 752, Serial 4, pp. 48–49, February 27, 1934.)

The expenses entailed by such a procedure are very considerable.

"in the *Indianapolis Water Co. case,* they were still amortizing the expenses of the 1926 rate case at the time we heard the last case out there in the Federal court; and they were still amortizing in Indianapolis, to the tune of $30,000 per annum in expenses of that case.

"The Chairman. What were the expenses in the case?

"Mr. Minton. Some $200,000. I do not recall the exact figure. In preparing this case to present to the master last summer, the Public Service Commission, through its attorney general and legal representative, employed additional engineering help, when we were confronted with their engineers on behalf of the utilities; and we spent $25,000 of the people's money trying to prepare that case to present it again in the Federal court. And so we are spending thousands and thousands of dollars in that one case." (Hearings before the committee on the Judiciary, House of Rep., 73d Cong., 2nd session, on S. 752, serial 4, Feb. 27, 1934, p. 49.)

Other illustrations may be adduced of investigations which not only cost the State considerable money, but also as a consequence of court litigation involved delays in effective administrative action. Thus, the State of Kansas spent almost $100,000 upon an investigation of gas rates charged by a company serving a hundred or more towns. Yet, by virtue of an injunction in the Federal district court, this case was delayed one year. (Hearings before the Committee on the Judiciary, House of Representatives, 73rd Congress, 2nd session, S. 752, serial 4, Feb. 27, 28, March 1, 1934, p. 258.) In New Jersey a valuation of public utility property took two years and cost more than $100,000. (Hearings before the Committee on the Judiciary, House of Representatives, 73rd Congress, 2nd session, S. 752, serial 4, Feb. 27, 28, March 1, 1934, p. 214.) In the Pacific Telephone and Telegraph Company and Home Telephone Company cases, after three years of proceedings within the State, new evidence taken before a special master in Federal Court; the State of Washington and its municipalities were subjected to more than $100,000 in the way of expenditures. (Hearings before the Committee on the Judiciary, House of Representatives, 73rd Congress, second session on S. 752, serial 4, Feb. 27, 28, March 1, 1934, p. 262.)

A classic instance of delay caused by litigation is supplied by the Chicago Telephone case, referred to four times in the hearings before the House Judiciary Committee on the Johnson bill (hearings before the Committee on the Judiciary, House of Rep., 73rd Cong., 2d session on S. 752, serial 4, pp. 23, 70–71, 138, 224, Feb. 27–Mar. 1, 1934). The mere printing of the record in this case for the United States Supreme Court cost $25,000.

"What the 10 years of litigation has cost we can only guess; but we know from the opinion of the United States District Court that the city of Chicago was obliged to seek delays because it lacked funds to meet the costs which fell upon it, all of which might have been avoided had the company been willing to accept the method of review provided by Illinois law, under which the record before the commission would have been transferred to the court, without the calling of additional witnesses, and upon which na expeditious decision might have been had." (Hearings before the Committee on the Judiciary, House of Representatives, 73d Congress, 2d sess., on S. 752, serial 4, March 1, 1934, p. 224). The history of this case illustrates the potentialities for delay present in our Commission court system of rate regulation, with its emphasis on valuation.

"Mr. Benton (continuing). Some reference has been made here to the Illinois Bell Telephone case. I will be glad to spend a little time pointing out what occurred with respect to that case.

"On August 16, 1923, the Illinois commission, after investigation and hearing, made an order reducing the charges for certain classes of coin-box telephone service of the Illinois Bell Telephone Co. in the city of Chicago. The company applied to the United States District Court for an injunction on the ground of alleged confiscation.

"On December 21, 1923, upon a showing by affidavits, the district court granted an interlocutory injunction.

"October 19, 1925, the United States Supreme Court affirmed the interlocutory injunction in a per curiam opinion. *Smith* v. *Illinois Bell Telephone Company* (269 U. S. 531).

"January 30, 1930, after a hearing in which 3,000 pages of evidence was taken and 281 exhibits were introduced, the court granted a permanent injunction. *Bell Telephone Company* v. *Moynihan* (38 F. (2d) 77).

"On December 1, 1930, the United States Supreme Court reversed the lower court, and sent the case back for further finding of facts, the injunction continuing in force in the meantime. *Smith* v. *Illinois Bell Telephone Company* (262 U. S. 133).

On April 29, 1933, upon consideration of evidence taken in a hearing which extended over 5 months, the district court handed down another opinion again finding the rates confiscatory, and ordering the same permanently enjoined.

Illinois Bell Telephone Company v. *Gilbert* (3 F. Supp. 595). From this decision the Commission prosecuted an appeal, which is now pending before the United States Supreme Court.

This case has been in the Federal court for more than 10 years. It has been before the United States Supreme Court four times during that time and is now there the fifth time. Whether this is the end nobody knows." (Hearings before the Committee on the Judiciary, House of Representatives, 73d Cong., 2d sess., on S. 752, serial 4, Feb. 27, 28, March 1, 1934., pp. 70–71).

Another illustration of the opportunities for delay which litigation affords, one which can be adequately appreciated only, is presented by the following summary of proceedings in the case of *Great Northern Utilities Co.* v. *Public Service Commission of Montana*, 88 Mont. 180, 293 Pac. 294; 52 F. (2d) 802; 1 F. Supp. 328, 289 U. S. 130.

September 21, 1927: Commission, on its own motion, instituted inquiry into reasonableness of rates charged by Great Northern Utilities Co. for natural gas at Shelby, Mont.

November 29, 1927: Public hearing at Shelby, Mont., on issues involved.

October 1, 1928: Further public hearing at Shelby, Mont., on issues involved.

December 20, 1928: Public hearing upon reasonableness of new schedule of rates proposed by Great Northern Utilities Co. for competitive purposes.

January 22, 1929: Order of commission rejecting proposed schedule of utility and requiring utility to establish a specific schedule of rates effective February 1, 1929 (P.U.R. 1929–B, 176).

February 8, 1929: Action instituted by utility in State court to have order declared null and void and enforcement thereof enjoined.

November 15, 1929: Second amended complaint of utility filed.

November 22, 1929: Answer of commission filed.

November 30, 1929: Motion for judgment on pleadings filed by utility.

February 4, 1930: Motion for judgment on pleadings granted.

February 4, 1930: Judgment rendered against commission declaring order null and void and permanently enjoining its enforcement.

February 8, 1930: Commission files appeal to Supreme Court of Montana.

April 3, 1930: Commission files motion to advance appeal on docket. Granted. Argument on appeal set for June 9, 1930.

June 9, 1930: Appeal argued and submitted.

July 29, 1930: Supreme Court reverses lower court and remands cause for proceedings not inconsistent with views expressed (88 Mont. 180; 293 Pac. 294).

September 2, 1930: Utility petitions for rehearing.

September 9, 1930: Commission files objections to petition for rehearing.

November 25, 1930: Petition for rehearing denied (88 Mont. 232).

December 22, 1930: Utility files action in Federal court (U. S. Dist. for Montana) alleging same identical facts as in State case and requests injunctive relief on theory order violates fourteenth amendment to Constitution of the United States. (Same grounds urged, inter alia, in State courts.)

December 22, 1930: Utility moves for injunction pendente lite.

January 2, 1931: Commission moves State court for setting of State case for trial. Granted and case set for trial for January 23, 1931.

January 15, 1931: Commission files motion to dismiss in Federal court case.

January 21, 1931: Utility files praecipe for dismissal of case in State court.

June 29, 1931: Application of utility for interlocutory injunction comes on for hearing before Sawtelle, circuit judge, and Bourquin and Pray, district judges, at Helena, Mont.

June 29, 1931: At suggestion of court cause is submitted on final hearing with the right of commission to file its answer to bill of complaint on same date.

June 29, 1931: Answer of commission filed raising the same identical issues of fact as were raised in the State case.

July 22, 1931: Stipulation between parties agreeing that the case is submitted on application for interlocutory injunction only and not on final hearing.

August 18, 1931: Decision of three-judge court filed (Bourquin and Pray award interlocutory injunction to plaintiff—Sawtelle dissents). (52 F. (2d) 802.)

August 19, 1931: Interlocutory injunction issued against commission.

September 15, 1931: Petition for appeal filed and order of allowance made.

September 28, 1931: Sawtelle, C. J., files special concurring opinion (52 F. (2d) 805).

February 24, 1932: Appeal argued in Supreme Court of United States.

February 29, 1932: Per curiam order affirming action of special court issuing interlocutory injunction "without prejudice to the consideration and determination at final hearing of all questions of law and fact * * *" (United States Daily, issue of Mar. 1, 1932, p. 5, col. 1).

September 19, 1932: Final hearing before a three-judge Federal Court.

October 5, 1932: Three-judge Federal Court issued permanent injunction against the Commission's order (1 F. Supp. 328).

November 26, 1932: Commission filed appeal to the Supreme Court.

March 23 and 24, 1933: Argument on appeal before United States Supreme Court.

April 10, 1933: Decision of United States Supreme Court upholding Commission's order (289 U. S. 130; 77 L. Ed. 1080).

May 15, 1933: Mandate from the United States Supreme Court was filed with the clerk of the lower court.

June 7, 1933: The Commission moved for a decree in accordance with the mandate. The utility countered with a motion to file a supplemental bill on the ground of changed conditions. Before decision thereon the utility submitted a new tariff to the Commission and upon receiving the approval of a majority of the members of the Commission it secured an order of dismissal of its action in the Federal Court.

June 26, 1933: Order of dismissal entered. (Hearings before the Committee on the Judiciary, House of Representatives, 73d Congress, second session on S. 752, serial 4, Feb. 27, 28, March 1, 1934, p. 267.)

Further examples of procrastination are furnished by *Smith* v. *Illinois Bell Telephone Company* (Hearings before the Committee on the Judiciary House of Representatives, 73d Congress, 2d session on S. 752, serial 4, Feb. 27, 28, March 1, 1934, p. 308); the *Worcester Electric Light rate case* (Hearings before the Committee on the Judiciary, House of Representatives, 73d Congress, 2d session on S. 752, serial 4, Feb. 27, 28, March 1, 1934, p. 225); the *Los Angeles Gas case* and the *Pacific Gas and Electric case* (Hearings before the Committee on the Judiciary, House of Rep. 73d Congress, 2d session on S. 752, serial 4, p. 215, March 1, 1934); the *Central Kentucky Gas Company* v. *Kentucky Railroad Commission* (Hearings before the Committee on the Judiciary House of Representatives, 73d Congress, 2d session, S. 752, serial 4, Feb. 27, 28, March 1, 1934) (p. 69); and the case of *The St. Louis and O'Fallon Railway Company and Manufacturers' Railway Company* v. *United States of America and Interstate Commerce Commission*, 279 U.S. 461, which finally upset, in the year 1927, the valuation for recapture purposes, for the recapture periods of the years 1920, 1921, 1922, and 1923, respectively.

An estimate of average delay was supplied by the Alabama Public Service Commission, with respect to injunction suits generally:

"(1) Such an injunction suit is attended with great delay. After the suit is filed and the preliminary orders of the court are made, under the rules of the Federal courts, a master is appointed to take testimony. The taking of testimony is rarely completed in less than a year, and in our opinion, the average time so employed will be found to exceed 12 months. Upon the conclusion of the taking of testimony, there is then a submission before the master. Upon this submission, the master usually takes several months in considering the testimony and in preparing and writing his report. The case then goes to the trial court. It requires, as a rule, several months to get the case submitted to the trial court and after the submission, as a rule, several other months before there is a decision by the trial court. In this way it requires, ordinarily, 2 years to get the case to a decision by the trial court. It will require in most cases most of another year to get the cause submitted, heard, and determined by the Supreme Court of the United States.

"Certainly, it is safe to say that it is rare if any such injunction proceeding can be heard and determined both by trial court and the Supreme Court of the United States within less than 2 years. The records will show that many of such cases have consumed from 3 to 5 years in the final determination thereof." (Hearings before the Committee on the Judiciary, House of Representatives, 73rd Congress, 2nd session, S. 752, serial 4, Feb. 27, 28, March 1, 1934 (p. 262).)

Reference to the *Consolidated Gas case* corroborates this statement. Hearings before the Committee on the Judiciary, House of Representatives, 73d Cong., 2nd session, on S. 752, serial 4, pp. 14–15, February 27, 1934.

In addition to the customary cost and volume indicia of the difficulty of utility inquiries, Mr. Reis, General Counsel of the Wisconsin Public Service Commission, supplies useful data in connection with the problem, often overlooked of the staff required to administer a utility investigation.

"*Mr. Reis* (General Counsel, Wis. Public Service Comm.).

"We cited you in our memorandum to the *Wisconsin Telephone case*, which is the most stupendous utility inquiry ever undertaken in Wisconsin. Over 20 accountants, 45 engineers, rate specialists, and others of the commission's staff will have worked for almost 3 years on this investigation, compiling a record to date of 7,500 pages of testimony and 361 exhibits, at a total cost, before it is all over, of roughly a quarter of a million dollars.

"Parenthetically, I may say that a substantial portion of this quarter of a million is charged back to the utility (and doubtless ultimately as an operating expense to the ratepayer). This charge is made under a law of Wisconsin, which allows the commission to assess against the utility, for regulation, up to four-fifths of 1 percent of the gross annual revenue, together with a remainder assessment of one-fifth of 1 percent of gross against all utilities. This gives us a budget of approximately $1,000,000, one of the largest in the country." (Hearings before the Committee on the Judiciary, House of Representatives, 73, Cong., 2nd session, on S. 752, serial 4, pp. 22–23, Feb. 27, 1934.)

The New York Telephone case is almost staggering in the voluminousness of its records and the number of stages at which comprehensive preparation was required, plus the delay consequent upon the taking of the various steps possible in commission-court procedure.

"Reference has been made by Senator Johnson and by the President of the United States to the *New York Telephone case*. I just want to give you a few of the dates regarding that case—just a few of them. The President said that it had taken 7 years. Well, that was true at the time when he had last heard of it, at a certain stage that they had reached. But it has taken nearly 10 years to get it through, from the time the case was started until the last decision in the United States Supreme Court.

"Now, what happened? Going back to 1923, before the Public Service Commission of the State of New York, there were proceedings; over 18,000 pages of testimony were taken in those proceedings. There were 728 exhibits and 129 hearings had been held.

"Then some time later, in 1924, there were further proceedings, nearly 8,000 pages of testimony were taken and 307 exhibits were received.

"But on January 23, 1924, when the company applied to the Commission for increases in rates, which were not promptly granted, they proceeded very shortly thereafter, on April 26, 1924, to seek to obtain an order from the Federal court restraining the enforcement of rates by the Commission. On May 1 they received an order for the enforcement of rates, allowing a surcharge of 10 percent, that is, allow those rates, plus 10 percent, in the city of New York, but no increase outside of New York. A master was appointed, and 710 hearings were held in that case, after all of the hearings that had been held before the Commission; 710 hearings were held before the master. That is, they started de novo. They did not take any of the record made before the Commission. They started to make a new record entirely. Over 36,000 pages of testimony were taken before the master in that case and 3,800 exhibits were received.

"Mr. OLIVER. And most of those were duplicates, were they not, of those that had been received in the State court?

"Mr. MALTBIE. I would say so, or substantially so. You see this was started in 1924, and they did not finish the taking of testimony until 1928. So they were 4 years in there, after starting in 1924; and you have always to take additional testimony for additional years; and the proceedings lasted 4 years before the master.

Mr. Maltbie speaking, Mr. Condon (Rep.).

"The taking of testimony was finished on September 10, 1928. That was over 4 years later than his appointment. Briefs were submitted and on March 11, 1929, the master made his report to the court. Then there was oral argument, and the statutory court made its decision November 7, 1929, about 6 months later. Of course, it was a very elaborate record and the findings were elaborate, and about 6 months were taken." (Hearings before the Committee on the Judiciary, House of Representatives, 73rd Congress, second session, on S. 752, serial 4, Feb. 27, 28, March 1, 1934, pp. 10–11.)

Despite his extensive investigation, the court found the master's valuation erroneous.

"The statutory court refused the master's valuation over $120,000,000, but found that the rates did not allow a fair return, and consequently, that the order of the Commission was confiscatory.

"Now that was in the fall of 1929. Then, of course, the Commission had to take testimony to fix rates in accordance with that order, and the Commission proceeded to do so. But the company was not satisfied with the decision, and filed an appeal to the United States Supreme Court. That was done in the early part of 1930; and here we are in the early part of 1934, and there has just been a decision made dismissing the appeal." (Hearings before the Committee on the Judiciary, House of Representatives, 73rd Congress, second session, on S. 752, serial 4, Feb. 27, 28, March 1, 1934, p. 11.)

Compare also, *New York Telephone case*, hearings before the Committee on the Judiciary, House of Representatives, 73rd Congress, second session, on S. 752, serial 4, Feb. 27, 28, March 1, 1934, pp. 12, 13, 14, 23–24, 138, 141. The complexity of this particular valuation proceeding is all the more significant when taken in conjunction with the frequency with which the New York Telephone Company has been involved in litigation.

"there have been cases affecting the New York Telephone Co. beginning a long time ago—well, I will not go back before the war; but there was one in 1915 and there were some before that. But there were other cases affecting the New York Telephone Co., beginning in 1919 and 1920, and they had been before the Commission constantly from 1919 and 1920 until 1930, and we have had two or three since. He may be entirely right. I am not positive." (Hearings before the Committee on the Judiciary, House of Representatives, 73rd Congress, second session, on S. 752, serial 4, Feb. 27, 28, March 1, 1934, p. 16.)

3. VALUATION DIFFICULTIES IN CONNECTION WITH TAXATION

The practical administrative difficulties which valuation for rate-fixing purposes has encountered is well matched in valuation procedure related to taxation. The number of taxpayers with valuation difficulties is much larger than that of the public utilities, and the pressure caused by mere numbers has produced a tendency to settle most of these controversies outside of the courts. For that reason, instances of delay in connection with taxation valuations are characteristically found to be cases of administrative delay. Some indication of the complex and involved procedure that may be undergone in connection with valuation for tax purposes, and the amount of time that this consumes, is given by the following summary of proceedings in the case of the Union Natural Gas Co. of Pittsburgh, Pa.

"A review of the files of this case shows that there is still pending an additional tax of approximately $200,000 for the year 1917. There have been apparent delays on the part of the taxpayer and the department has not been able to close this case for any year.

"The following chronology best illustrates the conditions prevailing in this case:

"May 29, 1918: Schedules filed answering questions in the 1917 tax returns.

"March 19, 1919: Taxpayer requested to file valuation data.

"April 3, 1919: Second request asking for valuation data.

"April 4, 1919: Taxpayer desires to comply with request for valuation data and asks extension of time and conference.

"April 8, 1919: Conference granted for April 16.

"April 16, 1919: No conference memorandum.

"January 26, 1920: Taxpayer asks for ruling regarding drilling expenses.

"April 19, 1920: Taxpayer asked to file affiliated questionnaire.

"May 26, 1920: Second request for affiliated corporation questionnaire.

"July 21, 1920: Third request for affiliated corporation questionnaire, given to August 16 to reply.

"December 4, 1920: Taxpayer refers to letter of January 26, 1920, asking for ruling on method of handling labor and drilling costs for gas wells.

"January 4, 1921: Taxpayer reminds Department in answer received in reply to letters of January 26, 1920, and December 4, 1920.

"December 9, 1920: Affiliated corporation questionnaire received by Department.

"January 13, 1921: Coal valuation section asks for data to substantiate coal land values.

"January 22, 1921: Taxpayer asked to file consolidated income- and profits-tax return for 1919.

"February 4, 1921: Coal valuation reports mailed by taxpayer.

"February 12, 1921: Taxpayer advised regarding drilling costs per request of December 4, 1920.

"August, 1921: Form O, oil and gas valuation data for 1917, 1918, and 1919, received.

"October 10, 1921: Taxpayer asks for conference. Conference arranged for October 18.

"December 13, 1921: Taxpayer preparing amended returns for 1917 to 1920, asks status of case.

"December 27, 1921: Valuation oil and gas properties in progress by oil and gas section.

"January 3, 1922: Taxpayer asks for extension of time for filing amended returns.

"January 10, 1922: Extension granted to February 15, 1922.

"February 18, 1922: Taxpayer asks for 90 days' extension to file amended returns.

"February 28, 1922: No extension granted.

"March 1, 1922: Taxpayer asks further extension.

"March 18, 1922: No extension granted.

"November 7, 1922: Letter to taxpayer explaining valuation methods.

"January 29, 1923: Revenue agent's report filed showing additional tax for 1917, $232,440.70.

"February 1, 1923: Conference, oil and gas section.

"April 30, 1923: Taxpayer asks for conference.

"May 2, 1923: Conference granted May 10.

"May 11, 1923: Conference, oil and gas section, discoveries disallowed.

"January 10, 1924: Assessment letter showing additional tax for 1917, $198,190.75; for 1918, $2,719.30. This letter shows that taxpayer paid for 1917, $446,676.13, and for 1918, $289,400.58. The consolidated net income for 1917 was $3,330,798.48, while the aggregate net income for 1917 was $4,553,827.21. The consolidated invested capital for 1917 was $13,448,957.62.

"February 8, 1924: Protest filed regarding A-2 letter January 10, 1924.

"May 2, 1924: Taxpayer asks for conference May 13, 1924.

"May 13, 1924: No conference memorandum.

"July 22, 1924: Conference held in oil and gas section.

"August 21, 1924: Conference held in consolidated audit section with request that another conference be held September 12.

"September 12, 1924: Conference, consolidated audit section; certain balance sheets requested.

"September 23, 1924: Balance sheets received by Department.

"October 21, 1924: Conference, consolidated audit section.

"December 1, 1924: A 300-page revenue agent's report received covering the years 1918 to 1921, inclusive, showing additional tax due of $29,865.01.

"March 14, 1925: Department refers to taxpayer's appeal and asks for additional information.

"April 2, 1925: Taxpayer granted extension to April 24, 1925, to file additional information." (Senate Report No. 27, 69th Cong. 1st Sess., January 7, 1926, pp. 96–97.)

This might be compared with the long and involved court procedure in the Great Northern Utilities Co. case described on pp. 4359 of this memo.

The delay involved in this connection has important consequences, inasmuch as frequently the statute of limitations bars assessments and controversial issues cannot be raised because the statute has run. For example:

"In the Kennedy and Springer case (2981), the Government lost a tax of about $200,000, on $2,903,353 of profits from the sale on an oil lease, because of delay until the statute of limitations barred an assessment." (Senate Report No. 27, 79th Cong. 1st sess., January 7, 1926, p. 97.)

The valuation sections of the Bureau of Internal Revenue are even more hopelessly unable to keep up with their work than the similar units in the Interstate Commerce Commission, see pp. 4353 of this memo. Thus, in connection with the work in the oil and gas valuation section:

"The work of this section is so far behind that up to March 1, 1925, practically all effort was concentrated on valuations for 1919 and preceding years.

"In March 1925, the engineering division had 1,318 more 5-year-old cases undisposed of than in March 1923, a loss of progress of 207 percent in two years." (69th Cong., 1st sess., Senate Report No. 27, p. 96, 1/7/26.)

Valuation still remains a very vague and variant factor. Frequent indications are present as to the rapid growth of amount of valuation that properties are likely to acquire as they develop. This is in the main due to certain intangible factors such as good will. For example:

Houston Coal & Coke Co.—"On this basis the lease is given a value of $918,884.60 and the depletion unit is given 21.3 cents. As a royalty of 10 cents was stipulated in the lease, the coal in the ground was thus valued at 31.3 cents, when it was established, undisputed fact, agreed to between the income tax unit and the Pocahontas operators, that the market price of coal in the ground on March 1, 1913, was 17.9 cents. . . .

"In this case nearly $718,000 of value, due entirely to good will and selling ability, is attributed to coal in the ground and returned to the taxpayer as tax-free depletion" (69th Cong., 1st sess., Senate Report No. 27, p. 52, 1/7/26).

Appreciation in the value of patents may also be conducive to enormous accelerations in value. Take as an illustration:

Union Sulphur Co.—"In 1896 Herman Frasch, who had invented and patented a process which it was believed would be successful, organized the Union Sulphur Co. with a capital of $200,000. The property in question was acquired, subject to a mortgage of $165,000 in exchange for $100,000 par value of the capital stock of the company. The remaining $100,000 of capital stock was issued to Frasch in exchange for his patent.

"The value of the deposit, as of date of acquisition, allowed by the income-tax unit for invested capital purposes, was $3,000,000" (69th Cong., 1st sess., Senate Report No. 27, p. 65, 1/7/26).

Compare also the following illustrations of a valuation far above the original investment.

United States Graphite Co.—"This property was acquired in 1893 in exchange for stock of the taxpayer of the par value of $35,000. The value allowed for invested capital purposes for 1917 was $335,000, or $300,000 in excess of the par value of the stock, . . ." (69th Cong., 1st sess., Senate Report No. 27, pp. 60, 61, 1/7/26).

Texas Gulf Sulphur Co.—"The value allowed for depletion purposes is $38,920,000, and the depletion unit allowed is $4.86 per ton. The property in question was purchased in 1909 for $250,000" (69th Cong., 1st sess., Senate Report No. 27, p. 68, 1/7/26).

An unusually sudden accretion of value is illustrated by the case of the Temple Coal Company.

"The mining property of this company was acquired on June 24, 1914, at public auction, by the promoter of the company for $5,609,423.33 cash. This cash bid was based upon and exactly equaled the value which had been placed upon the property by an engineer employed by the vendor.

"On July 1, 1914, seven days after its purchase for cash, this property was turned over to the taxpayer in exchange for capital stock.

"The value allowed upon this property, for invested capital purposes, as of July 1, 1914, was $10,443,678.29" (69th Cong., 1st sess., Senate Report No. 27, p. 59, 1/7/26).

Differences as to the valuation to be placed on properties are a natural consequence of the difficulties of the valuation process. Extreme instances of such differences between the amount of valuation claimed by the taxpayer and the amount of valuation fixed by the Bureau of Internal Revenue follow:

Border Island Co.—"The valuation of $130,000, as of June 15, 1912, for invested capital purposes was accepted by the taxpayer, but a protest was filed as to the valuation of $121,082.25, as of March 1, 1913, for depletion purposes, and the case was reviewed by the solicitor's office. * * * The solicitor's office made a valuation, by an analytic appraisal, of $196,159.99 as of March 1, 1913. . . ." (69th Cong., 1st sess., Senate Report No. 27, p. 61, 1/7/26).

United States Graphite Co.—"The taxpayer claimed a March 1, 1913, value on this mine, for depletion purposes (1342), of $516,926.45. Mr. A. R. Shepherd, a special conferee, designated by and working directly under Mr. S. M. Greenidge, head of the engineering division, was permitted to overrule the nonmetals section and allowed a March 1, 1913, value of $1,043,044.56 (1348)" (69th Cong., 1st sess., Senate Report No. 27, p. 48, 1/7/26).

New Jersey Calcite Co.—"The taxpayer claimed a value of $130,000 on these leases as of April 1916, to be depleted in annual installments between April 1916 and the expiration of the leases. . . . The valuation engineers fixed the value of these leases at $8,950.93 (1294, 1295).

"The taxpayer appealed from this determination to the committee on appeals and review, which allowed a value of $106,000 on these leases (1299)" (69th Cong., 1st sess., Senate Report No. 27, p. 53, 1/7/26).

An insight into more typical discrepancies in valuation allowances and claims between the Government and the taxpayer is supplied by "Exhibit No. 1405", a table of amortization allowances and claims. It is, of course, axiomatic that valuation, as in the rate regulation field, will differ with respect to the purpose for which the property is being valued. As an illustration:

Celite Products Co.—"This taxpayer acquired a deposit of diatomaceous earth, used for filter and insulation purposes, in February 1916 for $325,000, par value of its capital stock. At this time the company had done no business, earned no profits, and its stock had no market value, except such as would be attributable to the property acquired.

"A value for invested capital purposes, as of date of acquisition (February 1912), was allowed at $325,000. A value for depletion purposes, as of March 1, 1913, was allowed at $1,550,000. * * *" (69th Cong., 1st sess., Senate Report, No. 27, pp. 62 and 63, 1/7/26).

These discrepancies are all the more impressive when viewed in gross. Thus, the differences between the original valuations and the revaluations of eleven silver mines is given by the following statement:

"Of the 11 valuations completed, the original valuations are $37,517,093. The revised valuations made by the metals valuation section are $23,867,624, a difference of $13,649,169. The original valuations are 157.19 percent of the revised valuations" (69th Cong., 1st sess., Senate Report No. 27, p. 110, 1/7/26).

Two valuations of the copper mines of forty-seven companies recorded the following differences:

"The totals of the March 1, 1913, value for depletion purposes of the property of the 47 companies which was revalued as follows:

First valuation	$1, 750, 024, 787
Second valuation	530, 217, 893
Difference	1, 219, 806, 894

"The first valuation, as of March 1, 1913, averages 330 percent of the second valuation.

"As of January 1, 1919, the totals of the first and second valuations of these 47 companies were as follows:

First valuation	$1, 456, 327, 002
Second valuation	323, 707, 404
Difference	1, 132, 619, 598

"The first valuations, as of January 1, 1919, average 449.9 percent of the second valuations" (69th Cong., 1st sess., Senate Report No. 27, pp. 109–110, 1/7/26).

Similarly striking figures are presented for other types of mines.

"* * * The revaluation of the mines in limestone replacement deposits show that the first valuations average 191.87 percent of the proper values. The first valuations of vein mines average 307.39 percent of the proper values, and the first valuations of the porphyry mines average 412.90 percent of the proper values" (69th Cong., 1st sess., Senate Report No. 27, pp. 109–110, 1/7/26).

A detailed example of the way in which two engineers' appraisals of the same property may differ is given by the following table:

"The hypothetical appraisals of the same property and the percent of the difference between the lower and higher estimates are as follows:

	First engineer's appraisal	Second engineer's appraisal	Percent of difference
Reserve in mine pounds	30,000,000	35,000,000	16⅔
Life of property	12 years	15 years	25
Expected selling price per pound	16 cents	15 cents	6⅔
Estimated operating cost per pound	12 cents	13 cents	8⅓
Profit per pound	4 cents	2 cents	100
Total operating profits	$1,200,000	$700,000	71.4
Discount rate	8 and 4 percent	10 and 4 percent	25
Hoskold's present value factor	$0.568,624	$0.44619	28
Present worth, plant and ore	$682,348.80	$311,233.30	119
Estimated plant cost	$150,000.00	$200,000.00	33⅓
Present value, ores only	$532,348.80	$111,233.30	378.59
Depletion unit	$0.017745	$0.003178	458.57

"The greatest percent of difference in any of these factors is the plant cost which is 33⅓ percent, yet the difference in the depletion unit is 458.37 percent" (69th Cong., 1st sess., Senate Report No. 27, p. 114, 1/7/26).

It is not purported here to endorse the criticisms of the majority of the committee which prepared the report from which most of these illustrations have been selected and, to this end, any possible reflections therein contained on the character of the work of the Bureau of Internal Revenue have been deleted. Even the minority report in the Couzens committee concurred in the general proposition that honest men could differ as to the valuation which they would set on various properties, as will be apparent from their interpretation of the *Witherbee* v. *Sherman* case.

"In this case the valuation which the engineers of the committee thought should have been placed upon the property differed by approximately $5,000,000 from the valuation which the Bureau had set. At the same time the valuation of the committee's engineers differed by approximately $5,000,000 from the valuation set upon the property by Mr. Grimes, another engineer of the Bureau (69th Congress, 1st sess., Senate Report No. 27, pp. 4–5).

One should also examine their statements on page 13. In any event, it is immaterial whether the differences in valuation be the result of dishonesty or a reasonable difference in opinion. Both alternatives remain ample evidence of the administrative difficulty of arriving at valuations which will be accepted by parties with adverse interests in ascertaining the amount of the valuations. One may close with the opinion of Dr. T. S. Adams, of Yale University, long associated in a very responsible capacity with the Treasury Department:

"I think that no one thing so conduces to delay and complexities of the tax laws as the necessity for valuation.

"I think it may be possible, and I hope that the department, some representatives of which are present, will bestir themselves to make suggestions to get away from * * * problems of valuation, the solution of which problems means the exercises of judgment and differences of opinion, mistakes, and delay. If there is any human way of getting away from that, the Government of the United States ought to get away from it". (69th Congress, 1st sess., Senate Report No. 27, 1/7/26, p. 116).

Exhibit No. 1344

Explosives Department (1933)

NET RECEIPTS

Net receipts and average selling prices for the month of February were as follows:

	Net receipts	Selling price
Dynamite (per 100 lbs.)	$1.13	$12.09
Granular "B" blasting (per keg)	.17	1.80
Pelleted "B" blasting (per 25 lbs.)	.41	2.14
du Pont caps (per 1,000)	1.47	11.21
E. B. caps (per 100)	1.62	5.64

Note.—Taken from Executive Committee Report of Explosives Department for month of February 1933, page 5.

TREND OF BUSINESS

Dynamite sales in February were 660,000 pounds below forecast, and the March order rate is disappointing. The indications now are that the volume for March will be somewhat below February's, whereas there is usually a seasonal increase of 13%. No material improvement can be forecast at this time, though there seems to be a general feeling of confidence that the times are on the mend.

PRICE CHANGES MADE AND CONTEMPLATED

On February 27th du Pont made a general revision of dynamite prices, and balanced the schedule by reducing the differentials between grades, particularly in the higher-strength powders. Revised quantity differentials were instituted and sales groups realigned at the same time. Approximately 4,000 special prices were eliminated. It is estimated that this department's gross value of sales will be decreased some $140,000 annually, but prices are now logical in comparison with costs and the whole price structure should be considerably improved. All competitors have promulgated similar price schedules.

Exhibit No. 1345

Excerpts from an Unsigned Mimeographed Memorandum Prepared in the War Department, Dated March 28, 1932, Headed "Explanatory Notes. Contract Forms for Use in Time of War"

From the fall of 1917 to the armistice approximately a hundred contracts a day were made in the Ordnance Department, and upwards of 350 persons were employed in the negotiation and preparation of these contracts. Usually when an agreement was reached, the contractor was given a procurement order which recited the quantity and description of the articles to be manufactured, together with the drawings and specifications, the price to be paid, the rate of delivery, and date of completion. The procurement order also contained the statement that a formal contract would follow. The preparation of these formal contracts, their approval by the negotiators, and execution by the contractor consumed considerable time. (By execution I mean the signing of the contract by the contractor and contracting officer.) Sometimes contractors took exception to some of the language of the contracts, then correspondence ensued to clear up disputed points, and it is a matter of record that sometimes contracts were not executed until several months after the date of the procurement order. In the meantime, the contractor, realizing that there was an urgent need for the supplies, proceeded with the work and relied on the good faith of the Government to satisfactorily adjust any inaccuracies between the contract as written and the agreement as made with the negotiators (page 1).

It was impossible for the few contracting officers who were stationed in Washington to read and digest the hundred and more contracts per day that were laid on their desks, and they delegated the duty of signing these contracts to officers whom they believed were thoroughly capable of studying the contracts and seeing that the interests of the United States were properly protected (pages 1 and 2).

* * * * * * *

* * * As soon after the armistice as conditions would permit, contractors were requested to suspend operations and submit claims arising out of contracts on which work was terminated. Most contractors were eager to cease operations on the manufacture of munitions and resume their peace-time avocations. For the most part, all work was stopped in December 1918, and upwards of 26,000 claims were filed with the Ordnance Department (page 3).

To add to their troubles, contractors who did not have formal contracts were now required to prove the actual amounts expended for labor, material and overhead, and these amounts were checked by government auditors and accountants. It was exceedingly difficult to determine with accuracy the cost of work in process, to fix the amortization on buildings and machinery, to determine the amount of overhead and the items that should be included therein which were applicable to the work. Disputes arose between the claimant and the claims board representatives, weeks and months were spent on investigations, and appeals to the War Department Claims Board in Washington were numerous. This was the unfortunate position that thousands of contractors who had not executed formal contracts found themselves in when the war was over. Many believed that they had been unfairly treated and vowed never again to take a war contract from the United States. Officers of the Government did everything possible to expedite settlement. They provided for partial payments whenever the facts warranted, in order to relieve the claimant of financial embarrassment; but the great difficulty was in securing the facts. * * * (page 3).

When the work of the claims board was finished, the Secretary of War appointed a board to draft standard forms of contracts to be used in time of war or other national emergency. This board was composed of officers of the supply services of the War Department, all of whom had experience in war-time procurement or in the settlement of claims arising out of the termination of contracts after the armistice. The board sought to produce a form of contract that would be fair alike to the Government and the contractor, and which would eliminate the difficulties I have referred to previously. They began by drafting (pages 3, 4).

* * * * * * *

In view of the prohibition against the use of cost-plus contracts, and for the purpose of procuring articles or work which could not be procured under fixed-price contracts, it was necessary to draft a contract which would eliminate the objectionable features of the cost-plus contract, and at the same time enable the Government to procure its munitions quickly and without loss to the contractor. This contract has been designated—

THE ADJUSTED COMPENSATION CONTRACT

The purpose of this contract is threefold: 1st, to insure the contractor against loss; 2nd, to provide an incentive to produce the munitions in the shortest possible time; and, 3rd, to provide an incentive for their production at the lowest possible cost (page 7).

* * * * * * *

* * * that portion of them which is applicable under the contract; the wages of the workmen; the cost of all material required; the plant overhead; the depreciation on plant and facilities used; the cost of preparing the plant for performing the work; the cost of any machinery or tools which may be required for the performance of the work; and, when the contract is completed or if it is terminated before completion, the cost of rehabilitating the plant or restoring it to its original condition. In addition to being paid its cost, it will be paid a predetermined fee. Thus the contractor is insured against loss. This saves the contractor the trouble incident to borrowing large sums of money from bans and paying high rates of interest. It enables the contractor, if the work is terminated, to receive the payment of any balance due without the necessity of filing a claim * * * (page 8).

* * * * * * *

All buildings, machinery, materials, etc., for which the contractor has been reimbursed are the property of the United States, and the Government has the right to remove such property even though the buildings and machinery may be in- stalled upon land not belonging to the United States.

All scrap resulting from materials paid for by the Government is the property of the Government (page 12).

* * * * * * *

Exhibit No. 1346

Meeting of the War Industries Board Held Tuesday, September 11, 1917, at 10:00 a.m., in Room 945, Munsey Building

Present: Judge Lovett, acting chairman, Mr. Baruch, Mr. Brookings, Admiral Fletcher, Mr. Frayne, Col. Pierce, Mr. Bingham, secretary, and Mr. Eugene Meyer, Jr.

Representatives of copper interests: Mr. J. D. Ryan, Mr. Joseph Clendenin, Mr. Murry Guggenheim, Mr. James McLean, Mr. T. Wolfson, Mr. R. L. Agassiz.

Copper.—Judge Lovett stated that the War Industries Board felt that a price of 22¢ per pound f.o.b. N. Y. for copper was a fair price and would allow the copper companies a reasonable profit. This price would hold for a certain period only when it could be revised either upwards or downwards. Likewise, that the wages being paid for labor at the present time should remain the same, notwithstanding the sliding scale agreements. The price to the public should be the same as to the Government and the Allies. The enforcement of this last could be accomplished by the copper interests.

Mr. Ryan stated that the copper interests could not control the price to the public and that 22¢ per pound for copper would create a condition where the small high-cost producers would not voluntarily cooperate in selling at the fixed price. They would however come in if 25¢ per pound were fixed.

He stated that to disturb the sliding scale rates now in force would be very harmful and would later lead to the curtailment of the production of copper. He further said that it would be impossible for the Government to commandeer all of the small high-cost mines as there are such a great number.

He suggested further that possibly the best solution of the problem would be for the Government to buy all the copper and distribute it to consumers and then if the price fixed was high enough to stimulate production, it should held for a considerable period, while if at a price which would tend to curtail production because of the small profit allowed and the impossibility of mining low-grade ores at a profit, the Government should buy for as short a period as possible.

The representatives of the copper interests present gave assurances that they would do all they could to assist at whatever price was fixed but that if a price below 25¢ per pound were fixed, they felt sure that many mines would refuse to sell to the Government unless forced to do so.

The meeting adjourned at 12:30 o'clock p.m. to reconvene at 10:00 a.m. Wednesday, September 12th.

(sgd.) H. P. Bingham, *Secretary.*

Exhibit No. 1347

Excerpts From Meeting of the War Industries Board Held Friday, November 16, 1917, at 10:00 a.m., in Room 703 C. N. D. Building

Chemicals, Aetna plant at Howard for smokeless powder: Col. Pierce presented a communication from the Chief of Ordnance dated November 16th, stating the the Ordnance Department wished to use the Howard plant of the Aetna Explosive Company for the manufacture of smokeless powder to be at the rate of 1,000,000 pounds per month and which plant was not vacant.

It was stated that the Aetna Company refused to operate this plant unless they received an order at over 64¢ per pound, which was 15¢ higher than the price being paid the du Pont Company. This was referred to Mr. Brookings with power to act.

The meeting adjourned at 12:45 p.m.

(Signed.) H. P. Bingham, *Secretary.*

[Insert 7E. Refer to page 386]

Excerpts From Meeting of the War Industries Board Held Friday, December 21, 1917, at 10:00 a. m., in Room 54 C. N. D. Building

Present: Mr. Willard, chairman, Mr. Baruch, Mr. Brookings, Mr. Frayne, Judge Lovett, Col. Pierce, Mr. Bingham, secretary.

Chemicals, order for smokeless powder with Aetna Explosives Company: Mr. Brookings presented a communication from the purchase section, gun division dated December 20th No. GP 471.5/799 asking the approval of the War Industries Board of proposed order for 12,000,000 pounds of smokeless powder with the Aetna Explosives Company on terms stated.

The meeting adjourned at 12 o'clock noon.

(Signed) Mr. Bingham, *Secretary.*

Excerpts From Minutes of Meeting of War Industries Board, January 2, 1918

Chemicals; order for 30,000,000 pounds of smokeless powder from the Hercules Powder Company.—Mr. Brookings presented a communicatilon from the Purchase Section, Gun Division, Ordnance Department, dated December 29th, relative to order for 30,000,000 pounds of smokeless powder to be placed with the Hercules Powder Company and recently approved by the Board at the price of 63¢ per pound and advising that the proposed price had been changed to 70¢ per pound.

Excerpts From Meeting of the War Industries Board Held Wednesday, January 2, 1917, at 10:00 a. m., in Room 54, C. N. D. Building—Continued

Under the advice of Mr. Brookings the Board approved of the amended contract with the opinion that while the Board considers 70¢ a high price and that as 7¢ per pound charged was for amortization of a new plant, that this should have been so shaped that this plant paid for by the Government in price should have been the property of the Government but that, however, as Captain Peters reports, it was impossible to secure this and that it was either necessary to pay the 70¢ per pound or go without this powder, and that having had nothing to do with the negotiations and acting only on Captain Peters' statement of the case and considering its emergency nature, the Board can see no reason why the contract should not be made.

Chemicals; action to secure necessary raw materials for explosive program.—Mr. Willard was asked to form a communication to the Secretary of War making definite recommendations as to actions to be taken to secure the necessary amount of raw materials to carry out the explosives program and to submit this communications to the Board for approval.

Chemicals; request for assistance in securing explosives from Ordnance Department.—A communication from the Purchase Section, Gun Division, Ordnance Department dated December 26th, No. GP 023.1/138, asking the War Industries Board for advice as to a general policy for providing additional capacity for military high explosives, was presented and referred to the special explosives committee of this Board for attention.

EXHIBIT No. 1348

TABLE V.—*Weekly earnings of factory employees in the small-arms and ammunition industry, August 1933*

Weekly earnings	Number of factory employees	Percent of total	Cumulative percent
Less than $5.00	137	1.8	1.8
$5.00 to $9.99	297	4.0	5.8
$10.00 to $14.99	2, 108	28. 1	33. 9
$15.00 to $19.99	2, 222	29. 7	63. 6
$20.00 to $24.99	1, 368	18. 3	81. 9
$25.00 to $29.99	861	11. 5	93. 4
$30.00 to $39.99	432	5. 8	99. 2
$40.00 to $59.99	62	. 8	100. 0
$60.00 or more	1	-----------	-----------
Total	7, 488	100. 0	-----------

Average weekly wage per employee, $18.78.

Source: Data computed from questionnaires distributed in the industry.
ABF:ifd.

EXHIBIT No. 1349

MAY 29, 1934.

To: General Hugh S. Johnson, Administrator for National Recovery.
From: Code Committee, small-arms and Ammunition Mfg. Industry.
Subject: Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry.

The order approving the above-named Code of Fair Competition contained as conditions thereof, among others, that article XVI and article XVIII be deleted.

The undersigned code committee for said industry desires to cooperate with the National Recovery Administration, but it is not willing that it or any of the members of said Industry waive any constitutional rights or any right to object to future modifications of the code.

This letter is filed with the National Recovery Administration as notice to that Administration that any action on the part of the industry or any member thereof in compliance with any of the provisions of said code or in conformity with the standards therein contained, is taken with the express and continuous reservation of the right of the Industry and each of its members to object to any future modification of said code and to assert any constitutional right in connection therewith, and that in taking any such action or actions it and the members of the industry do not thereby waive such rights or either of them.

———— ————,
Code Committee, Small Arms and Ammunition Manufacturing Industry.

Exhibit No. 1350

All communications should be addressed to "The Commanding Officer, Frankford Arsenal."
Telegraph address: Philadelphia, Pa.
P. O. address: Bridesburg Station, Philadelphia, Pa.
Express address: North Philadelphia, Pa.
Freight address: (C.L.) Bridesburg, Pa.; (L.C.L.) Frankford, Pa.

In reply refer to F. A. No. 400.15/5646–3.

Frankford Arsenal,
Philadelphia, Pa., May 22, 1934.
VD/LD

Remington Arms Company,
Bridgeport, Conn.

Gentlemen: 1. Reference is made to the bid which you recently submitted in response to our advertisement 34–539 for supplying 100,000 rounds of shotgun shells, 12 gauge, loaded with smokeless powder and #7½ chilled shot, in accordance with the specifications of the advertisement.

2. You will recall that you declined to execute the bid affidavit furnished with this advertisement. This matter has been referred to the Secretary of War, who, in turn, communicated with the Administrator for Industrial Recovery to learn whether or not in this case an exception should be made and the certificate waived.

3. This arsenal has just been informed that no exception can be granted in this case and that in order to obtain consideration of your bid, it will be necessary that the bid certificate incorporated in the procurement form #2, copies of which are enclosed, be signed. In view of the refusal of the Administrator for Industrial Recovery to grant an exception in this case, information is requested as to whether or not you will execute the certificate on the enclosed form. If so, will you please have both copies signed and returned promptly, as this matter has now been delayed some little time, and it is desired that it be disposed of as promptly as possible.

4. In the event that you are still disinclined to accomplish this certificate, an early reply, so stating, is requested.

Yours very truly,

Incl. in dup.

(Signed) J. E. Munroe,
Colonel, Ord. Dept., U.S.A.

Exhibit No. 1351

Colonel J. E. Munroe,
Commanding Frankford Arsenal, Philadelphia, Pa.

May 24, 1934.

Dear Sir: Replying to your letter of May 22nd, also confirming telephone conversation with you today, the following statement clearly sets forth our position with respect to the proposed Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry:

On March 22nd, 1934, the proposed Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry was approved by the National Recovery Administration. In approving this code, the administrator deleted articles XVI and XVIII, reading as follows:

"Article XVI: By presenting this Code, those assenting hereto are not thereby waiving any of their constitutional rights which might be infringed by any of the provisions of the National Recovery Act."

"Article XVIII: By presenting this Code, the members of the Industry do not thereby consent to any modification thereof, and they hereby reserve the right to object individually or jointly to any such modification."

In deleting these two articles, the administration is denying the small arms and ammunition industry the right to object, either individually or jointly, to any modification of this proposed code, also the administration is asking this industry to waive its constitutional rights insofar as they might be infringed by any of the provisions of the National Recovery Act.

Because of these deletions more than 90% (from the standpoint of numbers and dollar volume of sales) of the small arms and ammunition industry, including 100% of the ammunition manufacturers, have informed the administration that the proposed code is not acceptable.

We therefore regret that we are unable to execute the certificate of compliance as requested by you.

Yours truly,

——— ———, *Vice President.*
Remington Arms Company, Inc.

EEH.D

EXHIBIT NO. 1352

[Copy to Mr. W. S. Gregg]

Code B

(President, Elliott C. Dill, United States Cartridge Co.; vice president, W. L. Wright, Savage Arms Corporation; sec'y-treas., C. Stewart Comeaux, telephone Ashland 4–6652.)

SPORTING ARMS AND AMMUNITION MANUFACTURERS' INSTITUTE,
103 Park Avenue, New York,
August 23rd, 1934.

(Pencil Note: C.N.)

Black Products Co., Inc., Browning Arms Company, Colt Patent Firearms Mfg. Co., Diamond Springs Lime Co., E. I. du Pont de Nemours & Co., Federal Cartridge Corporation, C. J. Hamilton & Son, Harrington & Richardson Arms Co., Hercules Powder Company, High Standard Mfg. Co., Hunter Arms Company Ithaca Gun Company, (Subsidiaries: Lefever Arms Co. and Western Arms Co.) Iver Johnson Arms & Cycle Works, K. W. Manufacturing Company, Marble Arms Mfg. Co., Marlin Firearms Co., O. F. Mossberg & Sons, Inc., Peters Cartridge Company, Remington Arms Co., Inc., Savage Arms Corporation, (Subsidiary: J. Stevens Arms Co.) R. F. Sedgley, Inc., Smith & Wesson, Inc., United States Cartridge Co., Western Cartridge Co., Winchester Repeating Arms Co.

PROPOSED EXCHANGE OF LETTERS BETWEEN THE INDUSTRY AND THE ADMINISTRATOR, RE DELETION OF ARTICLES XVI AND XVIII FROM CODE

GENTLEMEN: Pursuant to instructions given to us at the July 20th meeting of the Industry, Judge Gregg and I went to Washington on July 26th prepared to complete the proposed exchange of letters between the Industry and the Administrator, which ineffect, would cancel the Executive Order of Approval insofar as it deleted Articles XVI and XVIII from the Code.

At that time, a more satisfactory method of handling this matter was suggested by certain members of the Administration. This contemplated rewriting the original Order of Approval leaving out any reference whatever to Articles XVI and XVIII, and the matter was therefore left in the hands of the Assistant Deputy Administrator for final action. Several days ago, it developed that this revised procedure could not be carried out, as it had failed to receive the approval of Administration representatives who passed on matters of policy.

We were, therefore, requested to again visit Washington to negotiate the exchange of letters originally proposed. Accordingly, Mr. Gregg and I called on Assistant Deputy Administrator Roswell B. Clark on Tuesday morning, August 21st, and learned that he had been succeeded by Dr. W. L. Schurs. Conference with this gentleman developed that it would be necessary to further discuss the matter with Division Administrator Barton Murray, and during the day, letter was prepared for signature by General Johnson in the event the proposal met with his approval. He failed to act on Tuesday, and Mr. Gregg suggested that I remain in Washington the following day (Wednesday) in order to complete the exchange.

I did so, but General Johnson did not visit, or communicate with his office during the entire day. Hence, the Administrator's letter was not signed, and as our instructions specifically provided that the letters should be exchanged, I withdrew the Code Committee's letter, and certified extract from Minutes of the July 20th meeting authorizing the exchange. Copies of the proposed letter and the Administrator's reply were left with Assistant Deputy Administrator Schurs, who stated the matter would be taken up with General Johnson when he returned from his vacation two weeks hence. This statement by Dr. Schurz was the result of our intimation that the industry was desirous of having the Administration's letter signed by General Johnson personally.

From the foregoing, it will be seen that the status of the Code remains unchanged, and until further word is received from Washington, apparently neither the Code Committee nor this office can take further steps.

Yours very truly,

(Signed) C. STEWART COMEAUX,
Secretary Code Committee Small Arms and Ammunition Manufacturing Industry.

Exhibit No. 1353

APPROVED CODE NO. 354

Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry as Approved on March 22, 1934

Order Approving Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry

An application having been duly made pursuant to and in full compliance with the provisions of Title I of the National Industrial Recovery Act, approved June 16, 1933, for approval of a Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry, and hearings having been duly held thereon and the annexed report on said Code, containing findings with respect thereto, having been made and directed to the President:

NOW, THEREFORE, on behalf of the President of the United States, I, Hugh S. Johnson, Administrator for Industrial Recovery, pursuant to authority vested in me by Executive Orders of the President, including Executive Order No. 6543-A, dated December 30, 1933, and otherwise; do hereby incorporate by reference said annexed report and do find that said Code complies in all respects with the pertinent provisions and will promote the policy and purposes of said Title of said Act; and do hereby order that said Code of Fair Competition be and it is hereby approved; provided, however, that (1) the provisions of Article II, Section 1, dealing with working hours be amended by inserting after the word "than" in the second line the words "eight (8) hours per day or", by deleting the period in the fifth line and inserting the words "; provided further that no employee shall work in excess of nine (9) hours a day or six days a week except as hereinafter provided"; (2) the provisions of Article II, Section 1, Subsection (c) dealing with employees working additional hours be amended by deleting the period and inserting the words ", and provided further, that such hours shall not be availed of in more than fifteen (15) weeks in any year, nor more than forty-eight (48) hours in any week."; (3) the provisions of Article II, Section 2, Subsection 2 dealing with minimum hourly rates be amended by deleting the remainder of the Section after the word "females" in the fifth line and inserting a period; (4) the provisions of Article VII, Section 1, Subsection b, paragraph 1, dealing with resale price schedules be amended by deleting the words "resale price schedules", in the fourth line, by deleting the words "or resale" in the sixth and seventh lines, by deleting the remainder of the paragraph after the words "this Industry" in the seventh line; (5) the provisions of Article VII, Section 1, Subsection (b), paragraph 2, dealing with distribution of price schedules be amended by deleting the period at the end of the Section and inserting the words ", provided that the respective schedules of prices for each class of trade shall be available at all reasonable times to the bona-fide members of each class of trade served by the Industry; provided further, however, that consumers' prices shall be open to the public."; (6) the provisions of Article VII, Section 1, Subsection b, paragraph 5, dealing with resale price maintenance, be amended by deleting this entire section and inserting the following words "The Industry shall study and report to the Administrator recommendations in regard to resale price maintenance"; (7) Article XVI, dealing with waiving of constitutional rights, be deleted from the Code; (8) Article XVIII, dealing with consent by the members to modification, be deleted from the Code.

Hugh S. Johnson,
Administrator for Industrial Recovery.

Approval recommended:
W. A. Harriman.
Division Administrator.

Washington, D. C.,
March 22, 1934.

Report to the President

The President,
The White House.

Sir: This is a report on the Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry, and on the hearing conducted thereon in Washington, D. C., September 27, 1933, in accordance with the provisions of the National Industrial Recovery Act.

PROVISIONS AS TO WAGES AND HOURS

This Code establishes a forty (40) hour week with permission to increase this to forty eight (48) hours per week for not more than twelve (12) weeks in any one (1) year. Employees in an administrative or an executive capacity, supervisors, planners, and technical research engineers, receiving not less than $35 per week, and outside salesmen are excepted from the foregoing provision. Also the above minima do not apply in the case of emergencies involving possible loss of life or property. Repair men, shipping and delivery crews, and cleaners are also excepted, but it is provided that they may not work more than 10% in excess of the forty (40) hour or forty eight (48) hour maximum. Watchmen may work fifty six (56) hours per week, but not more than six (6) days in any one (1) week.

Any employer may request an employee to work additional hours beyond those specified above, providing such additional hours shall be paid for at the rate of time and one-half.

Minimum wages for accounting, clerical, office, service, or sales employees are fixed in accordance with the President's Reemployment Agreement which provides a sliding scale of from fifteen dollars ($15) per week to fourteen dollars ($14) per week, according to population. For all other employees, a minimum wage of forty cents (40¢) per hour is established for males and thirty two and one-half cents (32½¢) per hour for females, provided, however, that, in case the rate per hour for any female employee was, on July 15, 1929, less than the rate above specified for the same class of labor, the minimum rate paid on July 15, 1929, may be paid, provided further that in no event it be less than thirty cents (30¢) per hour. Beginners without experience may be employed for a period not to exceed sixty (60) days, at a rate not less than eighty per cent (80%) of the standard minimum wage, provided the total number of such beginners shall not exceed five per cent (5%) of the total number employed by any employer in any calendar month.

The employment of any person under 16 years of age is prohibited, with a further provision that no person under 18 years of age may be employed in any hazardous occupation.

GENERAL STATEMENT

This Industry consists of companies which manufacture small arms and ammunition therefor, components thereof except propellent powder, and clay targets and traps. Some companies manufacture small arms only and some ammunition only. Others manufacture small arms and ammunition and clay targets and traps, and still others manufacture only clay targets or clay targets and traps.

There are approximately 25 manufacturers in the Industry, each of whom had an opportunity for active participation in the preparation of the Code, and it is interesting to note that those who did participate therein represented 100% in numbers and volume of those engaged in the manufacture of both small arms and ammunition and more than 90% of those engaged in the manufacture of small arms.

As there has been no trade association covering the entire Small Arms and Ammunition Industry, statistical information is quite meager.

The following figures illustrate the shrinkage which has taken place in the past five years:

Year	Invested Capital	Net Sales
1928	$48, 127, 329	$50, 218, 850
1933 (Estimate)	40, 221, 537	20, 000, 000

As a matter of national preparedness for defense, it is vitally important that this industry should be maintained in a sound and stable condition; to enable it to function promptly and effectively in support of the Government it is essential that its trained personnel be kept intact. These are the workers who after long periods of training have acquired the skill and experience necessary in directing operations in an Industry requiring a very high degree of mechanical and professional skill.

To insure retention of this trained personnel the Industry is obliged to conduct its manufacturing operations so as to secure the greatest possible volume, and this makes it necessary to meet peak demands. Its inability to control these peak demands is due to the fact that its product is distributed largely to the consumer during the latter part of the year. The volume of this distribution is affected by various factors which cannot be foreseen, among which may be mentioned: sudden changes in state and federal regulations regarding open seasons, purchasing power of the farmer and conditions generally affecting hunting.

It has been customary for the Industry to operate on a fifty five (55) hour weekly basis during peak periods. Under the President's Reemployment Agreement operations were reduced to forty (40) hours per week averaged over a three (3) months' period, with a resulting increase in employment of 28.6%. With the application of the provisions of this Code there will be a further increase in the number of employees, although it will not be substantially greater than that already in effect as a result of the President's Reemployment Agreement. The application of the minimum wages included in said Agreement has brought about an increase in the payrolls of the Industry at the rate of $1,500,000 annually. In this case also the effectuation of the provisions of this Code will augment this rate. It is not possible at this time to judge just what this increase will be; however, it should be borne in mind that the Code establishes a minimum wage for female employees of thirty two and one-half cents (32½¢) per hour as compared to the rate of thirty cents (30¢) effective in July. Before this July period this class of employees was being compensated at a rate as low as twenty cents (20¢) per hour.

An important feature of the Code is the prohibition contained in Article XI against the sale in the United States of machine or submachine guns or parts thereof, except to governmental subdivisions or to organizations having regularly organized police departments where such sale is authorized by the United States Attorney General. This provision was suggested by the Department of Justice and has been accepted by the Industry. I believe it to be a forward and effective step in the Campaign against crime in this country.

The Code makes provision for resale price maintenance. It does not establish any price maintenance as regards the sale of products to the consumer, but deals with open price lists and agreements of price maintenance between the manufacturers and the wholesalers in selling to the retailers.

FINDINGS

The Assistant Deputy Administrator in his final report to me on said Code having found as herein set forth and on the basis of all the proceedings in this matter;

I find that:

(a) Said Code is well designed to promote the policies and purposes of Title I of the National Industrial Recovery Act, including removal of obstructions to the free flow of interstate and foreign commerce which tend to diminish the amount thereof and will provide for the general welfare by promoting the organization of industry for the purpose of Cooperative action among the trade groups, by inducing and maintaining united action of labor and management under adequate governmental sanctions and supervision, by eliminating unfair competitive practices, by promoting the fullest possible utilization of the present productive capacity of industries, by avoiding undue restriction of production (except as may be temporarily required), by increasing the consumption of industrial and agricultural products through increasing purchasing power, by reducing and relieving unemployment, by improving standards of labor, and by otherwise rehabilitating industry.

(b) Said Industry normally employes not more than 50,000 employees; and is not classified by me as a major industry.

(c) The Code as approved complies in all respects with the pertinent provisions of said Title of said Act, including without limitation Subsection (a) of Section 3, Subsection (a) of Section 7, and Subsection (b) of Section 10 thereof; and that the applicant group is an industrial group truly representative of the aforesaid Industry; and that said group imposes no inequitable restrictions on admission to membership therein.

(d) The Code is not designed to and will not permit monopolies or monopolistic practices.

(e) The Code is not designed to and will not eliminate or oppress small enterprises and will not operate to discriminate against them.

(f) Those engaged in other steps of the economic process have not been deprived of the right to be heard prior to approval of said Code.

For these reasons, therefore, I have approved this Code, provided, however, that (1) the provisions of Article II, Section 1, dealing with working hours be amended by inserting after the word "than" in the second line the words "eight (8) hours per day or", by deleting the period in the fifth line and inserting the words "; provided further that no employee shall work in excess of nine (9) hours a day or six days a week except as hereinafter provided"; (2) the provisions of Article II, Section 1, Subsection (c) dealing with employees working additional hours be amended by deleting the period and inserting the words ", and provided further, that such hours shall not be availed of in more than fifteen (15) weeks in any year, nor more than forty-eight (48) hours in any week"; (3) the provisions of Article II, Section 2, Subsection 2 dealing with minimum hourly rates be amended by deleting the remainder of the Section after the word "females" in the fifth line and inserting a period; (4) the provisions of Article VII, Section 1, Subsection b, paragraph 1, dealing with resale price schedules be amended by deleting the words "resale price schedules", in the fourth line, by deleting the words "or resale" in the sixth and seventh lines, by deleting the remainder of the paragraph after the words "this Industry" in the seventh line; (5) the provisions of Article VII, Section 1, Subsection (b), paragraph 2, dealing with distribution of price schedules be amended by deleting the period at the end of the Section and inserting the words ", provided that the respective schedules of prices for each class of trade shall be available at all reasonable times to the bona-fide members of each class of trade served by the Industry; provided further, however, that consumers' prices shall be open to the public."; (6) the provisions of Article VII, Section 1, Subsection b, paragraph 5, dealing with resale price maintenance, be amended by deleting this entire section and inserting the following words "The Industry shall study and report to the Administrator recommendations in regard to resale price maintenance"; (7) Article XVI, dealing with waiving of constitutional rights, be deleted from the Code; (8) Article XVIII, dealing with consent by the members to modification, be deleted from the Code.

Respectfully,

Hugh S. Johnson,
Administrator.

March 22, 1934.

Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry

To effectuate the policies of Title I of the National Industrial Recovery Act, the following provisions are submitted as a Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry, and upon approval by the President, shall be the standards of fair competition for this Industry.

ARTICLE I—DEFINITIONS

(a) "Act" means the National Industrial Recovery Act.

(b) "President" means the President of the United States of America.

(c) "Administrator", as used in this Code, means the ADMINISTRATOR appointed by the President to administer Title I of the National Industrial Recovery Act, and at the time in office.

(d) The "Industry" means and includes the business of manufacturing and/or selling by the manufacturer or selling by one known to the public as a manufacturer selling principally for resale, small arms and ammunition therefor; and components thereof, except propellent powders; and clay targets and traps therefor; but does not include jobbers, mail order houses, chain stores, and/or dealers.

(e) "Code Authority" as used herein, means the Code Authority Committee created and described in Article VI hereinafter.

(f) "Secretary" means the person designated by the Code Authority to act in that capacity for the Industry.

(g) "Member of the Industry" means any one engaged in the Industry as an employer.

(h) "Employee", as used herein, includes any person engaged in any phase of the Industry in any capacity receiving compensation for his services, irrespective of the method of payment of his compensation.

(i) "Employer", as used herein, means any one by whom any such employee is compensated or employed.

ARTICLE II—HOURS OF LABOR AND RATES OF PAY

Section 1—Hours of labor

1. No person employed in the Industry shall be permitted to work more than forty (40) hours per week, provided that when necessary to meet seasonal demand, forty-eight (48) hours per week for twelve (12) weeks in any one year may be worked.

(a) Provided, however, that repairmen, shipping and delivery crews, and cleaners shall be permitted to work not more than ten (10) per cent in excess of the hours prescribed in this Section 1.

(b) Provided that watchmen may work fifty-six (56) hours per week, but not more than six (6) days in any one week.

(c) Provided further that any employee at the request of the employer may work additional hours beyond those specified in the three preceding paragraphs, provided such additional hours shall be paid for at the rate of time and one-half.

(d) Provided further that the above hours do not apply in the case of emergencies involving possible loss of life or property.

(e) Provided further that nothing in the foregoing employment provisions shall apply to employees in an administrative or executive capacity, supervisors, planners, and technical and research engineers, receiving not less than $35.00 per week; and outside salesmen.

(f) No employer shall knowingly permit any employee to work for any time which, when totalled with that already performed with another employer or employers in this industry, exceeds the maximum permitted herein.[1]

Section 2—Minimum wages

1. No employer in the Industry shall pay any accounting, clerical, office, service or sales employee at less than the rate of $15.00 per week in any city of more than 500,000 population, or in the immediate trade area of such city; at less than the rate of $14.50 per week in any city of between 250,000 and 500,000 population or in the immediate trade area of such city; or at less than the rate of $14.00 per week in any city of less than 250,000 population.

2. No employer in the Industry shall pay any employee other than as specified in the next preceding paragraph (1), less than forty (40) cents per hour for males and thirty-two and one-half (32½) cents per hour for females; provided, however, that in case the rate per hour for any female employee was, on July 15, 1929, less than the minimum rate above specified for the same class of labor, then the minimum rate for such class of labor shall be the rate paid on July 15, 1929, but in no event less than thirty (30) cents per hour.

3. This article establishes a minimum hourly rate of pay, which shall apply irrespective of whether an employee actually compensated on a time rate, piece work, or other basis.

4. Equitable and reasonable adjustments of pay schedules of employees, above the minimum, shall be made within thirty (30) days after the effective date of this Code by any employer who has not theretofore made such adjustments. The first reports of wages required to be filed under this Code shall contain all wage increases made since May 1, 1933.

5. Female employees performing the same class of work as male employees shall receive the same rate of pay as male employees.

6. Beginners without experience may be employed for a period not to exceed sixty (60) days, at the rate of not less than eighty (80) per cent of the minimum wages covered by Section 2 of this Article II, provided the total number of such beginners shall not exceed five (5) per cent of the total number employed by any employer in any calendar month.[1]

ARTICLE III—MINORS

On and after the effective date, no employer in this Industry shall emploly any person under the age of sixteen (16) years, and no person under the age of eighteen (18) years shall be employed in any hazardous occupation. Each member of the Industry shall furnish the Code Authority a list of such hazardous occupations, if so requested.

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[1] See paragraph 2 of order approving this Code.

ARTICLE IV—STATUTORY LABOR PROVISIONS

1. Employees shall have the right to organize and bargain collectively through representatives of their own choosing, and shall be free from the interference restraint or coercion of employers of labor or their agents, in the designation of such representatives, or in self-organization or in other concerted activities for the purpose of collective bargaining or other actual aid or protection.

2. No employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organizing, or assisting a labor organization of his own choosing.

3. Employers shall comply with the maximum hours of labor, minimum rates of pay, and other conditions of employment, approved or prescribed by the President.

4. Labor agreements now in force between members and their employees shall be affected only by such provisions of this Code as may prescribe higher wages and shorter hours than are provided for in such agreements.

5. Employees may be assigned to different kinds of work, but employers shall not reclassify employees or duties of occupations performed by employees so as to defeat the purpose of this Code.

6. Every employer shall make reasonable provision for the safety and health of his employees at the place and during the hours of their employment, by complying with the laws of the State in which such employer's plant is located.

7. All employers shall post copies of that portion of this Code pertaining to hours and wages in conspicuous places accessible to employees.

ARTICLE V—PARTICIPATION

The expenses of administering the Code shall be borne by the members of the Industry. The Code Authority may, from time to time, cause to be made such assessments against the members of the Industry as the Code Authority shall deem proper, and such assessments shall be payable as such Code Authority shall specify. The assessments herein referred to shall be divided among the members of the Industry according to the relation each member's dollar sales bear to the total dollar sales of the Industry for the last preceding year.

ARTICLE VI—ADMINISTRATION

1. To further effectuate the policies of the Act and to supervise and enforce the provisions of this Code, a Code Authority, consisting of not more than nine (9) or less than seven (7) members, including the Chairman, no two (2) members of said Code Authority to be chosen from one company, shall be selected by the members of the Industry at a meeting thereof, after reasonable notice of said election has been sent to all members of the Industry, by a majority vote of those members of the Industry who are represented at the meeting, in person or by proxy, in number, and value of sales for the last preceding year. The members of the Code Authority shall serve for one year, or until their successors shall have been chosen; and members of the Code Authority shall, by a majority vote, elect their own Chairman. The surviving members of the Code Authority shall fill any vacancy or vacancies occurring therein for the unexpired portion of the particular term. In addition to the foregoing, the ADMINISTRATOR may appoint from one (1) to three (3) members of said Code Authority, without vote, and whose terms of office shall be so arranged that they do not expire concurrently.

2. The Chairman of the Code Authority shall cause reasonable notice to be sent to all members of said Code Authority for all meetings thereof, specifying the time and place for holding the same. Each member of the Code Authority shall be entitled to one vote and a majority of the Code Authority shall be necessary to constitute a quorum for the transaction of business. The Code Authority shall select a Secretary and make such arrangements as may be necessary for administering this Code, subject to disapproval by the ADMINISTRATOR.

3. Meetings of all the members of the Industry may be held from time to time for the purpose of considering and acting upon any matters relating to the administration of this Code. Upon request to the Code Authority, signed by any three members of the Industry, for an Industry meeting, the Code Authority shall forthwith call such meeting, by causing notice, not less than five (5) days in advance of such meeting, to be given to all other Industry members, specifying therein the purpose of the meeting and the time and place for holding the same.

4. Each member of the Industry shall be entitled to one vote, either by company representative or duly authorized proxy, who would have power to act.

The presence of not less than seven (7) members of the Industry shall be necesarye for the holding of an Industry meeting. Provided, however, that a majority vote in numbers, and value of sales for the last preceding year of those members who are in attendance or who are so represented at any such meeting, shall be necessary for the determination of any question, but a lesser number may adjourn the meeting from time to time. In the event of an equal division upon any question, the Chairman shall cast the deciding vote.

5. The Code Authority shall, subject to review by the ADMINISTRATOR, or when requested by the ADMINISTRATOR or his representative, cause to be obtained from the members of the Industry, statistical data and information in such form and manner as not to disclose the individual figures, data and information of the respective members, except to the ADMINISTRATOR, if required by him, or to such disinterested person, or persons, as may be designated by the Code Authority, and as may be necessary to enforce the provisions of this Code.

The Code Authority shall make available to the ADMINISTRATOR such reports, data and information, in the manner herein specified, or as may be required by the ADMINISTRATOR, and will assist in keeping the ADMINISTRATOR fully advised, and confer with such representative of the ADMINISTRATOR from time to time as requested, to consider and study any recommendations presented on behalf of the ADMINISTRATOR or any member of the Industry regarding the operation, observance or administration of this Code. The Code Authority may delegate any of its duties to such agents as it may appoint, which would not involve the disclosure of the individual data or information of the members of the Industry, or any information required to be treated confidentially as herein specified, except as otherwise herein permitted to be disclosed. The ADMINISTRATOR, or his representative, with the approval of the President, may enter into agreements with the Code Authority on behalf of the members of the Industry, with their consent and approval relating to matters affecting the Industry, if, in the judgment of the President, such agreement will aid in effectuating the policy of the ACT, which agreements may be made in accordance with paragraph (a) of Section 4 of the ACT, and which do not conflict with clause (2) of sub-section (a) of Section 3 of the ACT.

ARTICLE VII—REPORTS

1. To provide for making available to the ADMINISTRATOR and members of the Industry, information to assist in further effectuating the policy of the ACT, each member of the Industry shall furnish, from time to time to the duly selected Secretary, reports, pertinent to the administration of this Code, properly certified when requested by the Code Authority, in such form and manner as herein, and as hereafter may be provided by the said Code Authority, subject to review by the ADMINISTRATOR, including the following:

(a) *Hours of Labor and Wages.*—(1) Report showing hours of work and rates of wages.

(b) *Publicity of Price Lists.*—(1) As used in this Article VII, the term "schedules" means and includes price schedules and discount sheets, resale price schedules, terms of payment, freight equalization points, and any allowances or conditions relating to or in any wise affecting the sale or resale of the products of this Industry. However, the term "resale" or "resales" as mentioned in this Article VII shall relate only to sales by those, who purchase from the members of this Industry, to others who buy to resell and who do not buy for use or consumption.[1]

(2) As soon as possible, after the effective date, as determined by the members of the Industry, and when so determined thereafter, all members shall file such schedules of prices with the Secretary from time to time, as and when made or issued, for immediate distribution to only those members of the Industry who manufacture and sell similar products.[1]

(3) Revised schedules covering said products may be so filed by any member of the Industry, for such immediate distribution from time to time thereafter to become effective upon the date or dates therein specified, but such revised schedules shall be filed with the Secretary five (5) business days in advance of the effective date or dates thereof. Any revised schedules subsequently filed by other members of the Industry during such five (5) business day period may be made effective on the same effective date of the revision previously filed, provided such subsequently revised schedules do not contain prices relatively lower than those in said previously filed revision,—otherwise the five day provision shall apply. Schedules raising prices shall not require the above five (5) day notice

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[1] See paragraph 2 of order approving this Code.

and shall be subject to immediate cancellation by notice to the Secretary at any time within two (2) weeks of the date of filing of such schedules increasing prices.

(4) No member of the Industry shall sell, directly or indirectly, by any means whatsoever, any product of the Industry covered by the provisions of this Article VII, at a price lower or at a discount greater, or on more favorable terms or conditions than those provided in his current schedules.

(5) The products of this Industry, to a very large degree, are resold and distributed by wholesalers, jobbers, and distributors to dealers, retailers and others, and the resale of such goods by such wholesalers, jobbers and/or distributors at a price or prices less than the manufacturers' schedules, would be in conflict with the principles of the open price provisions contained in this Article VII. Accordingly, members of this Industry may enter into agreements not to resell the products of this Industry at prices and upon terms, discounts or conditions which are less or more favorable to the purchasers thereof, than those contained in the schedules of the manufacturers, who may be parties to such agreements, in effect at the time of any such resale or resales.[1]

(6) Except as otherwise specified herein, all reports mentioned in this Article VII, shall be filed with and distributed by the Secretary at such times and in such form and manner as may be determined by the Code Authority.

ARTICLE VIII

The practices and methods as set forth in the following paragraphs numbered 1 to 12 inclusive, including the sub-paragraphs thereof, in this Article VIII, are hereby designated as unfair methods of competition, and indulgence by any member of the Industry in any of the same shall be a violation of this Code.

1. *Interference with Existing Contracts.*—To knowingly interfere with an existing contract with a third party for the sale and purchase of products of this Industry, or to induce, attempt to induce, or assist a party to break any such existing contract;

2. *Gratuities, Free Small Arms and Ammunition, Samples and Tournament Program Advertising.*—(a) To give prizes or contributions, or supply free, small arms, loaded paper shells or metallic cartridges to individual shooters, gun clubs or associations, rifle clubs or associations, dealers or jobbers for the purpose of stimulating interest in and good will for such products of any particular member of the Industry;

(b) To quote prices lower than one's own current published resale prices on small arms or ammunition to individual shooters, gun clubs or associations, or rifle clubs or associations, for the purpose of stimulating interest in or good will for such products of any particular member of the Industry;

(c) To pay, furnish, give, or grant to any shooter or shooters any salaries, compensation, benefit, small arms, ammunition or special prize money for winning of matches or tournaments for the purpose of inducing such shooter or shooters to use the small arms or ammunition of the particular manufacturer;

(d) To give samples or free small arms and/or ammunition to jobbers, dealers or others, except to bona fide and well-known writers of arms and ammunition articles for their personal use only; a report of each such gift to be made to the Secretary at time of shipment;

(e) To place directly or indirectly in any shooting program, any advertisement for or on behalf of any member of the Industry or representative thereof;

(f) To fail to abide by and support the rules and regulations of any shooting association or any similar organization which defines the amateur status of a shooter, and in any way, directly or indirectly, or through a representative, supply, free of charge or at less than the particular member's own resale prices to dealers, any amateur shooter with any of said products, or anything of value contrary to the rules and regulations of any such association or organization;

Provided nothing herein shall preclude bona fide employees of any member of the Industry from competing in tournaments, or from using any of such described products of his own employer therein, without personal payment therefor.

3. *Commercial Bribery.*—No member of the Industry shall give, permit to be given, or directly offer to give, anything of value for the purpose of influencing or rewarding the action of any employee, agent, or representative of another in relation to the business of the employer of such employee, the principal of such agent or the represented party, without the knowledge of such employer, principal or party. Commercial bribery provisions shall not be construed to prohibit free and general distribution of articles commonly used for advertising, for commercial bribery as hereinabove defined;

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[1] See paragraph 2 of order approving this Code.

4. *Defamation of Competitors.*—To make, cause or permit to be made, or published any false statement or misrepresentation of or concerning the business, policies, methods, or products of a competitor;

5. *Piracy of Trade Marks.*—To imitate trade marks, trade names, slogans or other marks of identification, in which another has acquired good will, for the purpose and with the effect of misleading purchasers;

6. *False Advertising.*—To make, cause, or permit to be made or published any false, untrue, or deceptive statement by way of advertising or otherwise;

7. *Misbranding.*—To falsely mark or brand packages or products of this Industry, for the purpose or with the effect of misleading or deceiving purchasers or others with respect to quality, quantity, character, grade or substance thereof;

8. *False Invoicing.*—To withhold from or insert in an invoice anything which would make the invoice a false record, wholly or in part, of the transaction in question, or make any arrangement which would contemplate payment or settlement contrary to the face of the invoice;

9. *Post-Date or Pre-Date Contract or Invoice.*—To post-date or pre-date any contract or invoice covering products of this Industry;

10. *Guaranty Against Price Decline.*—To guarantee against price decline except as the same may be limited to the decline of the particular member of the Industry, and such guaranty shall apply only to small arms purchased directly from the manufacturer in the same calendar year, and to ammunition purchased directly from the manufacturer during any twelve months commencing with March 1, and in each instance which are not delivered or which are in the hands of the purchaser and unsold;

11. *Consignments.*—To make or enter into any agreement or contract, the effect of which will amount to the sale and/or delivery on consignment of any products of this Industry, except powder supplied to ammunition companies, or to the lending of products for display purposes only; provided however, that no existing agreements of this nature shall be continued on and after the effective date of this Code;

12. *Secret Rebates.*—To pay or allow secretly, rebates, refunds, commissions or discounts, whether in the form of money or otherwise, except such as are obligatory under existing agreements, but in no case shall any such agreement apply to any transactions or shipments on and after the effective date of this Code.

ARTICLE IX

1. If formal complaint has been made to the Secretary that any provision of this Code has been violated by any such member, the Code Authority shall cause the facts to be investigated, and to that end may cause such reasonable examination or audit as may be necessary, by a competent or disinterested person or persons mutually agreed upon by the Code Authority and such member against whom the complaint has been made, or by such person or persons nominated by the Code Authority and approved by the ADMINISTRATOR. PROVIDED, if it should appear that any reports or data called for by this Code were willfully made inaccurate or not filed by any such member when and as herein required, or that any such member had indulged in any trade practice in violation of this Code, the expenses of such verifying work shall be paid by the party so in default.

2. Since any violation of the provisions of this Code will cause injury to members of the Industry and the amount of such injury would not be readily ascertainable, it is therefore agreed by and between all such members of the Industry who have so expressly, in writing or otherwise, assented to the provisions of this Article IX that each of such members who violates any provision of this Code shall pay to the Secretary, or such person as the Code Authority may designate, as and for liquidated damages, such sum as the Code Authority, or the ADMINISTRATOR, may determine, not exceeding, however, five hundred dollars ($500.00) for each violation, in addition to any other sums required to be paid by the provisions of this Code. Any and all moneys which may be paid to the Secretary as and for such liquidated damages, shall be used for the expense of administering the Code, or otherwise, as may be determined by the Code Authority.

ARTICLE X

1. The Code Authority may investigate and inform the President or the ADMINISTRATOR on behalf of the Industry: 1st: As to the importation into the United States of commodities competitive with products of this Industry selling on a price basis which undersell said products of domestic manufacture; and

2nd: As to the manufacture of articles competitive with products of this Industry by the Government of the United States at its various Arsenals under longer schedules of hours of labor and/or lower rates of pay than the standards of hours and rates of pay established by this Code, and selling on a price basis which undersells such commodities by members of this Industry; and

3rd: As to the extent to which such underselling of said imports and United States Government manufactured articles, as well as the extent to which the schedule of hours of labor and rates of pay adopted and followed by the Government of the United States in the manufacture of such goods, renders ineffective or seriously interferes with the maintenance of this Code.

2. The conditions as set forth in the preceding three subparagraphs, may be made the basis for complaint to the President or the ADMINISTRATOR on behalf of this Industry.

3. Except as may be subsequently set forth in a specific or supplementary Export Code for the Industry, the provisions of this Code now or hereafter adopted with regard to prices, discounts, deductions, allowances, extras, commissions, or methods and/or terms of sale, are not to apply to direct export sales or to sales in course of export (i.e., sales destined ultimately for export) or to sales of materials used in the manufacture of products for export.

ARTICLE XI

Members of the Industry shall have the right to sell or otherwise dispose of machine guns or sub-machine guns or parts therefor only to the United States Government, any State, Territory, or possession of the United States, and political sub-division thereof and the District of Columbia; provided that with the consent of the United States Attorney General they may be disposed of to National, State banks or to corporations or other business associations having regularly organized police departments, and to manufacturers of ammunition in the United States for testing purposes; provided further, that such members shall have the right to sell machine or sub-machine guns or parts thereof for export under such rules and regulations as may be promulgated by the United States Secretary of State.

ARTICLE XII

During any emergency involving actual or possible National defense, the provisions of this Code establishing maximum hours of labor shall not apply to the manufacture of such of the products of this Industry as are demanded by the War and Navy Departments.

ARTICLE XIII

Such of the provisions of this Code as are not required to be included herein by the National Industrial Recovery Act may, with the approval of the ADMINISTRATOR, be modified or eliminated as changes in circumstances or experience may indicate. It is contemplated that from time to time supplementary provisions to this Code or additional Codes will be submitted for approval of the ADMINISTRATOR, to prevent unfair competition in price, and other unfair and destructive competitive practices, and to effectuate the other purposes and policies of Title I of the ACT. Such supplemental provisions or additional Codes when approved by the ADMINISTRATOR shall have the same force and effect as any other provisions of this Code.

ARTICLE XIV

If any employer in the Industry is also an employer in any other Industry, the provisions of this Code shall apply to and affect only that part of the business of such employer which is included in this Code.

ARTICLE XV

The President, in accordance with the provisions of subsection (b) of Section 10 of the National Industrial Recovery Act, may from time to time, cancel or modify any order, approval license, rule or regulation issued under Title I of said ACT.

ARTICLE XVI

By presenting this Code, those assenting hereto are not thereby waiving any of their constitutional rights which might be infringed by any of the provisions of the National Industrial Recovery Act.[2]

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[2] Deleted as per paragraph 2 of order approving this Code.

ARTICLE XVII

Within each State members of the Industry shall comply with any laws of such State imposing more stringent requirements upon employers than as set forth in this Code relating to hours of work, wages, or age of employees.

ARTICLE XVIII

By presenting this Code, the members of the Industry do not thereby consent to any modification thereof, and they hereby reserve the right to object individually or jointly to any such modification.[2]

ARTICLE XIX

No employer shall use any subterfuge to frustrate the spirit and intent of this Code.

ARTICLE XX

Any action taken by the Code Authority or other group within the Industry for the purpose of making effective provisions of this Code may be submitted to the ADMINISTRATOR for approval, and shall, in any case, be subject to the disapproval of the ADMINISTRATOR.

ARTICLE XXI

Nothing contained in this Code shall constitute the members of the Code Authority partners for any purpose. Nor shall any member of the Code Authority be liable in any manner to anyone for any act of any other member, officer, agent, or employee of the Code Authority. Nor shall any member of the Code Authority exercising reasonable diligence in the conduct of his duties hereunder, be liable to anyone for any action, or omission to act, under this Code, except for his own wilful misfeasance, or nonfeasance.

ARTICLE XXII

No provision of this Code shall be so applied as to permit monopolies or monopolistic practices or to eliminate, oppress or discriminate against small enterprises.

ARTICLE XXIII

The effective date of this Code shall be 12.01 A.M. the second Monday after this Code shall have been approved by the President.

Approved Code No. 354.

Registry No. 1109–1–01.

Exhibit No. 1353–A

APPROVED CODE NO. 354—AMENDMENT NO. 1

Amendment to Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry as Approved on March 29, 1934

ORDER MODIFICATION OF CODE OF FAIR COMPETITION FOR THE SMALL ARMS AND AMMUNITION MANUFACTURING INDUSTRY

The Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry having been approved in my Order dated March 22, 1934, subject to certain conditions and

WHEREAS the condition that the provision in Section 3, Article VII of said Code allowing a waiting period prior to the effective date after the filing of revised schedules be stayed for a period of sixty (60) days from the effective date of this Code does not appear as a condition of the approval of the Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry.

NOW, THEREFORE, on behalf of the President of the United States, I, Hugh S. Johnson, Administrator for Industrial Recovery, pursuant to the authority vested in me by Executive Orders of the President, including Executive Order No. 6543–A, dated December 30, 1933, and otherwise, do hereby modify and amend my said Order of approval of said Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry to read as follows:

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[2] Deleted as per paragraph 2 of order approving this Code.

"That the provision of Section 3, Article VII, of said Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry allowing a waiting period prior to the effective date after the filing of revised schedules be stayed for a period of sixty (60) days from the effective date of this Code, or after the completion of a study of open price associations now being conducted by the National Recovery Administration."

Hugh S. Johnson,
Administrator for Industrial Recovery.

Approval recommended:
A. R. Glancy,
Division Administrator.

Washington, D. C.,
March 29, 1934.

Report to the President

The President,
The White House.

Sir: This is a report on a proposed Supplemental Administrative Order amending the Order of Approval for the Code of Fair Competition for the Small Arms and Ammunition Manufacturing Industry.

This Code was approved by me on March 22, 1934, and Article VII, Section 3, of this Code provides a waiting period prior to the effective date, after the filing of revised price schedules.

In conformance with Office Order 63, dated January 25, 1934, the Supplemental Administrative Order amends my Order of Approval of this Code to provide a stay for a period of sixty (60) days from the effective date of this Code, or after the completion of a study of open price association now being conducted by the National Recovery Administration, before the provisions in Article VII, Section 3, pertaining to a waiting period become effective.

For these reasons, therefore, I have approved this Amendment.

Respectfully,

Hugh S. Johnson,
Administrator.

Washington, D.C.,
March 29, 1934.

Approved Code No. 354. Amendment No. 1.
Registry No. 1109–1–01.

("Exhibit No. 1354" appears in text on p. 4193.)

Exhibit No. 1355

[D–2572]

June 30, 1932.
*54-Esthonian Gov't
MS–80–A
MS–64

Colonel W. N. Taylor,
16 Place Vendome, Paris, France.

Dear Sir: We are attaching confirmation of your cable no. 991 and our reply no. 824. We have noted carefully your cable no. 991 indicating that Esthonia are requesting bids to be opened July 1932, on 15,000,000 cartridges, delivery specified in autumn 1933.

The competitive prices quoted by I.C.I. and Bofors disrupt our price schedule and made a noticable differential in favor of the competitors insofar as made-up ammunition is concerned. You have advised that our maximum prices must be $1.40 per kilogram c.i.f. England insofar as I.C.I. is concerned, which price includes 3% commission and $1.50 per kilogram c.i.f. Belgium on sales to Fabrique Nationale, which price includes 5% commission.

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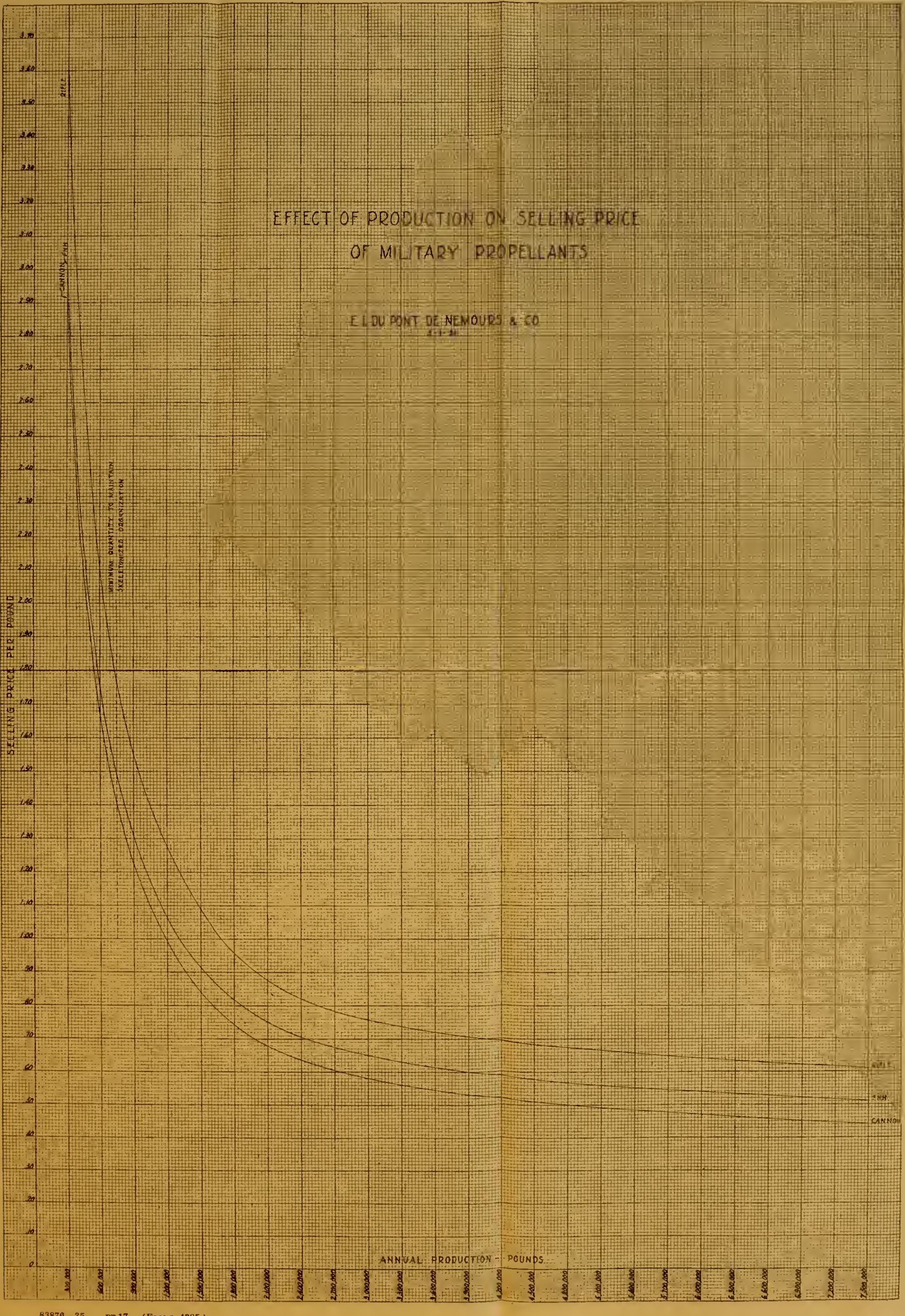
*Pencil marking.

EXHIBIT No. 1357


EFFECT OF PRODUCTION ON SELLING PRICE OF MILITARY PROPELLANTS

E. I. DU PONT DE NEMOURS & CO

83870—35——pt 17. (Face p. 4385.)

Our cablegram has authorized you to quote these prices and naturally since they are considerably below our usual export schedule they must be considered our minimum figure. You must realize that our price schedule on rifle powder sales to the U.S. Government is 71 cents per pound f.o.b. Carney's Point, excluding boxes. The prices you have quoted figures, in the instance of sales to England, a gross selling price f.o.b. Carney's Point, including boxes, of 54½ cents and in the instance of Belgium a price of 57.6 cents, thereby reflecting a noticeable reduction.

Since our sales to the United States total approximately 700,000 pounds of rifle powder annually, we cannot take the chance of this reduced figure being divulged. Therefore, you must arrange some plan in submitting your proposal so that you will be absolutely satisfied that the prices quoted will be regarded with the utmost secrecy. We wish to make ourselves very emphatic on this point, and in the event you cannot work out the required arrangement or feel that our idea cannot be accomplished then we must advise you not to quote.

K. K. V. Casey, *Director.*

("Exhibit No. 1356" appears in text on p. 4198)

("Exhibit No. 1357", chart on effect of production on selling price of military propellants, appears facing this page.)

("Exhibit No. 1358" appears in text on p. 4201)

Exhibit No. 1358–A

(Copy to Lammot Du Pont, Wm. Coyne)

June 14, 1919.

Major-General C. C. Williams,
Chief of Ordnance, U.S.A.,
Washington, D.C.

Dear Sir: This will acknowledge your letter of June 7th, subject, Military Explosives.

We are in sympathy with your opinion that it would be well if the du Pont Company could continue efforts to improve military explosives and propellants.

Confronted with a situation which makes it appear very doubtful whether adequate reward can be expected if the efforts to improve were successful, makes it seem as though from a commercial point of view the du Pont Company should discontinue research.

Therefore, before making a recommendation that research along these lines be discontinued, I want to feel that every possibility of obtaining a financial incentive has been considered. Will you, therefore, give me some additional time to consider the question and also give the benefit of any thoughts which you have as to how the du Pont Company could justify expenditure of money with such a desperate chance of an adequate reward.

Very truly yours,

Irenee du Pont, *President.*

Exhibit No. 1359

CTH/emp

War Department,
Office of the Chief of Ordnance,
Washington, August 26, 1919.

To insure prompt attention in replying refer to MA, No. 471567/5.
Ref'd. to K. K. V. Casey.
Subject: Military Explosives.

President, E. I. du Pont de Nemours & Co.,
Wilmington, Delaware.

Dear Sir: Your letter of June 14, 1919 has been received and has been given due consideration.

I am very glad to hear that the du Pont Company is interested in a continuance of their research into military explosives and propellants, and I quite appreciate that the immediate financial outlook is none too promising in this regard.

The Ordnance Department, however, has several problems of prime importance, connected with propellants, that make it advisable to urge you to lend your efforts in helping to solve. The principal immediate problem is the development of a nonhygroscopic flashless propellant. A letter has been written to the Military Sales Department outlining the data available in this office and discussing the most probable line of research.

As to the financial incentive I might state that funds are available to reimburse you for your outlay in this connection and it is believed that proper arrangements can be made toward this end.

If a satisfactory propellant is developed having the quality of a nonhygroscopic flashless propellant and at the same time giving equal ballistics to the present propellant, undoubtedly the Ordnance Department will have to purchase considerable amounts of such propellants.

Will you please let me hear from you again on this matter.

Respectfully,

C. C. Williams,
Major Gen. Ord. Dept., U.S.A.
Chief of Ordnance.
CTH

("Exhibit No. 1359–A" appears in text on p. 4202)

("Exhibit No. 1360" appears in text on p. 4203)

Exhibit No. 1361

[Copies to: Irénée du Pont, Lammott du Pont, A. Felix du Pont, N. C. Spruance, F. W. Bradway, C. I. B. Henning, R. G. Woodbridge, C. W. Phellis, F. W. Pickard, J. E. Crane, Wm. Coyne]

October 2, 1919.

Major General C. C. Williams,
Chief of Ordnance, U.S.A.,
Washington, D.C.

Subject: The Development Work on Flashless Nonhygroscopic Propellant.
Reference: Your file OMA 471.5/180.

Dear Sir: We are in receipt of your letter of September 25th which disregards your letter of September 16th and answers our letter on this subject dated September 9, 1919. We have carefully gone over the eight paragraphs in detail and the interpretations as set forth in your letter are agreeable to us.

In order to make the matter entirely clear, we mention specifically paragraph #5 and hereby confirm the understanding that when the experimental work on any sample has progressed to the stage to where it is submitted to the Government for firing test, the du Pont Company will submit to the Government all information regarding its manufacture.

In paragraph #8 your interpretation regarding royalties is satisfactory and your added stipulation that no sale of such propellant be made to other Government without prior notice being sent to the Ordnance Department, U. S. Army, is hereby accepted.

As we believe this thoroughly clears up the situation, we shall immediately proceed with the experimental and development work in an endeavor to produce the desired explosive.

Yours very truly,

——— ——— *President.*

("Exhibit No. 1362" is on file with the committee)

Exhibit No. 1363

*300

[Publicity Bureau. History of smokeless DuPont powder.]

UNITED STATES GOVERNMENT SMOKELESS POWDER

H. F. Brown.
Charles E. Munroe.
Lt. J. B. Bernadou.

It was about 1893 that Francis G. du Pont and Pierre S. du Pont invented a smokeless powder, "dead-shot powder." About two years later they produced the sporting smokeless powder called "du Pont smokeless." The du Ponts had also been experimenting with military smokeless powder. They tested those produced abroad.

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* Pencil marking.

One of the earliest of the formulas in this country was that to produce "indurite" first made by Charles E. Munroe, chief chemist at the Naval Torpedo Station at Newport. This powder was finally abandoned because it showed a tendency to decompose when kept in storage for any length of time.

The Ordnance Bureau officials furnished the du Ponts about this time with specifications for a powder closely resembling the French B.N. powder which was called "Naval smokeless powder."

1893. Prof. Munroe resigned as Chief chemist of the Newport Naval Torpedo Station and was succeeded on February 1, 1893, by H. F. Brown. H. F. Brown continued to work for a satisfactory powder under the direction of Admiral G. A. Converse and Lt. J. G. Bernadou.

1895. In 1895 these officers took out a patent for a smokeless powder closely resembling Vieille's Powdre B. which had been adopted by the French Government.

1898. In 1898 the International Smokeless Powder and Chemical Company was formed. Mr. W. W. Gibbs, of Philas., Pres. of the Marsden Co., manufactured pith cellulose employed principally in making cofferdams for battleships. The demand for pith cellulose was not very large, and President Gibbs believed it could be employed in the manufacture of smokeless powder.

The first plant was erected at Parlin, N.J., under the direction of Carl Volney but this had to be abandoned because it did not answer the purpose. Henry G. Lang, who had been engaged in manufacturing powder machinery in California, came east to succeed Carl Volney. He brought a lot of blue prints showing how the plant should be built, but he was so long in erecting it that the directors of the company accepted his resignation.

The International Co. then turned to H. F. Brown, and in 1900 engaged him as chief chemist. On his recommendation the company purchased the Bernadou-Converse patent. A plant was erected under Mr. Brown's direction in the spring of 1901 when manufacturing began. The powder turned out was superior quality and the Government gave the company large orders.

1903. The capacity of the plant was doubled, and in 1903 the company had orders for more powder than it could manufacture even though it worked a double shift of men and produced 7,000 lbs. a day.

1904. On Feb. 4th, 1904, the control of the International Company passed to the du Ponts.

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1895. Two years more were spent in experimenting, and then Francis G. du Pont and Pierre S. du Pont produced "du Pont smokeless." This was manufactured at the Carney's Point, N.J., works erected in 1890–1 for the production of guncotton for the United States Government but which were afterwards enlarged by the addition of a complete smokeless-powder plant.

1895. The experts at the Newport Naval Torpedo Station, H. F. Brown, Admiral G. A. Converse, and Lt. J. B. Bernadou, produced a smokeless powder closely resembling Vieille's powder.

1898. While the torpedo station was investigating, investigations into smokeless powder were also made by the du Pont Company, the Calif. Powder Works, and the Lafflan and Rand Powder Company. In 1898 the largest production of powder was at the Santa Cruz plant in which the du Ponts were largely interested. Just before the destruction of the *Maine* the Government placed orders of 100,000 lbs. each with the Santa Cruz plant and the Carney's Point plant. When the Spanish War started, the plant at Carney's Point, Haskell, and Santa Cruz were much enlarged. The Navy during that war used brown prismatic powder.

* * * * * * *

1889. Hudsom Maxim, who began his investigations of smokeless powder in England as early as 1888, took out his first patent in 1889.

Exhibit No. 1364

[File]

Col. W. G. Tschappat, March 5, 1928, *Dict. March 2.*
Ordnance Department,
Washington, D. C.

Dear Sir: You wrote to us on February 9th in reference to the semiautomatic rifle which the Government wished to develop either through the Ordnance Department or a commercial concern. You, of course, appreciate that the development of a rifle of this type, which is entirely new, would entail a very heavy expense, and unless we were reimbursed for this expense it would not be possible for us to give any consideration to the proposition. If there was any assurance that this rifle would be adopted by the new Government and we received from the Government a volume of business that would justify our expending money for experimental work we would be inclined to give this matter some favorable consideration, but there is no assurance that the Government will adopt this rifle after it has been developed and, therefore, all expense connected with this development work which we would have would most likely bring us no return.

The development of a rifle such as described is undoubtedly of great importance to the Government and it is our feeling and thought that the Government should be perfectly willing to pay for any experimental work in connection with the development of an arm of this type. If the Government do not feel that they can spend money in the development work we will be unable to proceed because we do not know what this would amount to and we feel that we are entitled to compensation for any work of this kind just as we would expect if we were doing it for some individual or a commercial firm. We are sure that you appreciate our position as we appreciate yours.

Yours very truly,

Remington Arms Company, Inc.,

——— ———,

HJS:AF *General Sales Manager.*

("Exhibit No. 1365" appears in text on p. 4209)

Exhibit No. 1366

Memorandum on the Sales of Surplus Goods and the Settlement of Claims Arising out of the Cancellation of War Contracts

Sources: Hearings before the Select Committee on Expenditures in the War Department; [The Graham Committee].

H. R. (66th Congress, 1st session) Report No. 171 (on food products), July 28, 1919.
H. R. (66th Congress, 2d session) Report No. 637 (on aviation), Feb. 16, 1920.
H. R. (66th Congress, 3d session) Report No. 1307 (on leather goods), Feb. 8, 1921.
H. R. (66th Congress, 3d session) Report No. 1400 (on expenditures in the Ordnance Dept.), March 2, 1921. Serial 1, volume 3, Report of the Committee.

These will be cited as "Graham Reports." The page citations are for the individual reports and are followed by the page in the volume containing them.

SALE OF SURPLUS GOODS

[Source: Graham Report No. 1400, pp. 81 ff., vol. p. 665, ff.]

"On the signing of the armistice many contracts, executed only in part, were canceled. So enormous had been the number of contracts made that there were in the factories of contractors over the country almost inconceivable quantities of raw materials and partly finished products of all kinds. It is probably not an exaggeration to say that the greater part of all the manufactured products of the country had been withdrawn from the civilian population and were in Government warehouses or private factories awaiting Government orders.

"Immediately after the cancellation of the myriads of contracts, the Government was confronted with the choice of either taking these materials, raw and partially finished, which had not already been delivered, and reselling the same to the public or permitting the contractors to keep them at an agreed price. The War Department adopted as its fixed policy in every case possible the plan to permit the contractor to keep the materials. Repeatedly throughout the hearings appears testimony showing that the policy of the Secretary of War was to protect the market of the contractor by preventing any of his manufactured product from being sold to the public by the Government in competition with the product of such manufacturer. Therefore we find everywhere one of two things happening, either the raw materials and partially manufactured products sold back to the contractor at salvage prices, fixed only the the comparative honesty of the contractor, or such product taken by the Government and withheld from the market by failing to declare the same surplus.

"An example of one of these settlements is the sale of surplus copper. In order to intelligently understand the matter, the subcommittee has gone extensively into all the copper purchases and sales of surplus copper and reports the same as follows:

Copper

[Source: Graham Report No. 1400, pp. 81–95, vol. p. 666–679]

"It was evident at the time of the entrace of the United States into the World War that large amounts of metallic copper would be needed, not only to supply the demands of the United States, but as well to supply, in part at least, the needs of the nations allied with the United States in that war. This fact was also apparent even before April 6, 1917, when Congress passed the resolution declaring that a state of war existed. Copper enters largely into the making of munitions of war and is especially an essential in the making of shells and projectiles of all calibers.

"Prior to the declaration of war the War Department had failed to lay in any supply of copper for its prospective needs. In view of this situation the Government, in the production of copper for our war-time needs, was forced to rely upon the judgment and plans of those who had copper to sell. The facts disclose that from the very initiation of our attempts to procure and purchase copper for our war-time needs up to the time of the final disposition by the Government of its surplus stocks of copper after the signing of the armistice the situation as regards the production and sale of copper was entirely within the control of the copper producers. At no time was the Government a free agent in the purchase of such supplies.

"On the 11th day of October 1916 the President appointed an Advisory Commission to the Council of National Defense, which last-named body had been authorized by an act of Congress passed before that time. This Advisory Commission met first on the 7th day of December 1916. Mr. Bernard M. Baruch, banker, was chairman of the Commission.

Organizing to sell to the Government.—"These gentlemen, originally appointed as an advisory board, on February 12 adopted a resolution to the effect that a series of conferences be held with the leading men in each industry, so that the industries could organize themselves and deal through one man or a small committee. It will be seen from the facts hereinafter stated that the plan originally was—and which plan has been fully consummated in the subsequent proceedings—that the copper industry, as well as other producing industries, should be so centralized that it could be dominated and controlled by one man, or a very small number of men, and that this control, once established over the industries, continued throughout the war, was the paramount influence toward price fixing and price control and is one of the causes of high-priced commodities at this time (1921). The plan of the Government was to centralize all industries, irrespective of the results that might ultimately follow.

* * * * * * *

"At the meeting last above noted Mr. Baruch was given charge of raw materials, minerals, and metals; and it is manifest, among other matters, that he was in conference with the copper producers at the time of the declaration of war, a little less than two months afterward. This is evident from the fact that about 10 days or 2 weeks before the President sent his message to Congress, on April 2, 1917, Mr. Baruch and Mr. John D. Ryan were in conference at Washington, and at that time arranged, evidently with the approval and after conference with the governmental authorities, a combination of copper producers and a sale to the Government of 45,000,000 pounds of copper at 16⅔ cents per pound. Mr. Tobias Wolfson, vice president of the United Metals Selling Co., and next to Mr. Ryan the principal official in that company, came to Washington on or about the 2d of April, on telegraphic advice from Mr. Ryan, and at that time was advised by Ryan to take charge of the matter of arranging the sale aforesaid and to have the proper conferences with the copper producers interested to that end. It will thus be seen that before the declaration of war Mr. Baruch, chairman of the Advisory Commission of the Council of National Defense, and Mr. John D. Ryan, president of the United Metals Selling Co., had arranged a combination and consolidation of the copper producers for the purpose of selling copper to the Government through the United Metals Selling Co. Mr. John D. Ryan was president of the company. Its stock was owned by the Anaconda Copper Mining Co., of which Mr. Ryan was president also. The companies who thus united in the combination that authorized the United Metals Selling Co. to act as their agent were the Anaconda Copper Mining Co. and 26 other companies.

"It is in testimony that the United Metals Selling Co. under this arrangement represented practically all the copper producers in the United States. This arrangement was known to the Government and agreed to by it and, in fact, was arranged by officials then connected with the Government.

"The purchase of 45,000,000 pounds of copper was completed, and the same was allocated to the military and naval departments of the Government. Immediately thereafter, however, it became apparent that much larger quantities of copper would be needed.

The men in charge.—"The Government purchased during the war 592,258,674 pounds of copper, of which 523,338,735 pounds were purchased from the United Metals Selling Co., 66,846,000 from the American Smelting & Refining Co., 290,000 from the Cleveland Brass & Copper Mills, 800,000 from J. B. Wise, and 983,939 pounds from the Gorham Manufacturing Co.

"In the three last-named instances the companies were not copper-producing companies but had stocks of metallic copper on hand which they sold to the Government. It has been heretofore mentioned that Mr. Baruch was appointed by the Advisory Commission to take charge of raw materials, minerals, and metals. Thereafter, and early in the year 1917, Mr. Baruch appointed a cooperative committee on copper which consisted of the following-named persons: John D. Ryan, R. L. Agassiz, W. A. Clark, Murry M. Guggenheim, James McLean, Charles MacNeill, and Stephen Birch.

"Mr. John D. Ryan, one of the cooperative committee, was, in addition to his connection with the Anaconda Copper Mining Co., in practical control, through his company, of the Greene-Cananea Copper Co. and the Inspiration Consolidated Copper Co., companies who were represented by the United Metals Selling Co., together with several other copper-producing companies. Mr. C. A. MacNeill, another member of this committee, was president of the Utah Copper Co., which, in turn, controlled the stock of the Nevada Consolidated Copper Co., both companies being in this combination, and was an officer in the Chino Copper Co., the Ray Consolidated Copper Co., the American Smelting & Refining Co., and the Wolverine Copper Mining Co., and others. The Kennecott Copper Co. owns controlling interests in the stock of the Utah Copper Co. and the Braden Copper Mines Co., all controlled by the United Metals Selling Co., and which are in the group of mines ordinarily known as the "Guggenheim interests." Mr. James McLean, another member of said cooperative committee is a vice president of the Phelps-Dodge Corporation, was a director in the Greene-Cananea Co., and Old Dominion Co. Mr. Murry Guggenheim, another member of this cooperative committee, is an officer and stockholder in the Chile Copper Co. In addition to the above, the Guggenheim interests were heavily represented in the Braden Copper Mining Co. Mr. W. A. Clark, another member of this committee, in the United Verde Mining Co. and the Magma Copper Co.

"It will thus be seen that every member of this cooperative committee was deeply interested in the copper industry and in the success of various properties owned or controlled in part by them. This was the committee whose function it was to assist in or advise as to the purchase of copper for the Government.

"The committee above named was functioning after the first purchase of copper.

The legality of the arrangement.—"During the month of August 1917 there was a very considerable discussion in Congress as to the propriety of the practice which it was thought was then prevalent of men attached to the various advisory committees of the Council of National Defense being intrusted with the purchase of supplies, in some cases from companies or interests in which they had a financial interest or were otherwise connected. As a result of an inquiry by the War Industries Board, on the 29th of August 1917 the Attorney General directed a letter to Mr. Scott, chairman of the War Industries Board, in which he stated, in substance, that it was illegal for a person who was interested in the subject matter of a contract to enter into such contract on behalf of the Government.

"Very shortly after the rendition of this opinion the various members of the cooperative committees that had been heretofore appointed by the Advisory Commission of the Council of National Defense began to tender their resignations. Section 3 of the so-called "food-control act" evidently was aimed at the practice that had been theretofore indulged in and made it necessary for any members of companies interested to sever their connection with the Government service so long as the companies in which they were interested were contracting with the Government. On the 3d of October 1917 the War Industries Board held a meeting, and at that time considered the matter raised by the opinion by the Attorney General and section 3 of the act of Congress aforesaid, and deliberated at considerable length on ways and means by which the effect of this act of Congress might be avoided by the appointment of committees to act for the various trades and industries represented, and by which the same result might be obtained as before.

"Thereafter, on the 9th day of November 1917, the director of the Council of National Defense stated, in a communication to the National Chamber of Commerce, that 'in order to prevent a continuance of the embarrassing situation wherein members of the committee were called upon to act as both Government agents or advisors and, at the same time, as representatives of their respective industries that these resignations have been accepted', and notified the National Chamber of Commerce to at once form committees to represent their industries which might deal with the Government. Thereafter, as a matter of fact, in most instances the former cooperative committees were continued, but were known as committees from the various trades and industries. There was no difference thereafter in the method of procedure. The copper cooperative committee resigned between September 19 and October 9, 1917. Up to the time that the cooperative committee on copper resigned all purchases of copper and negotiations relative to same were taken up through this committee.

Organization advantages.—"It is in evidence, and conceded to be the fact, that the cooperative committee on copper practically controlled the companies that in turn controlled the price of copper in the United States, and it is further shown, especially by the testimony of Mr. Clarkson, director of the Council of National Defense, that because of the connection of these gentlemen with the Council of National Defense, and thereby with the Government of the United States, their authority was more coherent and their impact much greater in dealing with the other members of the copper industry, and that because of this official status they could more effectively control the price of copper than they could have done as individuals. As individuals they could not have coordinated the entire resource of copper in the country as well as they could do when officials. In other words, by virtue of their official standing all producers of copper could be compelled to pool their interests.

"In the matter of the production of copper, as in all other industries and trades, the various cooperative committees who were appointed were selected, not by the Government, but by the respective trades and interests, and, as naturally would be expected, these gentlemen had in mind the condition of their various trades and were supposed and expected to represent them in their various transactions with the Government. On the other hand, on the part of the Government, there was no one who knew anything about the various trades or interests involved, excepting in the most casual and fragmentary way, and this condition continued to a very considerable extent throughout the entire war and certainly throughout the war so far as the purchases of copper were cocnerned.

"As soon as the arrangement was made with the Government by the cooperating copper companies through the common agent, the United Metals Selling Co., four things were accomplished; first, all competition was eliminated; second, all expense of selling and finding a market was eliminated; third, the possibility of all loss from bad accounts was eliminated; fourth, the market was absolutely under the control of the American producers of copper.

"While the United Metals Selling Co., in its inception, did not represent all the copper producers in the United States, this apparent difficulty in the organization was obviated as the result of an action of the War Industries Board early in 1917. Mr. Baruch, a member of the War Industries Board, appointed one Eugene Meyer, Jr., as his representative, and who in turn requested all copper producers to arrange for a copper producers' committee. Mr. Meyer, at that time, had large copper investments and was heavily interested in the business. In this matter he was acting as a member or agent of the War Industries Board. On September 28, 1917, he came to the copper producers and asked them to appoint a committee which would represent all the copper companies, not only those represented by the United Metals Selling Co., but all other companies. That meeting was held at 120 Broadway, and there were present at the meeting the following persons:

"Joseph Clendennin, Charles Earl, S. S. Rosenstamm, L. Vogelstein, Julius Loeb, Julian Beatty, M. H. Crege, T. Wolfson, Sidney Jennings, Charles Nichols, W. Parsons Todd, G. W. Drucker, James McDonald, H. M. Brush, and Eugene Meyer, Jr.

"There were no Army officers at this meeting. It is not known exactly what happened at this meeting, but the question of furnishing copper to the Government was fully discussed. On the 21st of September 1917, Mr. Robert S. Lovett, acting chairman of the War Industries Board, wrote a letter to Mr. John D. Ryan, at New York, in which Mr. Lovett stated as follows:

"'DEAR SIR: I am pleased to advise you that the President has approved the oral agreement as to copper arrived at by the War Industries Board and the copper interests represented by you, and which is correctly set forth in the following statement made public by the President.'

"The second purchase of copper made by the Government from the United Metals Selling Co. was no the 15th day of October 1917, after the President had approved of the new price,* and was a purchase of 11,595,346 pounds, at 23½ cents per pound, or an increase of approximately 6.84 cents per pound. No reason appears in the record for this increased price. The price of 23½ cents per pound was continued in effect until June 15, 1918, when further increase of price was made to 26 cents per pound.

The new War Industries Board.—"The War Industries Board, appointed by the Council of National Defense, ceased to function early in the spring of 1918. On the 4th of March the President wrote to Mr. Baruch appointing him Chairman of a War Industries Board, and in this letter of appointment gave him power by implication to fix prices. This War Industries Board was fully established on May 29, 1919, although it had been functioning practically since the 4th of March preceding the date of appointment by the President. From that time forward the War Industries Board was not under the control of the Council of National Defense, but was a body functioning by itself.

"The price fixing of copper, as well as many other commodities, was in the beginning fixed by the cooperative committees appointed by the advisory Council of National Defense. This was particularly true of copper. Following the resignations of these various committees, the function of purchasing and price fixing was continued by the War Industries Board, appointed by the Council of National Defense, and particularly through Mr. Baruch, a member of that board. This continued until the spring of 1918, when the War Industries Board was organized as a separate entity, and of which, as has been said, Mr. Baruch was Chairman. After the appointment of this presidential War Industries Board, certain committees were appointed by the Board to have charge of various industries and production. Almost at once there was appointed by Mr. Baruch what was called a nonferrous metals section. This section had charge of, among other things, copper. Its personnel was Pope Yeatman, chief; E. C. Thurston, assistant; Andrew Walz, assistant. From the time of the appointment of Mr. Yeatman and his section it was not permitted to place an order relative to copper except through him. A clearance from Mr. Yeatman was a prerequisite to such an order. Mr. Yeatman was a mining engineer, and at the time of his appointment was working for the Guggenheim interests, and was drawing $100,000 a year salary from them for this service in their mining interests. He left this position and was serving the Government for $1 per year, at which employment he continued until immediately after the armistice, when he left the Government service and went back to his original employment.

"During the year 1918, Mr. Yeatman, under the direct supervision of Mr. Baruch, had complete charge of the copper situation in the United States.

"During the period of the war the business of selling copper to the Government was conducted by Tobias Wolfson, vice president of the United Metals Selling Co., and by Mr. Mosehauer, who was located at Washington, and who was the representative of the United Metals Selling Co. and the American Smelting & Refining Co. An arrangement had been made between these two companies by which the American Smelting & Refining Co. was to handle all copper for export and the United Metals Selling Co. was to handle all copper for domestic use. They were, however, both represented by the same Washington representative, as above stated.

The position of the Army.—"During the entire period of the war the uncontradicted testimony shows that the Ordnance Department and its officers had nothing to do with the fixing of prices on copper, and the Army officers in what they did simply followed Executive orders in that regard, and followed the directions of civilians in the War Industries Board or other price-fixing bodies constituted from time to time. As to the prices, the representatives of the Ordnance Department has no negotiations at all.

"After the signing of the armistice it was determined that there was approximately 100,000,000 pounds of copper in the hands of the War Department that could be counted as surplus copper and was not needed by the Government for war purposes, and it was evident that some disopsition must be made of it, either by a sale of it to the public generally or in some other manner.

"On February 5, 1919, Mr. Mercer, chief of the raw materials and scrap division of the director of sales office, addressed a letter to Mr. E. C. Moore, assistant director of sales, in which he stated as follows:

"'It would be my recommendation that Mr. Hare, or some one whom he might delegate, have a conference with Mr. Ryan, and any other representative of the copper interests, that we may arrive at some plan of distribution in accordance with the plan outlined in the correspondence which you handed me as passing between Mr. Ryan, Secretary Baker, Mr. Hare, and Gen. Williams.'"

"It appears from this letter that before that time Mr. Ryan, Secretary of War Baker, Mr. Hare, director of sales, and Gen. Williams, Chief of Ordnance, had had a conference and had arranged upon some plan for selling the excess copper. The exact nature of that correspondence is not disclosed by the record and was not produced by the witnesses testifying on that subject. Prior to this time, however, and early in January, it was evident that the Government would have a surplus of copper, and the representatives of the United Metals Selling Co. approached the Secretary of War asking that all copper be held off the market for at least six months, basing its request upon the proposition that during the months of November and December they had continued production paying a wage rate corresponding to 26-cent copper, and had enormous surplus, and that reports from abroad were pessimistic as to a possibility of immediate sales.

Avoiding a collapse in copper.—"The sales department then arrived at a policy as to this copper, which was to the effect that the copper would not be dumped upon the market, but that it should be the policy of the Government to absorb as much of the surplus as was possible in the War Department itself by sale or transfer to other War Department bureaus, other governmental departments, and semigovernmental commissions, and that every precaution should be taken to avoid the disturbance of the industry of the copper producers. About the time the negotiations were being had with the copper producers, representatives of the United Metals Selling Co., certain conferences were called in the Department of Labor between the representatives of the copper miners and representatives of the Government and representatives of the copper producers. These conferences were held the last week in January 1919. The official report shows that on the 30th day of January 1919, the conference of mine workers requested the Secretary of War and the Secretary of the Navy to cooperate with the producing and consuming industries to the end that a way of handling their stocks may be found to remove the existing lack of confidence in the market and that the methods thus determined upon shall be rigidly enforced by the officers of the respective departments. The resolutions requesting this action were signed by 30 representatives of the copper miners. At that time wages were being paid on a war basis, and it was feared that if a return was had to low prices on a sliding scale, the wages of the workmen would be greatly reduced. At about this time or a little afterwards, also, it appears that there was a conference between Mr. Ryan and the Secretary of War, in which Mr. Ryan impressed on the Secretary of War what was said to be the demoralized condition of the copper industry, and asked the Secretary of War to use his discretion in disposing of this copper in order that this demoralized condition would not be made worse, and that the situation be taken up with the copper producers to see if some mutually agreeable way could not be worked out whereby the condition would be helped as much as possible, and the Government dispose of its surplus. It is probable that even before this time the Government had been in communication with the copper producers relative to the sale of this surplus.

"Almost as soon as a director of sales was appointed, Mr. John D. Ryan sent Mr. Wolfson as his agent to Washington, directing him to have a conference with Mr. Hare, the director of sales, and to show to Mr. Hare what effect the surplus copper was having on the copper market. In pursuance of this direction, Mr. Wolfson came to Washington and saw Mr. Hare on February 13.

"On the same date a meeting was called in the office of the director of sales, Mr. Hare, in the Munitions Building, Washington, and at which meeting there were present certain representatives of the office of the director of sales and of the United Metals Selling Co.

The disposition of the surplus.—"A smaller conference was had within this conference, as shown by the official minutes, at which were present Col. Boggs, Col. Lehman, Col. Tenney, Capt. Mercer, Mr. Morse, Mr. Wolfson, and Mr. Bancker, who prepared certain principles which were to be the method of procedure of the Government in the sale of this surplus copper, the second of these principles being—

"'It is felt that it would be to the best interest of the War Department, the producer, and the laboring class to have the War Department surplus copper and brass marketed by the producers, or some agency under their control, the marketing to be at the same price as similar material that they may sell during the same period.'

"The minutes also show the following:

"'The representatives of the copper industry were to go back and see their principals, get together all the copper producers, and present these principles to them, returning as soon as possible for further conference with the War Department representatives with a definite proposition.'

"On the 14th of February Mr. Hare, director of sales, notified Mr. Wolfson, of the United Metals Selling Co., of the action of the conference and requested him to at once call the principal producers of copper throughout the country together—

"'To discuss among themselves the terms upon which they will be willing to handle for the War Department the sale of surplus copper and brass now in the hands of that Department.'

"Thereafter there were two conferences of copper producers held in New York, one on February 20, 1919, and one on March 3, at which all the copper producers were represented.

The contract terms.—"At these conferences it was arranged for the copper producers to take over the surplus copper of the Government, and on April 10, 1919, a formal written contract was entered into between the War Department and the United Metals Selling Co., by which 100,000,000 pounds of electrolytically refined copper was sold to that company on the following terms:

"First, the price was to be the monthly average New York price for electrolytic copper as quoted by the Engineering and Mining Journal of New York, with lesser prices for copper not in commercial shapes and scrap copper. Second, the price was to be determined on the 5th day of May and on the 5th day of each succeeding month. Third, the price was to be paid on or before the 15th day of the second month for each month's quota. Fourth, a deduction of 1 percent also would be made from the price to cover storage, and so forth. Fifth, the copper also would be delivered by the United States, with all expenses of loading and freight to be paid by the Government. Sixth, the copper was to be delivered 5,000,000 pounds per month, beginning with April 1919, with the further arrangement that if the producers of copper represented by the purchaser in any one month up to January 1920, should sell more than 50,000,000 pounds of copper and from February 1920, to June 1920, more than 100,000,000 pounds, in such event the amount of 5,000,000 pounds per month should be increased by an amount equal to 20 per cent of the excess over 50,000,000 and 100,000,000 pounds, respectively.

"The signing of the armistice created in the copper market, as in all other markets in the United States, a serious depression and stoppage of trade. The 26-cent price of copper continued automatically in effect until December 5, 1918. From that time up until practically the signing of the contract with the United Metals Selling Co. there was no market for copper. During December and January there were no sales being made of any kind. From February 1 up to July 30 the prices of copper were as follows: February 1, 1919, the Journal gives the price at 18⅜ cents; February 15, 16¾ cents; March 1, 14¾ cents; March 15, 14⅞ cents; April 1, 15.35 cents; April 15, 15.15 cents; May 1, 15.35 cents; May 22, 16.35 cents; June 2, 16.35 cents; June 16, 17⅝ cents; July 1, 19 to 19.10 cents; July 15, 21.30 to 21.90 cents; July 30, 22.85 to 23.35 cents.

Stabilizing the copper market.—"It will be observed from these quotations that from April 1, the approximate date of the contract with the United Metals Selling Co. for the Government surplus copper, copper increased until on July 30 it had risen to 23.35 cents, or 8 cents per pound, while from February 1 to March 15 it had fallen close to 4 cents per pound. The immediate effect of the sale of copper to the United Metals Selling Co. and the control of the copper market by this company was to stabilize the market and to increase the price.

"That this was the intent of the Government agents and the copper producers there can be no doubt. In addition to the testimony of Mr. E. C. Morse, hereinbefore noted, his testimony shows that no minimum price was agreed upon in the contract with the copper producers, because to fix such a minimum price would be to depress the price. Mr. Morse also testified that the sale of copper was negotiated with the copper producers in this way for the purpose of keeping the market stable and not disturbing it and disposing of the Government surplus as rapidly as possible.

"It is the uncontroverted testimony that about the time conferences were initiated between the copper producers and the Secretary of War the Director of Sales issued an order directing that pending these negotiations no copper be sold by the War Department to any person. This order was as follows:

"FEBRUARY 7, 1919.

"Director of Sales, Order No. 8.

"Subject: Sale of copper and brass.

"1. No further sales of either copper or brass, as new material or as scrap, are to be made under any circumstances until further notice.

"By authority of the Director of Purchase, Storage, and Traffic.

"C. W. HARE, *Director of Sales.*

"This inhibition against the sale of copper continued until after the contract was made with the United Metals Selling Co. for the Government surplus copper, and then, on April 18, the Director of Sales made an order permitting the sale of copper.

The avowed purpose of the sale.—"Mr. A. G. Peter, secretary of the committee having charge of the disposal of copper from the Ordnance Department during that period, testified that if he had been permitted he could have sold at least part of the copper of the Government at the market price during that time; as a matter of fact many offers were had for the Government copper, but owing to the order of the Director of Sales, none could be sold. The object of the sale to the United Metals Selling Co., and the holding of the same off the market, is well indicated by the testimony of Maj. L. J. Quinn, of the Ordnance Department, and who stated that the sale was to keep the market from being depressed; in other words, that the price of copper on the market should not go lower.

"Mr. Wolfson said on this subject:

"'It was essential to get it out of the way, or we thought it was better that it be handled through the same channels that sold the copper. It did not matter whether it was sold by us or not, so long as it was gotten out of the way. We felt so long as that hung over the market there would be no stability. * * * I found I could not do any business with this hanging over the market.'

"Under the contract for the sale of copper the base price fixed on May 5, for the month of April, was 15.246 cents per pound; on June 5, for the month of May, it was 15.864 cents per pound; and on July 5, for the month of June, it was 17.61 cents per pound. In April the United Metals Selling Co. sold 83,000,000 pounds of copper, and hence took on their contract 13,000,000 pounds of Government copper at the average April price. During the month of May there was sold by the United Metals Selling Co. 207,649,189 pounds of copper, and accordingly there was taken by the United Metals Selling Co. of Government copper on June 5, for the month of May, 3,652,837 pounds. Practically the entire balance of the surplus copper to be taken by the United Metals Selling Co., under this contract, was taken on July 5, on the average June price.

"On the signing of the armistice the copper producers, represented by the United Metals Selling Co., had on hand approximately 750,000,000 pounds of copper aside from the purchase of the Government surplus copper, so that the price at which the Government surplus copper was sold to the consumers regulated not only the price of such copper as was being produced at the mines, but also the price of approximately 750,000,000 pounds of other copper already on hand.

Price-fixing and cost of production.—"The profits of the copper producers from their negotiations with the Government during the period of the war, and in the purchase of the surplus copper after the war was over, were enormous, and it must have been apparent to the Government agents that such was the case. It is said that the high prices paid for copper were paid for the purpose of stimulating production. However, the facts do not seem to indicate that it was necessary to pay as great a profit as was paid to accomplish that purpose. It has also been said in defense of the price fixing by the Government and its other negotiations that the market price of copper was approximately 32 or 33 cents per pound when we entered the war, and that the price fixing by the copper producers was far below what they might have obtained on the open market. However, it will be remembered that the copper producers were at the mercy of the Government at that time, and that under section 8 of the act of August 10, 1917, the Food Control Act, the Government had the right at any time to commandeer the mines and to practically fix its own price on copper.

"Two methods of computation were issued by the committee in ascertaining the cost of producing copper: One was in the examination of such reports of the copper companies as were available to accountants for the committee; the other was a report of the Federal Trade Commission made to the War Industries Board, and a copy of which was before the committee. This last-named document, confidential when received but now a public document, had evidently gone through the hands of the price-fixing committee of the War Industries Board, and this committee was fully conversant with the situation and the profits being made by the copper companies, as appears by their marginal notes upon the original copy. The custodian of these files produced the same, and from the marks made upon it, supposedly by the price-fixing committee, it appears that that committee knew that the profits most of the principal producers in the United Metals Selling Co. combination were making at a price of 23½ cents per pound, were from 8 to 12 cents per pound. These marginal notations show that the whole list of copper producers whose records were examined by the Federal Trade Commission the net profits at 23½ cents per pound were from 12 to 14 cents a pound, and that the principal companies in the United Metals Selling Co. group, and in which Mr. Ryan and the members of the cooperative committee on copper were most intimately interested, were from 8 to 12 cents per pound. Mr. Melville C. Wooster, chief accountant of the Federal Trade Commission, testified that the average cost of production of all the companies within the United Metals Selling Co. group for 1917 was 13.618 cents per pound, and in 1918, 15.326 cents per pound. In 1917 the cost of production per pound in the Utah Copper Co. was 10.4 cents, and in 1918, 12.3 cents. The cost of production in the Calumet & Hecla Mining Co. in 1917 was 12.9 cents, and in 1918, 15.7 cents. The cost of production in the Inspiration Consolidated Copper Co. in 1917 was 11.3 cents, and in 1918, 11.7 cents. The cost of production in the Kennecott Copper Co. in 1917 was 12.4 cents, and in 1918, 18.7 cents. It is useful to notice also that of the four companies last above named, each one, except the Inspiration Consolidated Copper Co., reported a decreased production for 1918; and from their reports it is evident that these companies were mining their lower-grade ore and making their mines ready for a time of higher prices, when higher-grade ore might be produced at a lesser expense.

Profits in copper.—"To illustrate the profits made during this period by some of the copper companies, four instances are cited:

"The Utah Copper Co. in 1917 made a profit of $32,000,000, which was 200 percent of its capital stock, and in 1918 a profit of $24,750,000, which was 150 percent of its capital stock. The Calumet & Hecla Mining Co. in 1917 made a profit of $9,500,000, or 800 percent of its capital stock, and in 1918, $3,500,000, or 300 percent of its capital stock. The Inspiration Consolidated Copper Co. in 1917 made a profit of $12,260,000, or 55 percent of its capital stock, and in 1918, $9,250,000 or 40 percent of its capital stock. The Kennecott Copper Co. in 1917 made a profit of $11,826,000, or 70 percent of its capital stock, and in 1918, $9,390,135.90, or 60 percent of its capital stock. It is probable that other companies in the list made similar profits, but the exact information is not available without a careful and detailed audit of the books of these various companies.

"The profits given here are net.

"The companies represented in this consolidation were mostly low-priced producing companies. It is claimed that they had to make this price to make a profit for the high-cost-producing mines, and therefore the mines that had a low cost of production necessarily made more profit. As a matter of fact, all the figures available to the subcommittee taken from the reports of the companies show that this price had the effect on copper of reducing the production, notwithstanding the increase in price. In 1919 three of the four big copper companies, of which the subcommittee had the figures for production, were companies mining a low-grade ore—that is, a cheap ore—and they were doing it while the price was low in order when the price became high that they could manufacture high-grade ore and get a higher price. So the effect of the proposition was to fatten this trust, which had its fingers on the throat of the country, and let it make profits entirely unjustified by the needs of the Government. There was no necessity for it. The Government had ample legal authority to have commandeered all the copper it needed and to compel the operators to furnish it at reasonable prices.

Stabilization and profits.—"The profits made by the copper producers out of the purchase by them of the surplus copper of the Government after the armistice would be hard to compute. It is certain that if this 100,000,000 pounds of copper had remained in the hands of the Government or had been sold by the Government to retailers or to the consumer, the price of copper would have remained at least stationary. However, by its purchase, the producers were enabled, by their combination and by the allocation of business among them as they chose, to control the market absolutely, and being permitted by the Government to combine and pool their interests the market immediately turned and started upward. Even in the matter of the contract itself it is evident that the copper producers were buying on the 5th day of May, June, and July, large sums of copper at a price that was the average price for the month before, and on a constantly rising market, so that any margin there might be in price, by way of an increase, would accrue to the copper producers and be lost to the Government. Just what this loss to the Government would be could only be ascertained by careful computation. In addition, the copper producers were given 1 percent of the cost as a condition of the trade. In addition every pound of the approximately 200,000,000 pounds of copper a month they were selling had an added value given to it by the rising market which the copper producers were creating. It is reasonable to assume that if, during the period the copper producers were taking the Government copper, their aggregate sales were 600,000,000 pounds, including the Government copper, their profit by virtue of the increase in price was approximately $50,000,000.

"Not all the copper producers shared equally in these profits, it is true. Mr. John D. Ryan, in the first purchase of copper by the Government from the United Metals Selling Co., dictated the proportion which each company in that combination should furnish of the copper, and this schedule or percentage obtained throughout the war. The same was true in the allocation of the surplus copper purchased from the Government. Some companies, and these were so far as can be seen usually the low-cost production mines, furnished most of the copper. An example of this will be found in the group of mines represented by Mr. John D. Ryan. The United Metals Selling Co. originally represented a small group of mining companies, 13 in number, and to these companies were alloted 152,500,287 pounds. Of this amount there was allotted to the Ryan companies—the Anaconda Copper Mining Co., Inspiration Consolidated Copper Co.—121,615,919 pounds.

* * * * * * *

"A fair and candid résumé of the whole situation cannot fail to convince the reader that the arrangement thus entered into was one extremely favorable to at least a few of the copper producers, and that from this arrangement, and because of the necessity and demands of the Government during the war, those who operated these copper-producing properties were enabled to make and did make extravagant and extraordinary profits."

Olive drab duck

[Source: Graham Report No. 1400, p. 96, vol. p. 680]

"On account of excessive purchases, the War Department had a large amount of surplus olive drab duck, 72 inches, some of which was stored at Jeffersonville, Ind. One H. Miller, 59 White Street, New York City, bought from the Surplus Property Division, on January 12, 1920, 239,104 yards of this material, at an agreed price of 65¼ cents per yard, amounting to $156,015.36. The duck cost the Government $1.938 a yard, and was packed in its original bales of 150 pounds each, size 15 by 15 by 73. and protected by being wrapped in paper and burlap. This was a negotiated sale by some one—no written offer for the same being in the files, and, so far as can be found, no competitive bidding having been had. This duck had theretofore been selling at $1.25 a yard. * * * On February 12, following the first sale, the price was canceled by Col. L. M. Purcell, Quartermaster Corps, and the price reduced to 47½ cents a yard, the reason for such action being that the purchaser represented that the material, when opened, had been found to be waterproof fabric and heavily oiled, and not as represented. There does not appear, anywhere in the record of the War Department any guarantee or representation as to the quality of this material, or any request for such.

"By this informal order of Col. Purcell the purchaser deducted from the price to be paid the Government $42,440.96, and settlement was made that way.

"H. Miller & Co., with whom the purchaser was associated, afterwards offered and sold this duck to the public at $1.41 a yard."

Frozen meat

[Source: Graham Report No. 1400, pp. 99–100, vol. p. 683–684]

"Throughout the year 1919 immense quantities of frozen meat had been kept without a declaration of surplus on any considerable amount of it. However, some was being sold from time to time. About April 15, when Maj. W. O. Watts became executive officer of the Surplus Property Division, frozen meat was being sold by that division at 10½ cents a pound. The meat had been purchased from the packers at approximately 30 cents a pound, and they were found to be the principal buyers of the same meat from the Surplus Property Division at 10½ cents a pound.

"On the matter being brought to his attention Maj. Watts protested and called the fact to the attention of his chief, Col. Yates, that under the provisions of a resolution of the House of Representatives the meat should be sold direct to the consumers and in such a manner that it would find its way into the homes of the country. Such meat as was being sold to the public was sold for from 13 to 15 cents a pound, while it was being sold to the packers in large quantities at 10½ cents a pound, less 1½ percent discount for shrinkage.

"Although Maj. Watts protested against this, out of a total of 25,000,000 pounds of surplus at that time, the packers secured 15,000,000 pounds at their reduced price.

"To illustrate the value of the meat, on March 15, 1920, 15,000,000 pounds were sold to Belgium for export at 15 cents a pound. On April 10, 1920, 30,000,000 pounds were declared surplus. Fully one-half of this was sold to the packers, while the rest went to the country, through municipal stores and other similar agencies. What was sold to the packers netted the Government only 10½ cents a pound, less 1½ per cent.

"Some of the officers who had charge of this surplus meat testified that it could have been sold with great ease at the price they received from the general public, namely, from 13 to 15 cents a pound.

"No reason appears anywhere why this meat should have been resold to the packers who had already made large profits on it, and the only solution to that problem is in the thought, which has heretofore been presented in the reports of this committee, that it was the avowed policy of the War Department to protect those who had furnished supplies to the Government on contract, against having the same product put on the market in competition with other productions and to keep the prices paid during the war stable and without decrease after the war ceased."

Shirting flannel

[Source: Graham Report No. 1400, p. 100–101, vol. p. 684–685]

"On July 8, 1920, at the request of Col. Yates, Chief of the Surplus Property Division, a statement of the quantity of surplus shirting flannel on hand was prepared, and showed at the various quartermasters' depots 2,383,445 yards of of this material. Such of this material as had heretofore been sold to the public had been sold at from $1.25 to $1.50 a yard. Immediately upon the completion of the inventory without calling for bids, Col. Yates and the director of sales approved the sale of the total quantity to Sigmund Eisner, of Red Bank, N.J., at $1.10 a yard. The material was 54- and 56-inch.

"No other dealer, so far as the subcommittee could ascertain, had on opportunity to obtain this flannel under such favorable conditions. On July 2 a fixed price had been established on this material of $1.05 a yard. The sale price to Mr. Eisner was $1.10 a yard, but he was allowed a discount of 10 percent, which brought the cost price of the flannel down to 99 cents. The total value of this material exceeded $2,000,000, and Mr. Eisner's discount was $213,000.

"The sales of outing flannel to other persons were made in pursuance to advertisements, issued from time to time on small amounts of material, and at no time, except on the occasion of the sale to Eisner, was the whole quantity of material ever offered to any one person or company.

"It was the opinion of responsible officers that the entire amount of this material could readily have been sold for the fixed price of $1.05 a yard."

Lumber

[Source: Graham Report No. 1400, p. 102–104, vol. pp. 686–688.]

"At the signing of the armistice the country was denuded of lumber for civilian use; prices were sky-high. Notwithstanding this situation, and notwithstanding the fact that every foot of lumber that could have been offered to the public at fair prices would have been rapidly absorbed at the time this contract was made, the War Department deliberately conveyed it back to the combination of lumber interests from whom it had been bought and by whom it was resold to the public at fabulous prices.

"If a profit was to have been made from this lumber, it could have been as readily made by the Government as by those who bought it from the Government."

Leather goods

[Source: Graham Reports No. 1307, p. 1, ff., vol. p. 559]

Under the Council of National Defense, two cooperative committees were appointed, on shoe and leather industries and on leather equipment. These were composed entirely of civilians affiliated with prominent shoe and leather concerns. Later the War Industries Board was created, and at least part of its commodity section on hides and leather was composed of such civilians. "From the declaration of a state of war until the signing of the armistice, the control of the shoe, leather, and horse equipment purchases of the Government was controlled (sic) by the leather manufacturers, including the fixing of prices therefor (p. 2. (560)).

"Throughout the whole period of the war agencies of the Council of National Defense and War Industries Board, largely made up of representatives of the various trades interested, arranged the prices of leather and leather materials sold to the Government. . . .

"There was no advertising for bids. That was dispensed with by an order entered by the Secretary of War April 12, 1917. There was no competition. The manufacturing interests, through the various trade committees and through the various branches of the War Industries Board, divided the business as they thought advisable. Not only were the prices fixed by committees and commissions, largely made up from the trades, but the amounts to be ordered were, to a similar degree, controlled by the same influences" (p. 3 (561)).

The personnel.—"Early in the war the War Department, following its usual practice in such cases, in addition to the organization of the various committees, hereinbefore stated, called civilians into the various branches of the service, gave them commissions as officers, and delegated them to deal with the purchase and disposition of the various types of military supplies needed. Almost universally such civilians were detailed to duties, in the performance of which duties they were dealing directly with the particular trade or industry from which they came, and with which in many instances they retained their business connections.

"Early in the war one of the officers who was thus called into the War Department from civilian life was George B. Goetz, from Ranson, W. Va., who at that time was vice president and secretary of the firm of A. D. Goetz & Co., harness manufacturers. During the entire time he remained in the War Department he drew a salary of $100 a month as vice president and secretary of the A. D. Goetz & Co., as well as his salary as an officer in the United States Army. Col. Goetz was head of the harness department and directed the purchase of leather equipment for the Army from July 1917, until August or September 1918.

"By official order the leather equipment supplies were transferred from the Ordnance to the Quartermaster Department some time in July 1918, and from that time forward the purchase of all leather supplies needed by the Army was controlled by Col. Goetz, and from this time until the signing of the armistice Col. Goetz practically directed the leather situation and was responsible for the distribution of contracts let by the War Department for leather supplies of various kinds.

"Almost immediately after the armistice he was appointed a member of the board for the settlement of leather contracts and July 1, 1919, was appointed a salvage member of the claims board of the War Department having to do with the settlement of war contracts. He continued acting in that capacity until September 4, 1920, when he resigned his commission" (p. 4 (562)).

Closely connected with Col. Goetz was Maj. Joseph C. Byron. Maj. Byron owned several tanneries, with which he retained his affiliation during his service in the War Department. The two had been associated in business prior to receiving their commissions. After the armistice Maj. Byron was appointed to the General Claims Board of the War Department. Associated with Goetz and Byron were Capt. Azel F. Cochran and Capt. Henry W. Benke. "At all times there were the most intimate relations between Byron, Goetz, Benke and Cochran, and, during the period of procurement of supplies they had complete control of the purchase and inspection of leather goods for the Army" (p. 6 (564)). The firm of A. D. Goetz & Co., of which Col. Goetz was a salaried officer, received orders for leather from the department of which he was the head totaling four to five hundred thousand dollars, of which he was cognizant (p. 7 (565)).

In 1919 considerable amounts of leather equipment were from time to time declared surplus. Before they could be sold, however, clearances had to be obtained from the director of sales, E. C. Morse. These were almost invariably refused. In the spring of 1920 five "campaigns" were carried on for the sale of leather goods. Small lots were advertised and a few sales made. Officers connected with the Surplus Property Board testified that in their judgment "if proper clearances had been granted and they could have offered the property in proper lots, they could have readily sold all of it" (p. 9 (567)).

"Your committee is convinced that there was a continued effort from the date of the signing of the armistice to the time of making the United States Harness Co. contract, to wit, September 24, 1920, to prevent the surplus leather equipment of the Army from being placed on the market in competition with leather products of manufacturers. Attention has been called by this committee repeatedly to the standing rule of the War Department that no surplus goods or property of any kind should be put upon the general market so that it might interfere with the prices being charged by private manufacturers for similar articles. In the leather transaction, as in all other transactions, this appears to have been the established practice, a practice which is not denied or excused in any way by the War Department. It was the understanding of the officers in charge of the Surplus Property Division that the War Department was endeavoring to prevent this material going onto the market" (p. 9 (567)).

Allaying the manufacturers' fears.—On December 23, 1918, a meeting of the representatives of leading leather-goods manufacturers was held at the office of Maj. Byron in the War Department, Col. Goetz also being present. Maj. Byron there stated to the manufacturers:

"The surplus stock officer is going to protect the manufacturer as much as he can. I am trying, particularly in the leather, to keep him from getting the stuff; then he can't throw it on the market" (p. 9 (567)).

Apparently the manufacturers were apprehensive.

"Those who had furnished the leather goods to the Government, many times at exorbitant and usually their own prices, seriously opposed the Government selling this material to the public, and in this way reducing the high war prices" (p. 19 (577)).

At a meeting of harness manufacturers at Chicago in 1919, Col. Goetz suggested that the surplus be exported and sold abroad, and Mr. Carver, representing the manufacturers, said that they should be thought of by the Government and not the "rich farmers" (p. 10 (568)).

Around the War Office the impression was obtained that Maj. Byron and Col. Goetz were conveying to the public the information that the surplus harness was of little value. Col. Goetz occasionally stated as much to a prospective purchaser. On one occasion Byron, Goetz, and Benke obtained a harness which had been in water and mud and exhibited it at their Washington office (p. 11 (569)).

On September 3, 1920, an option was given by E. C. Morse, the director of sales, to the United States Harness Co. on the surplus leather equipment. According to an order issued by Morse on January 5, 1920, pursuant to a ruling of the Judge Advocate General, the granting of an option to prospective purchasers of Government property was beyond the authority of the War Department. Nevertheless, the contract was formally executed on September 24.

The United States Harness Co.—"The United States Harness Co. was organized for the purpose of entering into this contract, and the chief characters in its organization were Maj. Joseph C. Byron, Lieut. Col. George B. Goetz, Capt. Azel F. Cochran, and Capt. Henry W. Benke, all of whom had, during the war, been connected with different phases of the Department's leather acquirements, purchases, and inspection." (It should be noted that this candid statement comes from the minority report (p. 24 (582)) which either approved or ignored all the facts revealed by the majority.)

"The company was organized with $500,000 stock, $300,000 paid up. Goetz, Byron, Benke, and Cochran took $130,000 of this, and distributed $170,000 among seventeen leather-goods companies, each of which companies takes $10,000 of stock. These companies were so distributed over the United States as not to interfere with each other's territory (p. 5022): L. Frank Saddlery Co., San Antonio, Tex.; Louis P. Rice & Co., New Orleans, La.; Harpham Bros., Lincoln, Nebr.; Strecker Bros. Co., Marietta, Ohio; Morley Bros., Saginaw, Mich.; A. N. Edwards, Chicago, Ill.; the Strauss Co., St. Louis, Mo.; D. B. Traxler, Greenville, S.C.; Scheffer & Rossum Co., St. Paul, Minn.; Nashville Saddlery Co., Nashville, Tenn.; Northern Saddlery & Mfg. Co., Duluth, Minn.; McIntyre-Bunall Co., Green Bay, Wis.; Herman Sandford Saddlery Co., Springfield, Mo.; Hess & Hopkins Leather Co., Rockford, Ill.; Walter Boyt Co., Des Moines, Iowa; Indianapolis Saddlery Co., Indianapolis, Ind.; A. D. Goetz Manufacturing Co., Ranson, W.Va."

Col. Goetz, who was president of the corporation, resigned his commission on September 4. Byron was secretary, and Cochran and Benke were first and second vice presidents (pp. 16–17 (574–575)).

There had been some earlier intimations of this plan. "In a letter dated April 12, 1919, to the director of sales, Col. Goetz stated that 'he would like personally to sell all the surplus harness on commission basis, preferring to resign his commission to handle the work, or he will stay in the service long enough to organize a sales force, provided he be allowed to select assistants having the necessary qualifications'" (p. 10 (568)).

"On the 7th of May 1920, Col. Goetz ordered a set of artillery harness sent to his factory at Ranson, W.Va., for experiment, to see if it could be converted. He had no authority to issue this order, but the order was complied with. While he agreed to report the results of this experiment to the Department, he did not do so prior to the making of the contract, although requested to do so September

14, 1920, by Col. Hanson" (p. 12 (570)). In the same month, May, Goetz and Byron were discussing with Morse the plans that culminated in the contract.

A proposal to take over the surplus was submitted by Byron to Morse in July. A Boston firm named Thompson & Kelly objected, desiring to bid, but were told, after a temporary withdrawal of the proposal, to "keep off." D. B. Traxler, of Greenville, S.C., protested against the contract and was made a stockholder. Harbison and Gathright, leather dealers, of Louisville, Ky., wrote a strong letter of protest to Secretary Baker, and in reply received a letter from the Secretary and from Goetz, the latter offering to let the Louisville firm into the new corporation. On the other hand, Capt. George C. Bosson, Jr., in charge of leather goods, who objected to the contract, was discharged from the Army. Major W. O. Watts, who was objecting to the method of disposing of leather goods, and to whom certain tanners were hostile, was placed in charge of clothing and equipage, a division that had nothing to do with leather (pp. 14–15 (572–573)).

Terms of the contract.—The contract "covers all harness, saddles, leather, spare parts for harness and saddles, hardware and accessories for harness and saddles, and cut-leather stock on hand September 24, 1920, or declared surplus within one year thereafter . . . The Government stores the material at its own risk and expense, until called for by the company, repacks it in boxes of component parts, reconditions it, and puts it on the cars, billed to the contractor, at Government expense. All this harness is new and unused. The peculiar proposition is presented that if the harness is not reconditioned it grades at $19.46 and $17.07 a set, while if the Government reconditions it and treats it with neats-foot oil, it grades lower into $14.60 and $12.80 a set. Every bit of it is being reconditioned by the Government. . . . The contractor may sell the harness just as it was received, without reconditioning it. It is admitted the contractors might do this and make 25 percent profit without touching the harness. The contractor may either sell 'as is' or remake the harness and then sell it. If the property covered by the contract is sold for more than the minimum prices fixed in the contract, the contractors shall receive from 15 percent to 40 percent of selling price for selling. The old factory of A. D. Goetz & Co., at Ranson, W.Va., has been taken over by the United States Harness Co., and the company is now remaking some of the harness there, on all of which the United States Harness Co. will receive 40 percent of the proceeds of sale. The amount of profit to the United States Harness Co. from this contract is uncertain, but must, in the aggregate, be very large. On the harness alone, the 40 percent will amount to, approximately, $1,000,000. While Col. Goetz states that his company will make only 8 percent on capital invested, Byron will not so limit himself. By means of this control of the surplus leather the United States Harness Co. absolutely controls the situation and fixes the prices on surplus leather goods the country over. It is admitted by both Goetz and Morse, that what the United States Harness Co. is now doing, the War Department could have done equally well without the payment of this 40-percent commission. No apparent effort, however, was made to do so. The probabilities are that the Government will not receive to exceed 15 percent of the cost value of its surplus leather goods," estimated at about $20,000,000 (pp. 17–18 (575–576)).

The reaction.—"Maj. Byron submitted to the subcommittee a statement of sales of materials by the United States Harness Co. up until January 1, 1921, showing a return to the Government on sales of $345,771.23 and to the Harness Co. $230,514.15, during the period from September 24, 1920, to January 1, 1921" (pp. 18–19 (576–577)).

"As soon as the tanners found that the contract with the United States Harness Co. had been made, the Tanners' Council of the United States, one of the creatures of the Council of National Defense, met at New York on November 27, 1920, and addressed a circular letter to the harness-leather tanners of the country calling the attention of the tanners to the fact that the execution of this contract would hurt their business and asking that they communicate with their Members of Congress, asking them to attempt to have the contract rescinded. The harness and saddlery jobbers also met at Chicago, May 20, 1919, and criticized the proposed action of the Government in selling harness, and proposed to keep it off the market by taking it over and dividing it among themselves. If the Government would not do this, they proposed that all leather goods be sold at one time, at public auction, at Washington, D.C. . . . There is nothing in the attitude of the members of the Tanners Council or the various leather war-service committees that commends itself to the subcommittee. On the contrary, their attitude was grasping and unfair to their Government. Nor was the attitude of Byron and Goetz and the other officials in charge of the leather transactions of the Government any more worthy of praise. The whole affair from the time of the armistice seems to have been a concerted movement of all the leather men, both inside and outside the War Department, to protect the leather interests at the expense of the Government, until the time came when those inside the Government, having full control of the situation, and seeing their opportunity to realize great profits, deserted their former colleagues and secured the contract of September 24, 1920, to the consternation of their former associates. Thus, by the falling apart of the original combination, your subcommittee, and Congress, is able to ascertain, for the first time, the sordid details of these transactions; they reflect no credit upon the country" (p. 20 (578)).

Carbolic acid

[Source: Graham Report No. 1400 p. 54, vol. p. 638]

"The War Department purchased, in all, 47,506,822 pounds of phenol, commonly called carbolic acid, at an average price of 34 cents a pound. Very large quantities of this were on hand on the signing of the armistice. Thereafter much of it was declared surplus, and on August 15, 1919, a contract was entered into with the Monsanto Chemical Co., of St. Louis, Mo., by which contract the director of sales authorized the Monsanto Co. to sell for the United States its surplus phenol, estimated at 27,521,242 pounds, for a market price to be fixed from time to time by the representative of the contracting officer of the United States, but with a minimum price of 9 cents a pound. The United States was to pay all expense of every kind, and was to load and ship to any point designated by the Monsanto Co. For this service the company was to receive 2 percent of all sales, and in case any phenol was found to be below grade, was to redistill it for ¾ cent a pound, all expenses of shipment, freight, and of every kind to be paid by the Government. At the end of two years the contractor was to take all left at 9 cents a pound. Another striking provision of this contract was the provision that not more than one twenty-fourth of the entire amount to be sold would be sold in any one month by the contractor. The contract is almost identical in form with that mentioned in a former report of this subcommittee on leather.

"It is stated by the sales department that the average price received on such sales has been 12 cents a pound. From information obtained from the Bureau of Mines it appears that the Journal of Industrial and Engineering Chemistry quoted the price on phenol, water whiteU. S.P. 39 to 41° C., which was the grade purchased usually by the Government on August 9, 1919, the approximate date of the contract, at 15 to 16 cents a pound" (p. 54 (638)).

Byproducts coke ovens

[Source: Graham Report No. 1400, p. 55 ff. vol. p. 639 ff.]

The manufacture of trinitrotoluol (T.N.T.) requires toluene as one of the ingredients of the explosive, and toluene, at the time of the war, had been produced in commercial quantities only from byproduct coke ovens or from the stripping of coal gas in public gas plants (p. 55 (639)).

The Government made contracts with twelve companies for the erection of byproduct coke ovens. After the armistice, the contract of nine were cancelled and settlements were made. Three contracts were carried through to completion, as follows:

"The Fairmont By-Products Co. made a contract, on September 9, 1918, with the Government to erect a considerable number of by products ovens at Fairmont, W. Va. The Fairmont By-Products Co. was one of the numerous coal and allied products companies controlled by Col. C. W. Watson, of the Ordnance Department, who was the assistant of Col. Samuel McRoberts, who negotiated most of the by products coke oven contracts. For some reason the Fairmont By-Products Co. desired to relinquish its contract for the erection of the ovens at Fairmont, and accordingly, in September 1918, the Domestic Coke Corporation took over the contract of that company with H. Koppers Co. for the erection of 60 of the ovens covered by that contract. This contract thereafter proceeded under the name of the Domestic Coke Corporation.

"All the evidence in the matter of the Domestic Coke Corporation shows that the company was really a dummy, cloaking the operations of the Standard Oil Co. All of its financial business is transacted by the Standard Oil Co. The three dummy directors, when the contracts are completed or the business settled, expect to be paid in stock or otherwise for their services (1322).

"Until September 30, 1919, these various properties were controlled by the Ordnance Department and construction continued. After that date what remained to be done was turned over to the Construction Division of the Army.

"The contract with the Birmingham Coke & By-Products Co. was continued to completion, and cost the War Department $3,358,000. The War Department then caused the plant to be appraised, and on June 30, 1920, the Secretary of War approved a sale of the plant to the Birmingham Co. for $2,600,000, its appraised value, this being $758,000 less than it cost.

"The contract with the Donner Union Corporation is continuing. This plant was also sold on June 30, 1920, to the Donner Union Coke Corporation by approval of the Secretary of War. By the terms of the sale the corporation is to pay to the United States $4,140,000 for the first $6,000,000 of cost to the Government and actual cost over $6,000,000. It is estimated the cost will be $7,500,000. Payments of principal and interest are arranged, interest to begin December 31, 1921, 6 percent the first year and 5 percent annually thereafter.

"The Fairmont By-Products contract was completed. It cost the War Department $2,864,000. On January 2, 1920, the Secretary of War, on recommendation of a board of appraisers, approved a sale of the plant to the Domestic Coke Corporation for $1,664,000, on deferred partial payments extending over a term of years at 5-percent interest. By this settlement the Standard Oil Co. was enabled to procure this plant at $1,200,000 less than actual cost." (Pp. 62–63 (646–647).).

Shoes

[Source: Graham Report No. 1400, pp. 63–66, vol. p. 647–650]

"A great many thousand pairs of shoes that had been used to some extent were repaired and practically rebuilt after the signing of the armistice. After the repairing process many of these shoes were declared surplus, and at the time of the hearing 1,411,682 pairs of reclaimed shoes had been declared surplus."

* * * * * * *

"A confidential minimum price of $1.50 a pair on these reclaimed shoes was established in the department. Whether or not it was known to the public the committee is not informed. However, it appears that of the reclaimed shoes sold in the United States, on one occasion the United Salvage Corporation of New York purchased 33,400 pairs at $1.51 a pair, while to other purchasers the price ranged from $1.93 to $2,33."

Food products

[Source: Graham Report No. 171, p. 1, ff., vol. p. 3"]

"The present high price of food products and the need of the Government for money suggests to your committee the necessity of a preliminary report relating to the War Departments nonactivities in the sale of the very large quantities of food supplies now held in storage in the United States.

"At the time of the signing of the armistice, the Army was composed of approximately 3,700,000 men, 2,000,000 of whom were in France and about 1,700,000 in continental America. An increase of this force to 5,000,000 men had been agreed upon by the War Department, and food for this enlarged army for 8 months in advance was being contracted for and accumulated at the time active hostilities suddenly ceased.

"The demobilization of the Army began immediately upon the signing of the armistice and 800,000 soldiers were discharged by January 11, 1919. "This demobilization continued at the approximate rate of 80,000 per week, so that on the 24th of May 1919, 2,252,000 of the soldiers had been discharged and were definitely out of the service.

"In view of the tremendous quantities of food, the Government had on hand on November 11, 1918, and the demobilization of the armed forces, it at once became apparent that the War Department possessed an immense quantity of food beyond the needs of the Army.

"Actuated by this condition, General Peyton C. March, Chief of Staff, on November 30, 1918 (19 days after the armistice), issued an order authorizing the declaration of the surplus on all perishable food products.

"The next step was the declaration of surplus by the Quartermaster General; and the last step was the sale of the surplus supples by the Director of Sales. Notwithstanding the authorization of surplus by the Chief of Staff on the 30th of November, no action was taken with reference to declaring a surplus until the month of May 1919, or 6 months after the declaration was authorized. In the meantime the food deteriorating and becoming of less value to the Government, and the high cost of living for the American people continued. This inexcusable delay resulted in the spoiling of millions of pounds of ham and bacon, to the great loss of the American people who were in need of food products." (The minority of the committee found that only a small amount of food had suffered deterioration. Report page 7, vol. p. 9). "The inactivity of the Government and the disposition of these food supplies was, and is, the result of a well-defined policy of the Secretary of War to withhold them from the domestic market and to protect the interests from which these products had been purchased with the ultimate intention of disposing of them abroad so far as circumstances would permit." (It should be added that a member of the minority stated that at a conference he held with the Secretary of War, the latter had denied having such a policy. (Ibid.)

"This policy finds expression not only in testimony given to the committee by the officers of the War Department, but in discriminatory evidence as well. As an instance of such intention to prevent the American people from purchasing those products, the Quartermaster General's Department, through Gen. R. E. Wood, Quartermaster General, entered into an agreement with the Canners' Association that some 200,000,000 cans of canned vegetables would be kept off the domestic market during this season; this agreement was subsequently extended by an order of the Quartermaster General adding these canned vegetables to the soldier's ration in the expressed hope that they would be entirely consumed and that none would be left for sale. This order would have resulted in a loss to the Government of millions of dollars to be derived from the sale of this surplus, as well as depriving the American people of a large quantity of food.

"The purpose as shown by the testimony was to protect the canners who had sold the produce from competition with the governmental surplus.

"On July 8, 1919, the surplus of food stored in the United States over and above the needs of the Army was as follows:

Corn beef	$24, 000, 000
Bacon	23, 000, 000
Hash, corn beef	10, 000, 000
Roast beef	20, 500, 000
Fresh frozen meats and poultry	20, 000, 000
Canned vegetables	23, 000, 000

"This surplus is constantly growing larger, because of the continued demobilization of the Army. In addition to these items, there is a surplus of millions of cans of fish and milk, and tons of sugar, coffee and tea. It is utterly impossible to estimate the exact value of the tremendous quantity of food supplies in the hands of the Department, a large portion of which is deteriorating and becoming less valuable.

"During the 8 months which has elapsed since the signing of the armistice, only $12,000,000 of food supplies has been sold by the War Department in the United States and a very large quantity of that sold was spoiled and unfit for the general market, otherwise it would not have been placed on sale.

"On July 11 of the present year, and after the war expenditures committee was appointed, the Director of Sales issued to the press a publicity statement with reference to the sale of meats and vegetables. This statement provides that meat and vegetables shall be purchased only by municipalities, and municipalities to pay the freight from the nearest warehouse, and to have 10 days in which to make payment to the Government. This plan adopted by the Government will not result in the sale of these products to any great extent, for the reason that most municipalities, under their charter, have no legal authority to purchase food products for sale. Many municipalities which have indicated a desire to purchase this food for the benefit of their people, have been met with the threat of injunction on the part of the local dealers, which threat has been sufficient to prevent a purchase of the goods.

"This committee makes recommendation that these food supplies be sold without delay on the domestic market to the American people who, at great sacrifice, bought and paid for them, and the committee looks with disfavor on the policy of exporting them from America to foreign nations for sale and consumption. This committee further recommends that plans be devised by the Secretary of War, through the War Department, for the early disposition of all surlpus food products on the domestic market under a system which will grant to the American people the opportunity to secure the same for food purposes. The Committee therefore recommends the adoption of the following resolution:

"*Be it resolved by the House of Representatives of the United States of America,* That the Secretary of War be, and he is hereby, requested to place on sale, without delay, the surplus food products in the hands or under the control of the War Department now stored in the United States under such plan as will safeguard the interests of the Government and insure an opportunity to the people of the United States to purchase the same directly from the Government.

W. J. GRAHAM, *Chairman,*
CLARENCE MACGREGOR,
C. F. REAVIS,
OSCAR E. BLAND,
WALTER W. MAGEE,
ALBERT J. JEFFERIES,
JAMES A. FREAR,
ROYAL C. JOHNSON,
JOHN C. MCKENZIE,
ROSCOE C. MCCULLOUGH,
Committee."

Aviation

"Airplanes costing the Government $20,000,000 were resold to the Curtis factory for $2,700,000 or about 13 percent of cost. Thousands of American aviators were compelled to buy at full price from the Curtis Company if they wanted these machines."

[Source: Graham Report No. 637, p. 16, vol. p. 78.]

"In May 1918 the Siems-Carey-Kerbaugh Corporation received a cost-plus 7-percent contract for supplying spruce for airplanes from the State of Washington. Under the contract over $23,000,000 were expended, the corporation being assured of a profit of $1,400,000 to $3,000,000. Director of Aircraft Production, John D. Ryan, who became 2nd Assistant Secretary of War, August to November, 1918 and who was then and until his death in 1933 an important executive of the Anaconda Copper Mining Company, wrote to the Secretary of War regarding this contract. Part of his letter follows:

"'Carey stated at the beginning of the negotiations in which I had part that they did not expect to ever secure profit from the contract except to the extent that they were able to amortize and reduce the cost of the plant to the Government and take it over on an appraisal that would enable them to engage in the lumber business. That was, I believe, the chief incentive in their making the contract and never disguised, as far as I know.'"

[Source: Graham Report No. 637, p. 63, vol. p. 125]

On February 15, 1919, the estimated salvage value of the property bought and constructed under this contract was less than $4,000,000, as the following schedule shows:

Schedule on property accounts from the balance sheet filed by the spruce army officers as of Feb. 15, 1919

	Cost	Estimated salvage	
		Percent	Value
Land and timber lands	$775, 696. 68	----------	$745, 500
Haulage equipment	951, 512. 77	25	238, 000
Donkey-engine equipment	1, 475, 783. 66	20	295, 000
Railroad equipment	651, 933. 13	20	130, 000
Railroad equipment (rails, etc.)	1, 000, 000. 00	----------	250, 000
Marine equipment	85, 191. 09	20	17, 000
Towage and rafting equipment	49, 825. 95	25	12, 500
Tools and appliances	600, 146. 34	10	60, 000
Furniture and fixtures	354, 469. 86	20	71, 000
Railroad construction	8, 742, 100. 20	----------	750, 000
General construction	69, 449. 20	----------	----------
District construction	191, 349. 76	----------	----------
Camp construction	1, 083, 932. 80	----------	----------
Construction overhead	322, 265. 56	----------	----------
Construction, Siems-Carey-H. S. Kerbaugh Corporation sawmill	2, 395, 345. 14	10	239, 000
Construction, Vancouver cut-up plant	1, 100, 073. 31	----------	100, 000
Construction, Toledo mill	985, 487. 73	----------	200, 000
Construction, Vancouver warehouse	21, 710. 79	----------	----------
Supplies on hand	2, 402, 790. 58	33⅓	800, 000
Stumpage rights	26, 516. 64	----------	----------
Total	23, 285, 581. 39	----------	3, 908, 000

[Source: Graham Report No. 637, p. 60, vol. p. 122]

SETTLEMENT OF CLAIMS ARISING OUT OF THE CANCELLATION OF WAR CONTRACTS

[Source: Graham Report No. 1400, p. 66 ff., vol. p. 650 ff.]

"Even on a casual inspection of the operations of the War Department Claims Board and its auxiliary boards it is evident that every effort was made to do two things: (1) To speedily settle with the claimant; (2) to leave the manufactured and partly manufactured goods in the hands of the contractor. If there was any doubt about any proposition, such doubt was practically universally settled in favor of the contractor.

"The basis of all settlements was a circular issued by the Division of Purchase, Storage, and Traffic, November 9, 1918, before the armistice, called Supply Circular No. 111, which fixed the basis of all future settlements. It was written by Mr. Gerard Swope, an assistant to Maj. Gen. G. W. Goethals, and by Mr. Max Thelen, another assistant. A part of the circular prescribed that in such settlements the following items should be considered:

" '(1) Raw materials on hand: Cost plus inward handling charges plus such portion of overhead as is directly applicable.

" '(2) Partly finished products on hand: Cost of raw material and labor plus such portion of overhead as is directly applicable.

" '(3) Finished products on hand: Contract price, less freight charges if the contract or order specifies delivery at point other than factory.

" '(4) Special facilities: Cost of facilities specially provided and paid for by the contractor for the performance of the contract, the necessity of which was contemplated at the time the bargain was made and the cost of which was included in the contractor's original estimate. From the cost of such facilities deduct their fair value at the time the contract or order is terminated and state such portion of the remainder as is represented by the ratio of the uncompleted portion to the whole contract or order.

" '(5) Commitments: The contractor's commitments to suppliers, subcontractors, and others for contributing materials or work to be determined, insofar as applicable, in the same manner as indicated in (1), (2), (3), and (4).'

"From the time of the adoption of this circular as the rule of settlement, settlements became largely mechanical. The rules were such that the settlement largely depended upon what the contractor claimed. If he was honest, there was an honest settlement, if he was inclined to take advantage of the Government, he did so. Those claims were going through the claims boards at the rate of about 35 a day, aggregating millions of dollars. Therefore, little time was given for their examination. The process was largely mechanical. In most cases, also, the contractors were shrewd business men, well versed in their line, and were more than a match for the comparatively inexperienced members of the settling boards, most of whom knew nothing at all, and so admitted to the committee, about the business they were dealing with.

"No one with any knowledge of the situation doubts that millions of dollars were paid out on these claims to which the contractors were not entitled; but, taking advantage of the situation and the inexperience of the employees of the War Department, in some cases they wrung extortionate amounts from an already impoverished Public Treasury.

"The practice of permitting the contractor to keep raw materials also led to great abuses. The people were clamoring for all sorts of raw materials for certain uses. But, irrespective of this, most of this raw material was given to the contractors at low prices and afterwards, doubtless, sold to the public at war prices.

"To illustrate the situation, a few claims that have been brought to the attention of the subcommittee are here mentioned. They are not the best, nor the worst, but are probably fair examples of the ordinary run of settlements.

"(A) *Henry Moss & Co.*—The contract of Henry Moss & Co. was entered into in the latter part of September 1918, and was for 195,000 branding irons. What tactician in the War Department engineered this purchase will probably be unknown to fame. The committee was unable to learn his name. Altogether during the war and until after the armistice the War Department owned 580,182 horses and mules of all kinds, over 90,000 of which died. Evidently, with a branding iron for every three horses, the country ought to have been safe. There were four contracts, but no branding irons were delivered on them before the armistice. The contractor bought 79,952 pounds of copper to make these, for which he said he paid 39½ cents a pound. The specifications said cast copper. When he came to settle, the Government made a chemical analysis of his copper on hand, found it impure, and hence only worth 11 cents a pound and sold it back to him for that. Instead of penalizing him for not following specifications they allowed him full pay at 39½ cents per pound. There was 20,000 pounds more copper furnished then he needed. They bought it from him at 39½ cents and sold it back to him at 11 cents. The Government paid this firm about $40,000 in settlement, at least $27,000 more than it was entitled to.

"(B) *The American Can Co.*—This company took seven contracts to make 89,000,000 hard bread cans. The prices ranged from 5⅒ to 6½ cents each. Three independent can makers, with large manufacturing capacity, were trying to get contracts to make them at from 4 to 5 cents each, but the Government would not contract with them. The company delivered 49,738,608 cans. Tin plate had fallen in price but 9 percent. This was admitted by the secretary of the company on the stand. In spite of this fact this company was permitted to keep this tin plate at 68 percent of its cost price. At the same time, as is generally known, all sorts of tin products have risen in price. Every scrap of this material was no doubt used in the 55 factories of this company. An independent producer of tin plate, who had agreed to sell tin plate to the American Can Co. and who wanted to cancel his order on the armistice, was forced to deliver every pound. There was $867,732.37 worth of tin plate, and the Government lost on this tin plate $147,514.50 more than it ought to have lost. In addition, tools and machinery that cost the Government $165,705.56 were sold to this company at $35,695.47. The testimony showed that this machinery would readily last for 12 years of ordinary wear and was ordinary can-making machinery. We lost a quarter of a million dollars by this settlement.

"(C) *Stein Burn Camp & Field Equipment Co.*—This contractor had three contracts, one for fireless cookers, one for bread boxes, and one for cooks' chests. These were entered into about the last of August 1918. The contractor delivered 66 fireless cookers, 25 cooks' chests, and 7 bread boxes. They cost us $171,687.06. This was the amount paid to the contractor in the settlement of his claim. The fireless cookers and cooks' chests were to be made of black steel sheets, the bread boxes of tin plate. The sheets required were all of standard material and sizes. The testimony of steel men and of Government experts—one a man who had been employed by Hibbard, Spencer & Bartlett for 40 years—was to the effect that the sheet steel was worth at the time, reasonably, 95 percent of its cost price. The Claims Board let them take the sheet steel at the price of scrap iron and the tin plate at $20 a ton—plate which was worth on the market at least $140 a ton. A colonel in the Claims Board went to a metals expert attached to the board, a Mr. Birkenstein, of Chicago, a scrap dealer. Birkenstein told him there ought to be $25,000 come out of the claims Then Stein, of the Stein Burn Co., came down and saw Birkenstein, and Birkenstein told the colonel about =2,800 would be right. And then they settled. The least inspection of this matter would convince anyone that this company received at least $114,051.91 more than they were entitled to" (pp. 71–74 (655–658)).

"(D) *Briar Hill Steel Co.*—The Briar Hill Steel Co. is engaged in the manufacture and sale of steel products, billets, ingots, sheets, and the like. They had three orders for 776,600 sheets of corrugated steel roofing, dated about the middle of October. Nothing was ever delivered to the Government on these contracts. It was allowed $164,519.86 in cash, and allowed to retain all the raw materials and special facilities. It had 9,267 gross tons of steel ingots on hand. These it charged to the Government at $48.17 a ton and bought them back for $31.57 a ton. There was a large amount of corrugated sheet steel on hand. It offered $2 a hundredweight for this. A Government investigator sent a written statement to the board showing the market price of such sheets was $4.35 a hundredweight, and that $2 was entirely insufficient. Disregarding this, the material was sold to the company at $2 a hundredweight. The material was the very material needed by the contractor in its business. There can be little doubt that the Government lost in this settlement $75,000, approximately.

"(E) *The Standard Steel Car Co.*—As has been said this company contracted to build nine hundred and sixty-four (964) 9.5-inch howitzer carriages. Although the Government prepared several contracts, the company would never enter into one. The Government did not receive a single carriage that we could use prior to the armistice. The War Department spent in this venture $18,582,428.88. After the armistice the Ordnance Department had them finish 200 of these carriages. The company placed in the record a statement that the cost of production of these carriages was about $23,000 each. At this rate the total cost of production was about $4,600,000. The balance of this vast sum, or about $14,000,000, was used in overhead and in building an immense plant, filled with costly machinery, all of which the contractor now has. The company was permitted to take buildings and machinery that cost $2,987,200 for $600,000, and materials that cost approximately $5,558,000 for $300,000. There was a bid for this latter material of about $700,000 from another reliable firm, which Col. E. S. Hughes, negotiating officer, concealed from his associates. The arsenals of the United States were clamoring for this raw material and machinery, but they were handed over to the contractor. There was fraud and bribery admitted by the Government agents in some of the subcontracts, but all such accounts were allowed in full" (pp. 74–75 (659)).

("Exhibit No. 1367" appears in text on p. 4214).

Exhibit No. 1368

[188–Sal. Ms–19]

(188–Pdr. stored at Old Hickory)

April 30, 1929.

Mr. E. S. Nickerson,
Fabrics and Finishes Department:

Your letters April 9th and April 25th—Scrap smokeless powder.

We do not fully understand your letter of April 25th because we fail to see the necessity for your department to determine the future policy insofar as scrap smokeless is concerned on rumors, when facts are available.

The information contained in your letter of April 9th is, as you see, a rumor on the other hand, we have reported to you the facts of the case as handed to us by the Ordnance Department. These facts are as follows:

The War Department has in storage at Old Hickory more than twenty million pounds of smokeless powder, which at present is stored under water. Ballistic tests on samples of this powder indicate that it is ballistically unstable. It is therefore useless to the War Department. The Ordnance Department has decided to dispose of a portion of the twenty million pounds this year. It is estimated that five to six million pounds will be placed on the market in exchange for F.N.H. The balance, or upwards of fifteen million pounds, will also be disposed of but the Ordnance Department has not stated as to the approximate date when the greater portion of the powder will be made available for exchange. We believe that the fifteen million pounds will be placed on the market over the next two-year period.

Other advices given to you were to the effect that the Peters Cartridge Company were anxious to buy one or two million pounds of powder at 8¢ per pound and that the Western Cartridge Company would most likely bid on scrap powder. Both of these companies use scrap cannon powder as a basis for making shotgun powder, which is used in cheap priced shotshells. They could readily afford to pay as high as 10¢ to 15¢ per pound and as their present stocks of cannon powder are low, it would not be surprising if they submitted a higher price to the Government on the next exchange of smokeless for F.N.H. powder.

W. H. O'Gorman, *Asst. Director.*

WHO'G:MH

Exhibit No. 1369

[File 188. U.S. Government. Pdr. stored at Old Hickory MS–192]

E. I. du Pont de Nemours & Co. (Incorporated),
Smokeless Powder Department,
Wilmington, Delaware, September 24, 1929.

Military Sales Division

[Memorandum]

DETERIORATED SMOKELESS POWDER AT OLD HICKORY

At the close of the war there was at Old Hickory an enormous quantity of smokeless powder which had been produced at that plant in preparation for the campaign of 1919. Since there was not sufficient magazine capacity for all of this powder, some of its was stored in ordinary powder buildings alongside of the machinery, where it remained until the Government decided to dismantle and sell Old Hickory. While this was in process a fire was started in one part of the plant and very large quantities of powder were destroyed, as well as the machinery and buildings adjacent.

It has been reported that the French and British were successfully storing smokeless powder in under-water storage and in view of the lack of magazine capacity at Old Hickory or elsewhere, it was decided that under-water storage would be made of this powder, utilizing the concrete water reservoirs available at Old Hickory.

When the writer visited Old Hickory in October 1925 the process of placing this powder in the basins was going on.

The question of the ballistic and chemical stability of this powder has arisen since then, as well as in France where the powder stored in lakes in the Pyrenees Mountains has shown serious deteriorations.

The Ordnance Department decided that it would be best to dispose of this powder as the commercial market was able to take it, since the military value of the powder was very small.

The Ordnance Department, U.S.A. was instructed by the General Staff to put in a formal request for permission to sell the deteriorated powder in under-water storage at Old Hickory, amounting to approximately 25,000,000 pounds.

When this letter was received by the General Staff, an inspector general was appointed to investigate the matter and the Ordnance Department was informed that they had been negligent in placing the powder in under-water storage and should the investigations of the inspector general fix the personal responsibility, charges would be preferred against the individuals involved on the grounds that these individuals had been culpable and negligent in placing the powder under water.

It was brought to the attention in General Staff that to move the powder to a safe place for dry storage and to build suitable storage magazines would have involved an expense of several million dollars and cover a greater period of time than was available. It was also brought to the attention of the General Staff that the French Government had placed much larger quantities of powder under water and that it was generally considered good practice to do so.

Nevertheless, Col. Louis Van Schaick of the Inspector General's Department has been appointed to make the investigation. The inspection being inaugurated by the Chief of Staff, General Summerall, and not by the Secretary of War as was rumored. Col. Van Schaick is an Infantry Officer, who is reported to have little or no experience in ordnance matters in general, or powder in particular. An investigation was conducted in Washington, but stopped rather abruptly about Labor Day. It is now rumored in Washington that the investigation is being further carried on and that several officers have been asked if they own du Pont stock, etc.

It is said that Col. Van Schaick will soon come to Wilmington to interrogate du Pont employees, although the exact nature of his questions cannot be ascertained.

AS:RVC

AIKEN SIMONS.

We consider this information confidential.

E. I. DU PONT DE NEMOURS & Co.
By K. K. V. CASEY.

EXHIBIT NO. 1370

Deteriorated smokeless power purchased by the du Pont Company from the U. S. Government

Year	Quantity	Value
	Pounds	
1928	3, 770, 109	$243, 305
1929	344, 247	16, 874
1930	4, 238, 195	286, 589
1931	1, 942, 164	92, 659
1932	2, 723, 053	$41, 246
1933	1, 625, 511	20, 716
1934	2, 000, 000	3, 000
Total	16, 643, 279	704, 389

11/26/34.

Record by location of deteriorated smokeless powder purchased by the du Pont Company from the U. S. Government

	Pounds
Army powder:	
Old Hickory, Tenn	5, 732, 058
Nansamond Ordnance depot	1, 937, 369
Curtis Bay Ordnance depot	1, 932, 138
Charleston Ordnance depot	1, 162, 785
Picatinny Arsenal	882, 204
Delaware Ordnance depot	832, 265
Raritan Arsenal, N.J	628, 578
Edgewood Arsenal, Md	86, 613
Frankford Arsenal, Bridesburg, Phila., Pa	35, 640
Aberdeen Proving Ground, Md	29, 961
Total Army powder	13, 259, 611
Navy powder:	
St. Juliens Creek, Va	1, 001, 393
Indian Head, Md	656, 829
Iona Island, N.Y	541, 320
Hingham, Mass	438, 587
Fort Mifflin, Pa	434, 378
Lake Denmark, N.J	273, 436
U.S. Navy Yard, Boston	37, 725
Total Navy powder	3, 383, 668
Grand total, Army and Navy powders	16, 643, 279

Exhibit No. 1371

This agreement entered into this 1st day of June 1921, between Bethlehem Chemical Company, a corporation of the State of Delaware (hereinafter referred to as the "seller"), party of the first part, and E. I. du Pont de Nemours and Company, a corporation of the State of Delaware (hereinafter referred to as the "buyer"), party of the second part, witness:

Whereas the seller represents that it entered into a contract, under date of March 24, 1921, with the United States of America for the purchase from the United States of finished smokeless powder, and that the seller has heretofore acquired from the United States under said contract approximately thirty-three million (33,000,000) pounds of finished smokeless powder; and the seller further represents that under its said contract with the United States, the United States has the option of submitting from time to time in writing to the seller such additional quantities of finished smokeless powder as may be declared surplus by the United States, to be purchased by the seller, as and when any such additional quantities are accepted by the seller, at the same price and under the same terms and conditions as provided in the said contract of March 24, 1921; and

Whereas the seller desires to enter into a contract with the buyer for the purchase by the buyer from the seller of the aforesaid quantity of approximately thirty-three million (33,000,000) pounds of finished smokeless powder, and any additional quantities of finished smokeless powder which the seller accepts from the United States under the provisions of the contract aforesaid, dated March 24, 1921; and

Whereas the buyer is willing to enter into a contract with the seller for the purchase of the aforesaid quantity of approximately thirty-three million (33,000,000) pounds of finished smokeless powder, and any additional quantities of finished smokeless powder which the seller may accept from the United States under the provisions of the contract aforesaid, dated March 24, 1921, and which the buyer may accept under the conditions hereafter specified in article VI hereof:

Now, therefore, in consideration of the premises and of the mutual agreements herein contained, the parties hereto have agreed and by these presents do agree with each other, as follows:

I

Material.—The seller hereby agrees to sell to the buyer, and the buyer hereby agrees to purchase from the seller, under the terms and conditions hereinafter in this agreement set forth, approximately thirty-three million (33,000,000) pounds of finished smokeless powder (hereinafter referred to as "material"), located at the points designated on "appendice A" hereto attached and hereby made a part hereof.

It is understood and agreed that while the seller believes that the total quantity of said material shown on appendice A hereto, is approximately correct, the seller does not guarantee accuracy as to the total quantity of material shown on said appendice A, nor does the seller warrant the analysis of said material, its condition, or its suitability for any purpose whatsoever, it being understood that the buyer is to take said material in its present condition and in its present containers at the locations shown on appendice A hereto.

II

Removal of material.—The seller agrees to cause present railroad track facilities at the points named in appendice A hereto to be retained for the purpose of removing the material sold and purchased hereunder, or in the event such track facilities are to be removed prior to the removal of said material, at least thirty (30) days' written notice thereof shall be given by the seller to the buyer prior to the removal of such facilities.

All cost and expense of and preparation for removal and the removal of said material from the locations named on appendice A hereto shall be borne and paid by the buyer, in addition to the purchase price per pound specified in article III hereof.

The seller guarantees delivery of the material sold and purchased hereunder, and it agrees to obtain permission from the United States Government for the buyer and its representatives to go on the property where the material is located for the purpose of preparing for removal and removing the material sold and purchased hereunder.

The entire quantity of said material, except the quantity located at the Old Hickory Ordnance Reserve Depot, Jacksonville, Tennessee, shall be removed and paid for by the buyer within a period of one year and three months from the date of this agreement, deliveries to be taken at the rate of not less than one million (1,000,000) pounds per month, beginning June 1, 1921.

As to the material which is located at the Old Hickory Ordnance Reserve Depot, Jacksonville, Tennessee, the buyer shall remove said material at such time or times as the buyer may desire, but the buyer shall remove all of said material located at said Old Hickory Ordnance Reserve Depot prior to March 24, 1926.

The buyer shall not be required to pay any storage or other charges for or on account of any of the material sold and purchased hereunder prior to the removal of said material by the buyer from the locations shown on appendice A hereto, nor shall the buyer assume any responsibility whatever for the loss, damage or destruction of any or all of said material prior to such removal.

It shall be incumbent upon the buyer to furnish the cars necessary for shipment of the material sold and purchased hereunder, but the seller will render such assistance as it can in furnishing said cars, but without assuming any obligation therefor.

III

Purchase price.—The prices to be paid to the seller by the buyer for the material sold and purchased hereunder, shall be as follows:

(*a*) Twenty-three million (23,000,000) pounds of the material sold and purchased hereunder is acquired by the buyer in its present form for the purpose of reworking and placing in commercial form, and the price to be paid to the seller by the buyer for said quantity of twenty-three million (23,000,000) pounds of material shall be one and one-half cents (1½¢) per pound, net weight, which price of one and one-half cents (1½¢) per pound includes ten cents (10¢) for each container in which the powder is packed.

(*b*) Ten million (10,000,000) pounds of the material sold and purchased hereunder is acquired by the buyer in its present form for use as smokeless powder, and the price to be paid to the seller by the buyer for said quantity of ten million (10,000,000) pounds of material shall be three cents (3¢) per pound, net weight, which price of three cents (3¢) per pound includes ten cents (10¢) for each container in which the powder is packed.

The buyer agrees to remove and pay for not less than two million (2,000,000) pounds of material each year during the period from June 1, 1921, to May 31, 1926, of the quantity of ten million (10,000,000) pounds of material which is sold and purchased hereunder in its present form for use as smokeless powder, as provided in subdivision (*b*) of this article III. It is agreed that the removal of and payment for two million (2,000,000) pounds of said material each year shall constitute a part of, and not an addition to, the deliveries provided under article II of this agreement.

IV

Weights.—The weight of the material sold and purchased hereunder shall be determined at the time of loading, and the buyer agrees to accept the stenciled net weights as given on containers where the material loaded is packed in containers. In other cases, the buyer agrees to accept certified net weights as determined by the representatives of the United States at the time of loading on cars at the point of shipment.

V

Default.—In the event that the buyer shall, through its own fault, fail to accept deliveries in accordance with the provisions of this agreement, or shall otherwise default in the terms hereof to be by it performed, the seller shall thereupon give the buyer thirty (30) days' notice in writing of the default, and unless the buyer shall within said period remedy the default, the seller shall thereupon have the right to cancel this agreement, and the buyer shall be liable to the seller for any damages due by reason of the default.

If the seller shall fail to make deliveries in accordance with the provisions of this agreement, or shall otherwise default in the terms hereof to be by it performed, the buyer shall give the seller thirty (30) days' notice in writing of the default, and unless the seller shall within said period remedy the default, the buyer shall thereupon have the right to cancel this agreement, and the seller shall be liable to the buyer for any damages due by reason of the default.

Provided, however, That in the event the seller is prevented from delivering, or the buyer is prevented from accepting any of the material sold and purchased hereunder by reason of strikes, force majeure, car shortages, or embargoes, the seller shall be excused from making delivery of material and the buyer shall be excused from accepting delivery of material while prevented from so doing by any one or more of said causes, and this agreement shall, as to the material so affected, but not otherwise, be suspended during the time such cause for delay is present, but all such material shall be delivered and accepted as soon as possible after such disability is removed.

VI

Options.—In the event that the United States shall offer to the seller any quantity or quantities of finished smokeless powder during the period of this agreement, in addition to the thirty-three million (33,000,000) pounds sold and purchased hereunder, the seller shall thereupon submit such offer to the buyer for acceptance or rejection by the buyer at the same prices and under the same terms and conditions as are provided in this agreement for the purchase of the thirty-three million (33,000,000) pounds herein specifically contracted for. Upon the submission of any such offer by the seller to the buyer, it is agreed that the buyer shall accept or reject such offer in writing within thirty (30) days from the date of the submission of any such offer.

VII

Assignment.—This agreement shall not be transferred or assigned by the seller hereunder to any individual, partnership, or corporation without the consent in writing of the buyer hereunder.

VIII

Notice.—Any notice from the seller to the buyer under this agreement, when not actually delivered in writing to the buyer, shall be deemed to have been sufficiently given when mailed in a sealed, post-paid wrapper, addressed to the buyer at Wilmington, Delaware.

Any notice from the buyer to the seller under this agreement, when not actually delivered in writing to the seller, shall be deemed to have been sufficiently given when mailed in a sealed, post-paid wrapper, addressed to the seller at 1519 Connecticut Avenue NW., Washington, D.C.

IX

This agreement shall be binding upon the legal representatives, successors, and assigns of both the parties hereto.

In witness whereof the parties have caused this agreement to be executed, in duplicate, by their respective officers thereunto duly authorized, the day and year first above written.

BETHLEHEM CHEMICAL COMPANY,
By (Sgd.) M. J. CONNOLY, *President.*
(Sgd.) EDW. F. JOHNSTON.
E. I. DU PONT DE NEMOURS AND COMPANY,
By (Sgd) WM. COYNE, *Vice President.*
(Sgd) M. W. HALL.

APPENDICE A.—*List of surplus smokeless powder*

CELLULOSE POWDER

	Pounds
Tullytown Arsenal, Tullytown, Pa	323, 000
General Ordnance Depot, Woodbury, N.J	667, 000
Raritan Arsenal, Raritan, N.J	888, 000
General Ordnance Depot, Seven Pines, Va	286, 400
General Ordnance Depot, Pig Point, Va	300, 000
Picatinny Arsenal, Dover, N.J	1, 459, 277
General Ordnance Depot, Curtis Bay, Md	627, 000
Amatol Arsenal, Amatol, N.J	778, 000
General Ordnance Depot, Pedrickton, N.J	21, 000
Morgan General Ordnance Depot, So. Amboy, N.J	188, 000
Old Hickory Powder Plant, Jacksonville, Tenn	13, 415, 000
Frankford Arsenal, Philadelphia, Pa	37, 000
Aberdeen Proving Ground, Aberdeen, Md	51, 000
Aetna Explosives Company, Mt. Union, Pa	59, 000
Sandy Hook Proving Ground, Sandy Hook, N.J	28, 000
General Ordnance Depot, Penniman, Va	93, 000
General Ordnance Depot, Nitro, W. Va	29, 860
Bethlehem Steel Company, Reddington, Pa	2, 000
Savanna Proving Ground, Savanna, Ill	1, 000
American Can Company, Kenilworth, N.J	1, 000
Bartlett Hayward Co., Baltimore, Md	1, 000
Old Hickory Powder Plant, Jacksonville, Tenn	5, 000, 000
Total	24, 255, 537

CORDITE POWDER

Morgan General Ordnance Depot, So. Amboy, N.J	4, 149, 000
General Ordnace Depot, Mays Landing, N.J	2, 857, 000
General Ordnance Depot, Pedrickton, N.J	1, 516, 000
Total	8, 522, 000

EXHIBIT NO. 1372

This contract made and entered into this 1st day of December 1923 by and between the United States of America, by Charles R. Baxter, major, Ordnance Department, U. S. Army, acting under the direction of the Chief of Ordnance and under the authority of the Secretary of War, party of the first part, and du Pont Fibersilk Company, a corporation organized and existing under the laws of the State of Delaware, party of the second part, witnesseth:

Whereas on November 22, 1920, the United States of America, by Dwight K. Shurtleff, major, Ordnance Department, U.S. Army, acting under the authority of the Secretary of War, entered into a certain contract with the Nashville Industrial Corporation, a corporation organized and existing under the laws of the State of New Jersey, for the sale and delivery to said Nashville Industrial Corporation of the United States smokeless powder plant and facilities (generally known and hereinafter referred to as the Old Hickory powder plant) located at Jacksonville, Tennessee; and

Whereas the United States on July 25, 1923, instituted a proceeding in equity in the United States District Court for the Middle District of Tennessee against said Nashville Industrial Corporation, and others, praying that the said contract be declared fraudulent and void by the court and no longer binding on the United States and that the said sale by proper orders of the court be vacated, annulled and held for naught, and that receivers be appointed to take over and hold, subject to the orders of the court, all and singular the property, assets, and facilities of said Old Hickory powder plant, wherever situated, with full power and authority to take into their possession all of the property of said plant, and the said plant itself, and to hold, manage, control, and operate the same under such orders and directions as the court may make from time to time, with power to sell and dispose of said plant, or any part thereof, or take any action with respect thereto as the court may direct; and

Whereas on July 30, 1923, the said suit came on to be heard on bill of complaint and answer, whereupon the court on said date, by order and decree, appointed B. P. Morse and William P. Smith, residents of Davidson County, Tennessee, receivers to take possession of all property, real and personal, known as the "Old Hickory powder plant" as of midnight July 31, 1923, and to manage, maintain, and operate same from and after said last-named date, and to complete and carry out contracts for the sale and delivery of property and material theretofore made by said Nashville Industrial Corporation, the said receivers, however, being ordered and directed by the court before accepting and closing any deals for the sale and transfer of the real estate of said plant, or any part thereof, to report the offer or offers therefor to the court for confirmation, or such other orders as the court may see fit to enter with reference thereto; and

Whereas DuPont Fibersilk Company, party of the second part herein on August 16, 1923, made an offer in writing to said receivers of $650,000.00 cash, for the purchase and acquisition of a part of the property at said Old Hickory powder plant, the property for which said offer was made being outlined and described in appendix A and on map U. S. N. No. 10, exhibit 1, hereto attached, and made a part hereof; and

Whereas the offer aforesaid made by DuPont Fibersilk Company was on August 16, 1923, formally approved in writing by the United States and by the Nashville Industrial Corporation, as shown by exhibit II hereto attached and made a part hereof; and

Whereas the offer aforesaid made by DuPont Fibersilk Company, together with the approval aforesaid by the United States and said Nashville Industrial Corporation were submitted on August 16, 1923, by the receivers to the court for confirmation and approval; and

Whereas the court on August 18, 1923, entered an order and decree approving the offer aforesaid made by said DuPont Fibersilk Company, and authorized and directed said receivers to enter into such formal contracts and agreements of sale with DuPont Fibersilk Company as to fully and completely assure and make effective all the terms and conditions set forth and described in appendix A hereto, and directing the clerk of the court to execute and deliver to said DuPont Fibersilk Company deeds of conveyance upon the payment by said DuPont Fibersilk Company of the sum of Six Hundred and Fifty Thousand Dollars ($650,000.00) cash, to the end that title to the property aforesaid shall completely vest in DuPont Fibersilk Company, free and clear of all encumbrances; and

Whereas on October 1, 1923, the United States Government, the Nashville Industrial Corporation, and said DuPont Fibersilk Company, filed with the receivers aforesaid an agreement in writing with respect to differences between the surveys actually made and surveys as shown in appendix A and on exhibit I hereto attached. The surveys as actually made, showing the meets and bounds of the property to be conveyed, and the character and nature of the meets and bounds of the rights-of-way to be sold, to said DuPont Fibersilk Company, being shown, described, and outlined in and on exhibits 3 and 4 hereto attached; and

Whereas the court on October 1st, 1923, entered an order approving the changes aforesaid which had been agreed to by the said parties in interest, and ordered and directed the clerk of the court to execute his deed as theretofore ordered, but in accordance with said changes; and

Whereas in view of the suit hereinbefore referred to now pending between the United States and the said Nashville Industrial Corporation, and in the event that said suit is finally decided by the court in favor of the United States, it is anticipated that any part of the property of the Old Hickory powder plant not disposed of at the time of such determination, will revert to the United States; and

Whereas even though the court finally decides the said suit in favor of the said Nashville Industrial Corporation, the United States, under the contract aforesaid dated November 22, 1920, between the United States and the said Nashville Industrial Corporation, will be entitled to its pro rata share of the profits derived from the sale of the property to be conveyed to said DuPont Fibersilk Company; and

Whereas it is the desire of the United States to give, and of the DuPont Fibersilk Company to receive, certain assurances from the United States that in the event that the suit aforesaid shall be finally decided by the courts in favor of the United States, the DuPont Fibersilk Company shall have free and unencumbered title to the property conveyed to it, and shall enjoy all the rights and privileges mentioned in appendix A hereto attached, except as hereinafter provided in article III of this agreement.

Now, therefore, in consideration of the premises and the mutual agreements herein contained, the parties hereto have agreed and by these presents do agree, with each other, as follows:

ARTICLE I

In view of the fact that one of the conditions named by DuPont Fibersilk Company under which it is willing to purchase the property outlined and described in appendix A and exhibit I hereto, is that DuPont Fibersilk Company shall be assured of permanent maintenance and operation of the spur line railroad which extends from Stone River Junction to the Old Hickory powder plant property, ncluding switching yards, and that DuPont Fibersilk Company shall be guaranteed Nashville freight rates or better, it is understood between the parties hereto that the United States cannot bind itself to guarantee Nashville freight rates or better to DuPont Fibersilk Company; the United States, however, will sell and convey the spur line railroad and switching yards above referred to to the Tennessee Central Railway Company, for a consideration of one dollar ($1.00) upon the condition that the Tennessee Central Railway Company will give to the DuPont Fibersilk Company a guarantee in writing that it will permanently operate and maintain said spur line railroad and switching yards, and establish Nashville freight rates or better at the Old Hickory powder plant property.

ARTICLE II

In order that DuPont Fibersilk Company may enjoy the use of the concrete road running through the Old Hickory powder plant property and the use of the suspension bridge over the Cumberland River at the end of said road, the United States will convey said road and said bridge to Davidson County, in the State of Tennessee, for the benefit of the public, upon the condition that Davidson County accepts the same as one of its county roads.

ARTICLE III

In the event that the suit aforesaid between the United States and the said Nashville Industrial Corporation is finally decided by the courts in favor of the United States, the United States will in such event do and perform all of the matters and things, then remaining unperformend on the part of the receivers aforesaid, set forth in appendix A hereto under the heading, "Additional rights and privileges"; with the exception that under paragraph 7, "Electric light", and paragraph 9, "Water", it is understood that the United States shall only be obligated to furnish electric power, light, and water so long as the United States maintains and operates these facilities in connection with its own property.

ARTICLE IV

It is understood and agreed that the foregoing covenants and agreements on the part of the United States are dependent upon the payment by du Pont Fibersilk Company to the court of the total sum of $650,000.00 cash, for the property to be conveyed to it; and the United States further agrees that simultaneously upon the payment of said sum by du Pont Fibersilk Company, the United States will, in order to fully protect du Pont Fibersilk Company, execute and deliver to said company a quitclaim deed to the property outlined and described in and on exhibits 3 and 4 hereto attached, together with grants of rights-of-way as set forth in and on the last-named exhibits; and the United States further agrees that simultaneously upon the payment of the sum aforesaid and of the payment of the sum of $1.00 by the Tennessee Central Railway Company, the United States will execute and deliver a quitclaim deed covering the spur line railroad and switching yards to the Tennessee Central Railway Company.

In witness whereof the parties hereto have caused this agreement to be executed, in sextuplicate, by their respective officers, duly authorized, on the day and year first above written.

UNITED STATES OF AMERICA,
By (S.) CHAS. R. BAXTER,
Major, Ord. Dept., U. S. Army.
DU PONT FIBERSILK COMPANY,
By (S.) L. A. YERKES, *President.*

Attest:
[SEAL]

B. M. MAY, *Secy.*

(S.) FLORENCE G. HOGAN.

APPENDIX A

NASHVILLE, TENN., *August 16, 1923.*

Messrs. B. P. MORSE and WILLIAM P. SMITH,
Receivers for Nashville Industrial Corporation,
Nashville, Tennessee.

GENTLEMEN: du Pont Fibersilk Company, a corporation of the State of Delaware, hereby makes an offer to purchase, for the total sum of six hundred and fifty thousand dollars ($650,000) cash, a part of the Old Hickory Powder Plant property, the said property, and the terms and conditions upon which this offer is based, being set forth and described in appendix A and outlined on map marked "U.S.N. No. 10", hereto attached.

In addition to the said sum of six hundred and fifty thousand ($650,000) dollars, du Pont Fibersilk Company will contribute a sum not to exceed five thousand ($5.000) dollars towards the moving of the nitrate of soda in present storehouse no. 6 should the requirements in locating du Pont Fibersilk Company's plant necessitate the moving of the soda. The balance of the expense of moving the soda to be borne by you. It is understood that you will move the soda within 30 days after written notice from us to you that we desire the soda moved.

Very truly yours,

DU PONT FIBERSILK COMPANY,
By (S.) L. A. YERKES, *President.*

APPENDIX A. SCHEDULE OF PROPERTY, RIGHTS, AND PRIVILEGES

REAL ESTATE AND BUILDINGS

Parcel A

Beginning at the point of intersection of the easterly right-of-way line of the industrial railway spur leading from the Tennessee Central Railroad and the Nashville, Chattanooga and St. Louis Railroad to the Old Hickory Works with the center line of 15th Street in the Old Hickory Village, as shown on map U.S.N. #10, exhibit 1; thence east with the center of said 15th Street to low water mark on the west bank of the Cumberland River; thence northerly along the said west bank of the Cumberland River to the point where coordinate line 160 of the system of coordinates, as shown on map U.S.N. #10, exhibit 1, intersects said river bank at low water mark; thence west along said coordinate line 160 to its intersection with coordinate line M^3; thence north along coordinate line M^3 to its intersection with coordinate line 176; thence west along said coordinate line 176 to its intersection with coordinate line 04—60; thence southwesterly at an angle of 45 degrees with coordinate line 176 to a point in the northeast right-of-way line of a concrete road on the northeast side of the railroad classification yards of the beforementioned industrial railroad, said right-of-way line being parallel to and distant 25 feet from the center line of said concrete road; thence southeasterly along said right-of-way line and right-of-way line produced to its point of intersection with the easterly right-of-way line of the railroad spur and classification yards above mentioned, said railroad right-of-way line being a line 75 feet from and parallel to the center line of the easterly track, of said railroad spur and classification yard; thence in a general southeasterly direction along said railroad right-of-way line to the point of beginning, containing within said bounds 495 acres, more or less, as shown on map U.S.N. #10, exhibit 1.

In addition to parcel A and to be considered a part thereof, the following parcel of land is included:

Being that parcel on which the Ketchum house is now located and beginning at a point in the center line of said 15th Street approximately 200 feet east of coordinate K–2; thence running east approximately 175 feet to a point on the west side of the river road; thence southeast along the west side of said river road approximately 350 feet to a point; thence southwest at an angle of 90 degrees a distance of 125 feet to a point; thence northwest by an angle of 90 degrees a distance of approximately 437 feet to the point of beginning, containing 1.2 acres more or less, being the parcel of land mentioned on the exhibit 1, map U.S.N. #10, in these words: "Includes plat for 1 Ketchum House."

All of the permanent village within the bounds of parcel A consisting of 346 permanent houses, including all replacements of plumbing, heating, and lighting fixtures in good usable condition that may have been removed from said permanent houses. Said replacements of fixtures to be delivered to the buildings by the receivers at their expense and to be installed by du Pont Fibersilk Company at its expense.

In addition to the said permanent houses, the following houses within the bounds of parcel A are to be included:

166 so-called "six-room" temporary bungalows, which are frame structures covered with either rubberoid or tar paper, including all of the plumbing and lighting fixtures in same. Replacement parts in good usuable condition to replace any of the fixtures which have been removed are to be delivered to the buildings by the receivers at their expense and to be installed by the du Pont Fibersilk Company at its expense.

60 two-story, six-room, six-apartment houses, which are frame structures covered with rubberoid or tar paper, including all plumbing and lighting fixtures. Replacement fixtures in good usable condition to replace such fixtures as have been removed are to be delivered to the buildings by the receivers at their expense and to be installed by the du Pont Fibersilk Company at its expense.

19 one-story, four-room, six-family apartment buildings, of frame construction covered with rubberoid or tar paper, including all plumbing and lighting fixtures. Replacement fixtures in good usable condition to replace such fixtures as have been removed will be delivered to the buildings by the receivers at their expense and to be installed by the du Pont Fibersilk Company at its expense.

A brick building known as the "Pearcy House."
Police headquarters.
Soda storehouse no. 5 (excepting contents).
Y.M.C.A. with the equipment.
Y.W.C.A.
Hotel, including two dormitory or rooming-house buildings, and one dining-hall building.
Two-bed hospital with all equipment.
Post office with all equipment.
Fire house and equipment, including 1 Brockway hose truck and 1 Ford chief's car.
Retail store building, occupied by the H. G. Hill Grocery Co., together with adjoining building, and such equipment located therein as does not belong to H. G. Hill Grocery Co.
Dry goods store.
Paint shop.
Garage.
Drug store.
Commissary store.
Bank building.
Farmhouse near the Hill store.
Swimming pool and bathhouses.
2 community garages in village and other garages and maids' quarters on property.
The village reservoir and pump house, including all pumps, piping, and electrical equipment therein. The second motor-driven fire pump, which has been removed, is to be replaced by the receivers at their expense—that is, the said pump is to be delivered on foundation by the receivers when the du Pont Fibersilk Company's water plant is in operation and the necessity of purchasing water no longer obtains.
Village water tank and towers.

all of which are indicated on map U.S.N. no. 10, exhibit 1.

All railroad tracks now located on parcel A, together with the tracks and right-of-way for same connecting said tracks with the classification yard and main railroad spur, and the right to construct new railroad spurs across the railroad right-of-way and road right-of-way to connect such additional tracks as the du Pont Fibersilk Company may find it necessary to install on parcel A with the main railroad spur and classification yard.

All pipe lines of any nature above or below ground within the limits of parcel A, together with valves and fire hydrants and manholes, inlet boxes, etc., on sewers, all pole lines, electric-transmission lines, telephone lines, fire-alarm and all other signal lines within the limits of parcel A.

Parcel B

Beginning at a point at low-water mark on the west bank of the Cumberland River on the east side of Hadley's Bend 260 ft. upstream from the south end of the more southerly of the two concrete pump houses located on said river on the east side of Hadley's Bend; thence northerly along said west bank at low-water mark of the Cumberland River 450 ft.; thence west 600 ft.; thence south

340 ft.; thence in an easterly direction to the point of beginning, containing 5 acres, more or less, as shown on map U.S.N. no. 10, exhibit 1.

Included with parcel B are—

Concrete pump house and intake, together with all pipe lines connecting same and all other pipe lines located either above or underground, together with their supports on said property, as well as all transmission lines, telephone lines, and signal lines of any kind and the poles on which they are carried. Included with the pump house are two 8,500 g.p.m. pumps, with motors, together with all of the equipment, piping, electrical equipment, wiring, conduits, and switchboard inside of the building. The otner 8,500 g.p.m. pumps and three 600-kw. transformers are to remain the property of and to be removed by the receivers within four (4) months from date of deed of conveyance.

Parcel C

Beginning at a point N. 82 degrees 30′ E. and 250 ft. distant from the southeasterly corner of the concrete Imhoff tank of the main sewage-disposal plant of the Old Hickory Village; thence southwesterly at right angles to the center line of the filter bed of said sewage-disposal plant 600 ft.; thence northwesterly parallel with the center line of said filter beds 2,000 ft.; thence northwesterly at right angles with the last-mentioned line 600 ft.; thence southeasterly 2,000 ft. to the point of beginning, containing 27 acres, more or less, as shown on map U.S.N. no. 10, exhibit 1.

Included with parcel C are—

Sewage-disposal plant consisting of septic tank and filter beds, including all necessary pipe lines delivering to and discharging from same, all operating devices and equipment in connection with said sewage disposal plant. All pipe lines above or below ground, all transmission lines, telephone or signal lines, and pole lines within the limits of parcel C—excepting, however, powder-storage magazines and contents and railroad tracks as specified in the written instrument dated November 22, 1920, between Nashville Industrial Corporation and United States of America, as respects this tract.

RIGHTS-OF-WAY

The following rights-of-way to be granted by the receivers to the du Pont Fibersilk Company:

(1) A right-of-way 50 ft. wide from parcel A to parcel B, for the erection and maintenance of pipe lines, roads, electric lines, transmission lines, telephone lines, signal lines, and pole lines necessary for the operation of the pumping unit and other facilities which may be placed on parcel B and for access to parcel B, together with the right to enter upon said right-of-way at any and all times to inspect, maintain, repair, or replace any or all of the structures or facilities placed on same. The metes and bounds of said right-of-way to be determined after survey on the ground.

(2) A right-of-way 50 ft. wide from parcel A to and down the ravine north of parcel A to the mouth of said ravine and from the mouth of said ravine to the Cumberland River, for the flowage of plant wastes and surface water and the right to construct such ditches and sewers on said right-of-way as the du Pont Fibersilk Company may desire, together witn the right to enter upon said right-of-way at any and all times to inspect, maintain, repair, or replace said ditches and sewers. The metes and bounds of said right-of-way to be determined after actual survey on the ground.

(3) A right-of-way 50 ft. wide for and use of present waste sewers leading from parcel A through property of the Old Hickory Powder Plant to open ditch on west side of main railroad spur and right-of-way for and use of said open ditch from this point to the Cumberland River, together with the right to enter upon said right-of-way and inspect, maintain or replace the present sewers and ditches and to construct, inspect, and maintain such additional sewers and ditches as may be necessary to properly handle the wastes from industrial plants of the du Pont Fibersilk Company located on parcel A. The metes and bounds of said right-of-way to be determined after actual survey.

(4) Two rights-of-way each 50 ft. wide for the existing sanitary sewers from parcel A to the sewage disposal plant on parcel C, together with title to the existing sewers and manholes on said rights-of-way, and the right to enter upon said rights-of-way at any and all times to inspect, maintain, replace, or to repair any of said sewers or manholes, and to construct and maintain such additional sewers and manholes on said rights-of-way as the du Pont Fibersilk Company may

deem necessary. The metes and bounds of said rights-of-way to be determined after actual survey.

(5) A right-of-way 50 ft. wide from the filter beds of the sewage disposal plant on parcel C to the Cumberland River, together with the right to enter upon such right-of-way at any or all times to inspect, maintain, repair or replace said sewers and ditches or to install new sewers and ditches when necessary. The metes and bounds of said right-of-way to be determined after an actual survey.

(6) In the event that the du Pont Fibersilk Company should decide to purchase electric power for operation of the fibersilk plant, the receivers agree to grant to the du Pont Fibersilk Company a right-of-way across properties now owned or repurchased by the receivers for transmission lines to parcels A, B, and, C, together with the right to enter upon such right-of-way for the inspection maintenance, repair, or replacement of said transmission lines.

(7) A right-of-way for present water pipe line from parcel A to parcel C, together with title to said pipe line; also the right to enter upon said right-of-way at any and all times to inspect, maintain, repair, or replace said water line, and to lay such additional water lines as the du Pont Fibersilk Company may deem necessary.

(8) A right-of-way 50 ft. wide for a road from parcel A to parcel C whereon the du Pont Fibersilk Company may construct, maintain, repair, and make use of a road for access to parcel C for the operation of such facilities as are located or may be located on parcel C, and for the handling of such materials as may be desired from parcel A to and from parcel C, together with the right to build, maintain, operate, and replace such pipe lines, pole lines, electric lines, telephone lines, signal lines, and tramways on said right-of-way as the du Pont Fibersilk Company may deem necessary, reserving to the United States such rights as are specified in the written instrument dated November 22nd, 1920, between the United States of America and the Nashville Industrial Corporation. The metes and bounds of said right-of-way to be determined after an actual survey.

There is reserved to the present owners of the adjoining lands and their successors or assigns the right to cross all of the above-described rights-of-way at convenient places provided that the crossing of such rights-of-way does not materially interfere with or impair the rights aforesaid granted to du Pont Fibersilk Company, its successors or assigns.

On the 100-acre factory site of parcel A said 100-acre tract being marked "AA" on exhibit 1 the du Pont Fibersilk Company purchases of the improvements on this factory site only the following:

All broad-gauge tracks.
All poles in use.
Electric light and power wires and accessories.
Water lines of every description.
Sewers.
Hydrants.
Pearcy House and its outlying buildings.
Police headquarters.
Soda store house #5 (excepting contents).

All other improvements and property on said 100-acre factory site are reserved to the receivers for removal as hereinafter provided.

On the 395-acre village site being the remainder of parcel A, exhibit 1, the receivers reserve of the improvements and property only the following:

Freight house #1292.
Traffic office #1291.
Watchman's shed near #1292.
Oil house #1290.
Machine shop 14′ x 25′.
One-story section house gas-car shed.
All loose, dismantled lumber, brick, and salvage material.
Main gate and office building.
All plant fencing.
159 P3 Jersey mess.
Small frame building 158–O–50/3.
Small frame building 156–N/3.
One frame house #22072.
One large mess hall opposite frame house #22072.
Carmichael House, building #146–K/3.

Shed 45 ft. west of same 14′ x 30′.
The old Sullivan dry-goods store building.
Building #144–J/3.
The disinfectant house and contents.
Building #143–W/3.
Buildings 141, 143, 144, 60, and 12
Village heating plant and trestle and warehouses immediately adjacent.
Building #148–50–Y/2.
All unused chestnut poles.
Hotel heating plant, as is with filter plant.
Kindergarten building now used as church.
Building #125–F/3.
Building #124–C/3.
Bob Elliott's plumbing shop.
2 partly dismantled 36-room apartments.
One retail store.
2 36-room apartments between 14th St. and 15th St.
2 partly dismantled 6-family one-story apartments.
Bell tower near village water tank.
On parcels B and C all improvements are to become the property of du Pont Fibersilk Company.

ADDITIONAL RIGHTS AND PRIVILEGES

The following additional rights and privileges are granted and assured to du Pont Fibersilk Company by the receivers:

1. *Cumberland River water rights.*—The receivers agree to transfer to du Pont Fibersilk Company 50% of their right to take water from the Cumberland River, and to obtain from the War Department of the United States Government at the expense of the receivers the necessary permits for taking water from the Cumberland River and to transfer such permits to du Pont Fibersilk Company.

2. *Cumberland River rights.*—du Pont Fibersilk Company to be given the use in common with the receivers and their successors of all rights now possessed by the receivers to discharge industrial wastes and sanitary sewage into the Cumberland River at the points of discharge of sewers and ditches, for which rights of way are granted hereunder.

3. *Water-pollution restriction.*—The receivers and their successors shall not permit any industry to be located on property owned or repurchased by them or their successors at Old Hickory Powder Plant, which will discharge any factory wastes or sewage into the Cumberland River south of the first dam north of parcel B which would in any way contaminate the water of the Cumberland River or make it less satisfactory for use in artificial-silk manufacture than it now is.

4. *Industrial restriction.*—No plant manufacturing artificial silk or plant used for silk or artificial silk throwing purposes shall be located on any part of the Old Hickory Powder Plant property by the receivers or their successors without first having the permission of the du Pont Fibersilk Company. The following industries will not be located at Old Hickory Powder Plant by the receivers or their successors within half a mile of any bound of parcel A: Cement mill; flour mill; causticizing plant; any industry emitting acid or alkaline fumes or gases or offensive or obnoxious odors; nitric acid; sulphuric acid; chlorine, hydrofluoric acid; bromine; calcium carbide; chlorphenol, organic sulphur compounds (mercaptanes); phosgene; fertilizers; petroleum oil refinery; or any industry using any of the substances stated in sufficient quantity to emit fumes or odors damaging to the manufacture of artificial silk on parcel A.

5. *Railroad covenant.*—The receivers have furnished to du Pont Fibersilk Company as of August 16, 1923, satisfactory assurance in writing from Tennessee Central Railway Company that the railroad spur line connecting the N. C. & St. L. R.R. and the T. C. Ry. with the plant will be permanently operated and maintained as a common carrier by the Tennessee Central Railway Company, and that they will establish freight rates to and from the plant on the basis of Nashville rates or better as evidenced by letter dated August 16th, 1923, of H. W. Stanley, president, T. C. Railway Company, to L. A. Yerkes, president du Pont Fibersilk Company, which offer has been accepted by the du Pont Fibersilk Company.

6. *Title and abstracts.*—The receivers shall promptly furnish du Pont Fibersilk Company, free of charge, original abstracts or copy of abstracts of title in possession of the United States of America to said land. Upon approval of this purchase by the court, the receivers will cause the property aforesaid to be conveyed

and transferred by good and sufficient deed to du Pont Fibersilk Company, on or before September 12th, 1923, and the receivers shall obtain from the U.S. Government and Nashville Industrial Corporation quitclaim deeds to the du Pont Fibersilk Company covering the property to be conveyed hereunder.

7. *Electric light.*—Electric power and light to be furnished by the receivers and their successors at current rates if desired by the du Pont Fibersilk Company to any or all of the parcels purchased until du Pont Fibersilk Company has its plant constructed and desires to furnish its own electric current. Proposal to furnish power and light, including electric rate schedule, to be submitted to du Pont Fibersilk Company by the receivers not later than August 31, 1923.

8. *Tenants.*—Tenants will be removed from any houses purchased by the du Pont Fibersilk Company within thirty days from date of notification by the du Pont Fibersilk Company that it desires said houses to be vacated, except as hereinafter provided.

9. *Water.*—At the option of du Pont Fibersilk Company the receivers agree to furnish service water at current rates to any or all of the parcels purchased until du Pont Fibersilk Company has its plant in operation and desires to furnish its own service water. Proposal is to be made by the receivers not later than August 31, 1923, that will give the basis of such water cost.

10. *Telephone and telegraph.*—The receivers for themselves and their successors to grant du Pont Fibersilk Company access to parcels A, B, and C for telephone and telegraph lines without charge.

11. *Water and sewer line replacements.*—The receivers, within a period of sixty (60) days following the date of deed, will furnish and deliver at their expense replacement parts for all defective portions of the cast-iron water pipe and terra-cotta sewer pipe, and fire hydrants and fittings purchased hereunder by du Pont Fibersilk Company, as and when requested so to do, within said period of sixty (60) days. The cost of installing such replacement parts so furnished to be borne by du Pont Fibersilk Company.

12. *U.S. Government and receivers tenants.*—The du Pont Fibersilk Company agrees that it will rent until November 22d, 1925, to U.S. Government officials and employees at current rates the (10) ten permanent houses, (20) twenty temporary houses now rented to such Government employees if desired; and du Pont Fibersilk Company agrees to furnish to the receivers employees' houses for rent at current rates, subject to du Pont Fibersilk Company's rules and regulations, until such time as such houses may be required for its own employees.

13. *Land clearance.*—The receivers to tear down to the ground level and remove from premises all buildings, contents, and equipment and structures (foundations excepted) not purchased by du Pont Fibersilk Company, situated on parcel A, within thirty (30) days after notice so to do is received by the receivers from du Pont Fibersilk Company. In the event the receivers do not remove any or all of said buildings within (30) days after such notification, then du Pont Fibersilk Company, at its option, may remove said buildings without incurring any liability, and at the cost and expense of the receivers.

MISCELLANEOUS PROVISIONS

1. A survey is to be made to more definitely fix the boundaries of parcels A, B, and C for purposes of the contemplated deeds—the acreage and dimensions mentioned herein having been scaled from blue prints.

2. The DuPont Fibersilk Company agrees to permit the school area district as shown on map U.S.N. no. 10, exhibit 1, and marked thereon "School area" to connect to the main sewer line leading to said filter beds and for this privilege to make a reasonable charge on a pro rata basis for such service.

3. Insurance, rentals, and taxes to be pro rated as of the date of the delivery of deed.

4. The DuPont Fibersilk Company agrees to allow, subject to its rules and regulations, the use of land on which Traffic Office Building #1291 is located, so long as the building is used for railroad purposes, together with convenient egress and ingress to same.

Exhibit 1

(Map U.S.N. no. 10, (old map))

Exhibit 2

The United States of America and the Nashville Industrial Corporation, parties to lawsuit pending in United States District Court for the Middle District of Tennessee, styled *United States* v. *Nashville Industrial Corporation, et al.*, as evidenced by the undersigned, approve of the proposition to purchase and agree to the conditions and terms specified in appendix A made an exhibit to the report of the receivers under this date, whereby the property described therein is to be sold and conveyed to the du Pont Fibersilk Company and do recommend and agree that such steps be taken and such proceedings had necessary to the proper and valid execution of a contract pursuant thereto and the carrying of same into effect.

This August 16, 1923.

United States of America,
By (s.) A. V. McLane,
United States Attorney.
(s.) H. H. Rice,
Special Assistant to the Attorney General.
Nashville Industrial Corporation,
By (s.) Bass, Berry & Sims, *Solicitors.*

Exhibit 3

(Description of property as in deed)

Exhibit 4

(New map)

("Exhibit No. 1373" appears in text on p. 4234)

(There was no exhibit marked No. "1374")

Exhibit No. 1375

[File 105]

March 17, 1920.

Personal.

Mr. Irénée du Pont,
The Breakers, Palm Beach, Florida.

My Dear Irénée: We had several conferences with Sir Harry yesterday. Settled the Chili proposition and signed up the agreements.

No definite decision reached on the dye question, but Sir Harry met our views fully and agreed to use his best efforts to have the old Levinstein agreement replaced by a new one if we drew the proposition up and presented it in writing. It was understood that no further payment would be forthcoming.

The main purpose of this letter is to tell you of the ammonia proposition. Sir Harry has not done anything to block Mr. Gold, and does not give any assurance that he is able to block him, but he has expressed himself as agreeable to either seeing Mr. Gold (who is probably still in this country), or cabling or writing to him, giving it as his advice (Sir Harry's) that Brunner-Mond had better not enter any negotiations with Bosch while ours are on. We understand he will put it entirely on the basis of Brunner-Mond's ultimate advantage.

I do not believe you appreciate the situation on passports. You doubtless know we have no Secretary of State, and Ruly gives it as an opinion that there may not be a Secretary for a month or more. In the meantime, no passports can be had to the United States and, as far as we know, none can be had out of the United States. You are familiar with the reasons why the passports to this country could not be obtained. Garvin stated he could not secure them under the circumstances, and we saw that efforts on his part to secure them, or independent efforts on our part to do the same, might well jeopardize his position politically, and we dare not make a move in the matter for fear of getting at odds with him, which might be ruinous to our other prospects. This condition is not likely to be removed for sometime, so that it is clear that we will be able to obtain passports and send a commission abroad much earlier than we could secure admission of others to the United States. All hands here agree this morning that the proper thing to do is to wire Berg to come over as promptly as possible, in order to get full information on the situation. Spruance has about converted everybody to the belief that the whole problem will be simplified by another effort to reach an agreement with Mr. Gold before further conferences with Bosch are undertaken. We are wiring Berg this morning to come over.

Ruly tells me that Walter has decided to stay on with you. Am sorry to hear that he has not been so well, and feel sure that his decision to remain will be the best. Everything seems O. K. here, and I am quite certain that there is nothing he could do at all comparable in value with his returning in good shape.

I am feeling considerably better, and am glad I did not take your advice and go to Palm Beach. I had the inside of my cheek bone cleaned out, also a tooth pulled and hair-cut, Monday, and this seems to have improved my cold in the head considerably. The doctor thinks there is no question but that the whole trouble has been due to the infected tooth, and I believe he is right, because the improvement, even in forty-eight hours, is quite marked. I did "stunts" with the insurance men yesterday afternoon, and believe that is the last to secure my insurance. We hope you are continuing to have as good a time as Sir Harry reports, and that all are keeping well.

Affectionately, your brother,

Lammot du Pont.

LduP/MD

P. S.—The A. I. deal seems to be all blown up. Nobody knows definitely what happened, and apparently nobody seems to care much. The more recent developments make me feel that we are just as well off letting it alone, as I believe we can take care of the secondary purposes to good advantage in other ways, and we surely have plenty of use for the Securities Company money.

L.

("Exhibit No 1376" appears in text on p. 4236)

("Exhibit No. 1377" appears in text on p. 4240)

Exhibit No. 1378

January 27, 1931.

Mr. Lammot du Pont,
Room 9044, Building.

Dear Lammot: Referring to my retirement on March first, as verbally outlined to you, I would like very much to maintain a contact with the affairs of the company, especially along the lines of executive personnel work, remain on board of Grasselli Company, president's advisory contact on political matters which may arise, and be considered available for consultation, and for any emergency which may arise.

Outside of being away once in a while, the chances are I will be at my office more or less regularly, when not at the banks in Philadelphia.

It is also possible that I can be of some value in reorganization matters surrounding either parent company or new subsidiaries. It is the intention also that I at least complete the office status for new building.

Assuming above is satisfactory to you, I would, of course, insist that my salary after March first be reduced to that of a retired vice president. I have selected the offices adjacent to yours, same not being in demand at this time, in order that I will be near to your office and available on above matters, as well as Delaware Realty, Christiana Securities, etc.

I would suggest the appointment of Harrington as purchasing department advisor in my place. He is particularly well fitted and also Mr. LaMotte's choice.

Does above meet with your approval?

Yours very truly,

R. R. M. Carpenter.

C-1a.

EXHIBIT No. 1379

SEPTEMBER 15, 1931.

To: W. S. Carpenter, Jr.
From: R. R. M. Carpenter.

I am returning to you your development department report on the Remington-Winchester consolidation. While I am not extremely enthusiastic over our getting mixed up in this, my conclusion is that we are more or less at the parting of the ways and that we will be compelled to either consider that our smokeless-powder business is on the wane or that we can put it back on its feet by going into this deal. I am more or less influenced by this opinion for the reason that if Western should take over the Winchester, our road would be pretty hard. I do not think there is very much in the thought that we should maintain our smokeless-powder position for the Government in time of war as I believe if we ever had another war the Government would take over important industries the same as they did the railroads, which would not be a very pleasant experience as any of the railroad people will tell you.

I think if this does go through that we should have one or two very strong men inserted into the organization and I believe that if Steers would accept it that the Remington crowd would be very glad in a year or so to accept him as president. It might also be a very good move to get Doremus into their organization in some important sales capacity as this is a business in which he is thoroughly experienced and would be stronger for that than anything I can think of, and I believe that would make an excellent team to look after our interests.

R. R. M. CARPENTER.

C.

("Exhibit No. 1380" appears in text on p. 4239)

("Exhibit No. 1381" appears in text on p. 4243)

("Exhibit No. 1382" appears in text on p. 4243)

EXHIBIT No. 1383

[Copy: Senator Daniel O. Hastings. Copy: Senator John G. Townsend, Jr.]

APRIL 27, 1933.

Senator MARCUS A. COOLIDGE,
Senate Office Building, Washington, D.C.

MY DEAR MR. COOLIDGE: I suppose you are flooded with all kinds of letters nowadays, but I cannot resist the temptation to appeal to the few well-balanced Senators to think well before supporting the wild inflation plans of some of the careless thinkers like Thomas, the adoption of whose plans would set this country back fifty years. His speech was most dangerous and even more radical than Lenin or some of his following.

I can't believe these men are serious. To put a penalty on thrift, to attempt to take from creditors, bondholders, etc., and turn over to some else, as Thomas says, would simply mean that many men who now employ large numbers would have to lay them off. Someone must do the employing. For instance: I have employed during the depression about fifty men, many unnecessary. Should such schemes as Thomas' go into effect and be successful, there is no question but what I would be compelled to lay off half of them or even more.

Mr. Roosevelt made a wonderful start and gained the confidence of men of both parties. It would be too bad for him to allow these wild plans to lose it all again. It is most unfortunate that he has selected as his chief financial advisors long-haired, radical college professors of no business or banking experience. During March there was a considerable upturn and a great recovery of confidence. I conscientiously believe three months would have seen recovery well under way, but now everyone is scared to death of Washington. We are all afraid to invest in anything. Why should a man buy a bond, municipal or Government, when Washington talks of legislation to legalize abrogation, to make laws to allow cities to default their bonds? And again, talk of forcing the thirty-hour week and at the same time lower the tariffs to let in foreign goods in competition. Isn't this inconsistent? Where will American labor come out in this?

I am enclosing you a brief statement and hope you can get time to read it. I believe it gives a clear statement of facts as most people see them.

The latest suggestion to give the President power to debase our currency at will and introduce so-called "controlled inflation"—the pet of the academic theorists of Europe, who have propagandized our own institutions of learning—is more pernicious than anything yet proposed. If this power is granted, our Constitution and all private contracts will be repudiated.

The experience of all countries throughout all ages on this matter has been just the same: The more unsound money is issued, the more is called for. Purchasing power of the ultimate consumer can never be increased in this artificial manner as rapidly as his cost of living goes up against him as a result of artificially stimulated prices. In the end all the thrifty and all who have property are in danger of being destroyed.

What the administration is now proposing strikes at the very vitals of every savings-bank depositor, every insurance policyholder, every institution and foundation in the United States. Gilt-edged bonds and sound investments inevitably depreciate, because the interest thereon is payable in a fixed amount of dollars whose value may even decline to zero.

In view of the recent experience of all European countries with inflation, and in view of the experience of the ages, are we to allow national insanity to go much farther in this country, and are we going to let ourselves be bought and sold by the insidious propaganda which has been disseminated on this subject, particularly from British sources?

I hate to trouble you with all this, but the situation in Washington is so critical we are forced to call upon our friends for help.

With kindest regards, I am,

Sincerely yours,

R. R. M. C.

P. S.—Wilmington is not far from Washington. Why don't you run up over some Sunday for a day's rest?

C.

EXHIBIT NO. 1384

[Copy sent to Senator D. O. Hastings 3/27/34; copy made for Mr. P. S. du Pont 4/5/34]

MARCH 16, 1934.

Mr. JOHN J. RASKOB,
809 Empire State Bldg., New York, N.Y.

DEAR JOHN: Some months ago you stated in director's meeting that people as a whole should support the President. Many people are today at a loss to understand why the administration is doing many things. The majority of the people I believe, would like to think that the President is honest in his endeavors. People are unable to learn much of the truth for the reason that through some method unknown the President has strangled free speech both over the radio and by the daily papers. It has been a great mystery to me why someone close to the administration (if anyone is, other than Frankfurter and his ilk) has not attempted to determine the following:

1. Unless the administration is embarked on a campaign to buy the popular vote of the country through the C.W.A., the C.C.C., etc., together with the gifts to certain classes, why should they compete with industry for labor, and put rates in farming districts way above what any farmer could compete with, and way beyond what such labor ever received? I mention a few cases I am familiar with:

An architect in town offered a position to a young draftsman recently at a fair salary. He turned down the job saying he had a position with the C.W.A. at $1.25 an hour.

Five negroes on my place in South Carolina refused work this spring, after I had taken care of them and given them house rent free and work for three years during bad times, saying they had easy jobs with the Government.

Planters in our vicinity were unable to get enough labor to harvest crops in the fall due to C.C.C. employment.

A cook on my houseboat at Fort Myers quit because the Government was paying him a dollar an hour as a painter when he never knew a thing about painting before.

If one person has had all this experience, how many thousands of men are leaving employment to accept easy jobs with the Government, paid for with the taxpayers' money, and under the guise of relief? Many trades are on strike, being encouraged from Washington, and these same strikers employed by the Government and paid with the taxpayers' money.

2. Why should the administration, without trial, condemn a number of corporations, cancel their contracts, and leave them with blackened reputations, an act absolutely against the law, the Constitution, and common decency? In time, no corporation nor business could afford to have any dealings with a Government who has no respect for contracts entered into.

3. Why should a man of Roosevelt's education and birth, if honest in his convictions, or honest in his endeavors to bring back prosperity, carry on a campaign of labor against capital, and a campaign to eliminate wealth? Who can possibly give employment to labor if wealthy men and capital are eliminated? Why should he lend his assistance to legislation publishing salaries of employees of corporations which can possibly have no effect except to prejudice certain classes? They were very careful not to explain that the net amount of most of these salaries after payment of income tax, were far less than the President's, who receives in total about $250,000.00, and this free of income rax

A man like yourself, a supporter of his, and persona grata in Washington could do a lot of good and set many minds at rest by getting the administration to answer these queries, that is, if you yourself are convinced that he is honest in his endeavors. As a loyal Democrat, I would appreciate your views a lot. Maybe you could set some of our minds at rest.

Sincerely yours,

C. R. R. M. CARPENTER.

EXHIBIT NO. 1385

[Copy made for Mr. P. S. du Pont 3-5/34]

EMPIRE STATE,
New York City, March 20, 1934.

R. R. M. CARPENTER, Esquire,
du Pont Building, Wilmington, Delaware.

DEAR RULY: In reply to your letter of March sixteenth, which is just received, would advise that I have been entirely out of politics since July 1932, and I am anxious to keep out.

My statement at the directors' meeting was not that the people should support the President, but that the people should not attack the President without knowing what they are talking about. At the time, I resented the action of the United States Chamber of Commerce calling upon the President for a sound-money policy in language that would lead the people to believe that he was for some other kind of policy, particularly when a few days before he had definitely declared that two things were paramount: One was a sound-money policy and the other was the maintenance of the credit structure and good faith of the United States.

You haven't much to do and I know of no one that could better take the lead in trying to induce the du Pont and General Motors groups, followed by other big industries, to definitely organize to protect society from the suffering which it is bound to endure if we allow communistic elements to lead the people to believe that all business men are crooks, not to be trusted, and that no one should be allowed to get rich. There should be some very definite organization that would come out openly with some plan for educating the people to the value of encouraging people to work; encouraging people to get rich; showing the fallacy of communism in its efforts to tear down our capital structure, etc.

The reason I say that you are in a peculiarly good position to do this, is that you are young enough to undertake the work, you have the time, you are wealthy enough to not have to depend upon a job or salary for a living, and are in a position to talk directly with a group that controls a larger share of industry through common-stock holdings than any other group in the United States. When I say this, I mean that I believe there is no group, including the Rockefellers, the Morgans, the Mellons, or anyone else that begins to control and be reponsible for as much industrially as is the du Pont Company.

I, of course, know you won't do it, but I personally think you should, as I think it is encumbent upon all citizens to try to make this world and particularly the country of which they are citizens a better place in which to live. Our ancestors did it and handed down a fine form of government to us. There are very few people situated as you are.

Pierre, as a citizen, has set us a fine example and I think you and Irénée, if you undertake this job in a really big way, will find tremendous support and will be able to do one of the finest jobs that could be done for the Nation and for the future of society everywhere.

Sincerely yours,

(S) JOHN J. RASKOB.

(" Exhibit No. 1386 " appears in text on p. 4246.)

(" Exhibit No. 1387 " appears in text on p. 4247.)

EXHIBIT No. 1388

Chart by Arthur Ballantine introduced in War Policy Commission Hearings, House Document No. 163, Seventy-second Congress, first session.

D.—*Corporation income and profits tax rates, exemptions, and credits under the revenue acts of 1909–1928, inclusive* [1]

[Applicable to domestic and foreign corporations]

Revenue act	Applicable to incomes for the years—	Exemption [2]	Income tax		Excess-profits tax [3]		
			Taxable income	Rate per cent	Credit	Amount subject to tax	Rate per cent
1909 (excise tax)	1909 to Feb. 28, 1913.	$5,000	All net income [4] in excess of exemption	1			
1913	Mar. 1, 1913, to Dec. 31, 1915.	None	All net income	1			
1916	1916	None	do	2			
1917	1917	None	Dividends out of earnings from Mar. 1, 1913, to Dec. 31, 1915.	1	$3,000 [5] plus an amount equal to the same percentage of invested capital [6] for the taxable year as the average annual pre-war income was of pre-war invested capital (not less than 7 nor more than 9 percent).	Net income equal to 15 percent of invested capital less credit.	20
			Net income in excess of the sum of— The excess-profits tax for the current year and Dividends received out of earnings from Mar. 1, 1913, to Dec. 31, 1915.	2	If not established during at least one whole year of the pre-war period, 8 percent.	Net income in excess of 15 percent of invested capital but not in excess of 20 percent of invested capital.	25
						Net income in excess of 20 percent of invested capital but not in excess of 25 percent of invested capital.	35
1917	1917	None	Net income in excess of the sum of— The excess-profits tax for the current year and Dividends received out of earnings from Mar. 1, 1913, to Dec. 31, 1917.	4	If, during pre-war period, corporation had either no net income or a very small net income, or if invested capital cannot be determined, same per cent as that of representative corporations. (See sec. 210, revenue act 1917.)	Net income in excess of 25 percent of invested capital but not in excess of 33 percent of invested capital.	45
						Net income in excess of 33 percent of invested capital	60
1918	1918	2,000	Net income in excess of the sum of— The exemption, Excess profits and war profits taxes for current year and Interest on United States obligations issued after Sept. 1, 1917.	12	$3,000 plus 8 percent of the invested capital for the taxable year. [6]	Net income equal to 20 percent of invested capital less credit.	30
						Net income in excess of 20 percent of invested capital.	65

1918	1919 and 1920	2,000	Net income in excess of this sum of— The exemption. Excess-profits tax for current year, Excess-profits and war-profits taxes on income from Government contracts, and Interest on United States obligations issued after Sept. 1, 1917, and War Finance Corporation bonds not exempt.	10	Same as 1918 [6]	Net income equal to 20 percent of invested capital less credit. Net income in excess of 20 percent of invested capital.	20 40
1921	1921	[8] 2,000	Same as 1919 and 1920	10	do	Same as 1919 and 1920	(11)
	1922 and 1923	[8] 2,000	Net income in excess of exemption	12½			
1924	1924	[8] 2,000	do	12½			
1926	1925	[8] 2,000	do	[9] 13			
	1926 and 1927	[8] 2,000	do	[9] 13½			
1928	1928	[8] 3,000	do	12			
	1929	[8] 3,000	do	11			

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[1] All corporations are required to file returns regardless of amount of net income or loss, except those specifically exempt as mutual, cooperative, fraternal, civic, charitable, scientific, etc., not operating for profit. From Jan. 1, 1918, to Dec. 31, 1921, personal-service corporations were treated as partnerships. Prior and subsequent to said dates, such corporations were taxed as other corporations. Under the revenue act of 1909, corporations were required to file returns on a calendar-year basis; under subsequent revenue acts, corporations were permitted to file returns on a fiscal-year basis, other than the calendar year; except that under the act of 1921 and subsequent acts, life insurance companies were required to file on a calendar-year basis in accordance with the State laws regulating insurance companies.

[2] For 1918 and subsequent years foreign corporations not allowed specific exemption.

[3] For 1918–1921, inclusive, war-profits and excess-profits tax of foreign corporations is computed by comparison with representative corporations whose invested capital can be satisfactorily determined and which are engaged in a like or similar trade or business and similarly circumstanced. (See sec. 328, revenue acts 1918 and 1921.)

[4] Net income means "statutory" net income, i. e., the excess of gross income over deductions as defined in the various revenue acts. Foreign corporations report only the net income from sources within the United States. Net income has been adjusted from time to time as follows:

(*a*) Amortization of buildings, machinery, equipment, or other facilities constructed or acquired on or after Apr. 6, 1917, for the production of articles contributing to the procesution of the war, are included to a reasonable amount in business deductions for 1918, 1919, 1920, and 1921.

(*b*) Dividends of domestic corporations were entirely tax exempt for 1918 and subsequent years.

(*c*) Net loss for prior year. The revenue act of 1918 provides, in the case of a net loss for any taxable year beginning after Oct. 31, 1918, and ending prior to Jan. 1, 1920, for the deduction of such loss from the net income of the *preceding year*, a redetermination of taxes for the preceding year being made. If the net loss exceeds the net income for the preceding year, the amount of such excess is to be deducted from the net income of the *succeeding* taxable year. For 1921 and subsequent years the revenue acts provide for net loss in any year beginning after Dec. 31, 1920, to be deducted from the net income of the succeeding taxable year and if such net loss exceeds the net income for the succeeding year, the amount of such excess is to be allowed in the *next* succeeding year.

(*d*) For insurance companies see special provisions in the various revenue acts.

[5] Foreign corporations not allowed the $3,000.

[6] Invested capital within the meaning of the statute is the capital actually paid in to the corporation by the stockholders, including surplus and undivided profits (exclusive of that for the current year), stocks, bonds, and other obligations (other than obligations of the United States) the dividends or interest from which are not included in computing net income, and excluding inadmissible assets. (See art. 831 of Regulations 45.) For 1917 foreign corporations reported that proportion of invested capital which net income from sources within the United States was of the entire net income. For 1918–1921, inclusive, it was not necessary for foreign corporations to report invested capital. (See note 3.)

[8] Allowed domestic corporations with net income of $25,000 or less.

[9] Income of insurance companies, exclusive of mutual companies other than life, taxable at 12½ percent.

[11] Same as 1919 and 1920.

D.—*Corporation income and profits tax rates, exemptions, and credits under the revenue acts of 1909–1928, inclusive*—Continued

Revenue act	Applicable to incomes for the years—	War-profits tax [3]			Tax on income from Government contracts			Tax credit for income and profits taxes paid to foreign countries or United States possessions
		Credit	Amount subject to tax	Rate percent	Exemption	Amount subject to tax	Rate percent	
1909 (excise tax)	1909 to Feb. 28, 1913.							For 1917 and prior years, taxes paid to foreign countries or United States possessions were not allowed as a tax credit, but were included in general deductions.
1913	Mar. 1, 1913, to Dec. 31, 1915.							
1916	1916							
1917	1917							
1918	1918	$3,000 plus either an amount equal to the average pre-war net income plus or minus 10 percent of the increase or decrease of invested capital for the taxable year as compared with average pre-war invested capital or 10 percent of the invested capital for the taxable year, whichever is greater.[7]	Net income in excess of war profits credit.	80—less amount of excess profits tax.				Amount paid or accrued.
1918	1919 and 1920.				$10,000	Amount in excess of $10,000 derived from Government contracts made between Apr. 6, 1917, and Nov. 11, 1918.	Excess profits and war profits tax rates of 1918 act.	Same as 1918.
1921	1921				10,000	Same as 1919 and 1920.	Same as 1919 and 1920	Same as 1918 act.[6]
	1922 and 1923.							Do.
1924	1924							Do.
1926	1925							Do.
	1926 and 1927.							Do.
1928	1928							Do.
	1929							Do.

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[3] For 1918–21, inclusive, war-profits and excess-profits tax of foreign corporations is computed by comparison with representative corporations with invested capital can be satisfactorily determined and which are engaged in a like or similar trade or business and similarly circumstanced. (See sec. 328, revenue acts 1918 and 1921.)

[7] If corporation was not in existence during the whole of a least one calendar year during the pre-war period, the credit (with certain exceptions) shall be the sum of $3,000 and an amount equal to the same percentage of invested capital for the taxable year as the average percentage of net income to invested capital for the pre-war period of representative corporations; but such amount shall in no case be less than 10 percent of the invested capital of the taxpayer for the taxable year. (See sec. 311, revenue act of 1918.)

[10] Beginning with 1921 the credit cannot exceed the proportion of the total tax against which the credit is taken that the taxpayer's net income from sources without the United States bears to the entire net income.

[12] See joint resolution of Congress No. 133, approved by the President, Dec. 16, 1929, reducing rates of income tax for 1929.

NOTE.—For the year 1917, there was also a tax of 10 percent upon that portion of the total net income remaining undistributed six months after the close of the taxable year, in excess of the income actually employed in the business, or invested in obligations of the United States sisued after Sept. 1, 1917.

For the years 1918 to 1920, a corporation that permitted an unreasonable accumulation of profits was not subject to the ordinary corporation income tax but the individual stockholders were taxed upon their distributive shares of its net income in the same manner as the members of a partnership or a personal-service corporation.

For the years 1921 to 1923, an additional tax of 25 percent was imposed upon the taxable net income of a corporation, where it was shown that there had been an evasion of surtax as the result of an unreasonable accumulation of profits. This additional tax was increased to 50 percent for 1924 and subsequent years, with the provision that the 50 percent additional tax shall not apply if all the shareholders of the corporation include in their gross income their entire distributive shares, whether distributed or not, of the net income of the corporation for the taxable year.

EXHIBIT NO. 1389

[File: Annual Report (P. S. du Pont)]

(No date)

MEMORANDUM FOR MR. P. S. DU PONT

Gross receipts from all sources for the years 1915, 1916, 1917, and 1918 amounted to		$1, 157, 000, 000. 00
Out of which there was expended for—		
Salaries and wages	$225, 000, 000. 00	
Materials, freight, and expenses	602, 000, 000. 00	
Federal taxes (paid and accrued)	72, 000, 000. 00	
B. Bonus to employees	15, 656, 000. 00	
The net profits as a result of operations for the period from 1915 to 1918 inclusive aggregated		228, 731, 000. 00
Out of which there was paid to stockholders		135, 088, 000. 00
Leaving		93, 643, 000. 00
Of which there was capitalized and is now represented by capital stock		29, 955, 000. 00
Balance remaining undistributed		63, 688, 000. 00
Surplus January 1, 1915		7, 518, 000. 00
Surplus as per balance sheet		71, 206, 000. 00

EXHIBIT NO. 1390

Excerpts from exhibit 1113, Belgium

Treas. no.—	*Gross sales value*	
1914		
	0	
1915		
37	$375, 000	
66	300, 000	
81	400, 000	
		$1, 075, 000
1916		
176	300, 000	
179	480, 000	
197	38, 400	
		818, 400
1917		
	0	
1918		
	0	
Total		1, 893, 400

Exhibit No. 1391

Excerpts from exhibit 1113, England

Treas. no.—	Gross sales value	
1914		
0	0	0
1915		
22	$3, 700, 000	
23	7, 350, 000	
28	5, 742, 800	
	1, 117, 200	
38	1, 176, 000	
42	5, 880, 000	
43	1, 960, 000	
47	64, 680	
	353, 584	
48	48, 510	
49	212, 660	
83	30, 002, 499	
	1, 497, 501	
84	1, 592, 990	
85	1, 568, 000	
93	26, 100, 000	
105	1, 568, 000	
128	823, 200	
	658, 560	
129	392, 000	
142	52, 089, 440	
	7, 110, 560	
		$151, 008, 184
1916		
174	5, 657, 500	
181	2, 500, 000	
183	[1] 11, 287	
184	[1] 40, 950	
185	[1] 1, 443	
209	2, 000, 000	
212	86, 164, 712	
	11, 159, 700	
220	431, 200	
222	1, 375	
232	1, 290, 000	
237	21, 480, 137	
243	[1] 62, 723	
251	22, 000	
237	3, 374, 142	
		134, 197, 189
1917		
248	300	
252	1, 445, 248	
260	435, 000	
272	550, 000	
296	300	
307	13, 562, 700	
	2, 809, 800	
308	36, 013, 500	
	7, 359, 000	
311	[1] 14, 290	
		62, 190, 138
1918		
569	[2] 870	
		870
Total		347, 395, 511

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[1] British Munitions Co.

[2] Machinery parts.

EXHIBIT No. 1392

Excerpts from exhibit 1113, France

Treas. no.—	Gross sales value	
1914		
2	$8, 000, 000	
3	937, 500	
5	937, 500	
9	2, 600, 000	
		$12, 475, 000
1915		
16	907, 200	
17	2, 925, 000	
26	1, 200, 000	
27	3, 900, 000	
29	1, 000, 000	
30	1, 000, 000	
31	16, 860, 000	
34	1, 000, 000	
75	3, 900, 000	
31	9, 580, 000	
133	2, 100, 000	
		44, 372, 200
1916		
192	800, 000	
204	23, 559, 996	
	2, 975, 952	
		27, 335, 948
1917		
299	266, 760	
312	42, 400	
314	19, 991, 600	
	3, 458, 400	
315	10, 865, 000	
		34, 624, 160
1918		
436	22, 850	
442	3, 000	
474	17, 490, 000	
		17, 515, 850
Total		136, 323, 158

EXHIBIT No. 1393

Excerpts from exhibit 1113, Italy

Treas. no.—	Gross sales value	
1914		
0	0	0
1915		
100	$9, 945, 000	
106	600, 000	
149	516, 945	
		$11, 061, 945
1916		
163	218, 595	
166	1, 031, 940	
168	1, 200, 000	
175	1, 563, 125	
182	2, 205, 000	
191	90, 000	
196	1, 411, 200	
205	88, 400	
216	525, 573	
		8, 333, 833

Treas. no.—	Gross sales value	
1917		
264	$696, 000	
288	10, 495, 980	
289	765, 000	
305	2, 031, 480	
317	1, 172, 500	
318	775, 500	
326	349, 800	
344	78, 100	
347	2, 650, 000	
359	1, 496, 000	
363	27, 500	
375	1, 056, 000	
382	8, 087, 800	
384	1, 190, 000	
385	3, 498, 000	
382	1, 523, 200	
		$35, 892, 860
1918		
425	215, 970	
468	118, 800	
		334, 770
Total		55, 623, 408

Exhibit No. 1394

Excerpts from exhibit 1113, Russia

Treas. no.—	Gross sales value	
1914		
1	$792, 000	
		$792, 000
1915		
12	5, 850, 000	
36	4, 875, 000	
44	5, 050, 000	
62	3, 025, 000	
63	7, 800, 000	
64	1, 950, 000	
65	959, 985	
72	7, 800, 000	
73	1, 950, 000	
107	14, 625, 000	
110	3, 510, 000	
111	3, 830, 400	
		61, 225, 385
1916		
0	0	0
1917		
0	0	0
Total		62, 017, 385

EXHIBIT NO. 1395

Principal of the funded and unfunded indebtedness of foreign governments to the United States, the accrued and unpaid interest thereon, and payments on account of principal and interest, as of Nov. 15, 1934

Country	Total indebtedness (payments on principal deducted)	Total payments received	Funded indebtedness				Unfunded indebtedness [1]			
			Indebtedness		Payments on account		Indebtedness		Payments on account	
			Principal (net)	Accrued interest	Principal	Interest	Principal (net)	Accrued interest	Principal	Interest
Armenia	$20,813,124.89						$11,959,917.49	$8,853,207.40		
Austria	23,757,934.13	$862,668.00	$23,752,217.00	$5,717.13	$862,668.00					
Belgium	413,653,058.17	52,191,273.24	400,680,000.00	12,973,058.17	17,100,000.00	$14,490,000.00			$2,057,630.37	$18,543,642.87
Cuba		12,286,751.58							10,000,000.00	2,286,751.58
Czechoslovakia	[2] 165,325,281.50	20,134,092.26	165,241,108.90	84,172.90	19,829,914.17					304,178.09
Estonia	[3] 18,079,383.11	1,248,432.07	16,466,012.87	1,613,370.24		1,246,990.19				1,441.88
Finland	8,711,996.26	3,685,673.77	8,478,840.04	233,156.22	521,159.96	2,855,198.54				309,315.27
France	3,980,735,111.59	486,075,891.00	3,863,650,000.00	117,085,111.59	161,350,000.00	38,650,000.00			64,689,588.18	221,386,302.82
Great Britain	4,714,345,235.02	2,024,848,817.09	4,368,000,000.00	346,345,235.02	232,000,000.00	1,232,770,518.42			202,181,641.56	357,896,657.11
Greece	32,789,343.56	3,429,712.01	31,516,000.00	1,273,343.56	981,000.00	1,286,636.00			2,922.67	1,159,153.34
Hungary	[3] 2,086,096.48	468,466.32	1,908,560.00	177,536.48	73,995.50	393,717.78				753.04
Italy	2,009,555,035.78	100,829,880.16	2,004,900,000.00	4,655,035.78	37,100,000.00	5,766,708.26			364,319.28	57,598,852.62
Latvia	[3] 7,435,783.76	761,549.07	6,879,464.20	556,319.56	9,200.00	621,520.12				130,828.95
Liberia		36,471.56							26,000.00	10,471.56
Lithuania	[3] 6,650,080.33	1,237,956.58	6,197,682.00	452,398.33	234,783.00	1,001,626.61				1,546.97
Nicaragua	425,295.38	168,575.84					289,898.78	135,396.60	141,950.36	26,625.48
Poland	[3] 226,248,307.86	22,646,297.55	206,057,000.00	20,191,307.86	1,287,297.37	19,310,775.90				2,048,224.28
Rumania	[2] 63,883,006.54	4,791,007.22	63,860,560.43	22,446.11	2,700,000.00	29,061.46			1,798,632.02	263,313.74
Russia	346,843,200.95	[4] 8,748,878.87					192,601,297.37	154,241,903.58		8,748,878.87
Yugoslavia	61,625,000.00	2,588,771.69	61,625,000.00		1,225,000.00				727,712.55	636,059.14
Total	12,102,962,275.61	2,747,041,165.88	11,229,212,445.44	[5] 505,668,208.95	475,275,018.00	1,318,422,753.28	204,851,113.64	163,230,507.58	281,990,396.99	671,352,997.61

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[1] Payments of governments which have funded were made prior to the dates of the funding agreements.

[2] Difference between principal of funded debts and amounts here stated represents deferred payments provided for in the funding agreements, for which gold bonds of the respective debtor governments have been or will be delivered to the Treasury.

[3] Increase over amount funded due to exercise of options with respect to the payment of interest due on original issue of bonds of debtor governments.

[4] Represents proceeds of liquidation of financial affairs of Russian Government in this country. (Copies of letter dated May 23, 1922, from the Secretary of State and reply of the Secretary of the Treasury dated June 2, 1922, in regard to loans to the Russian Government and liquidation of affairs of the latter in this country, appear in the Annual Report of the Secretary of the Treasury for the fiscal year 1922, as exhibit 79, p. 283, and in the combined annual reports of the World War Foreign Debt Commission, exhibit 2, p. 84.)

[5] Includes balances of amounts postponed under provisions of joint resolution of Dec. 23, 1931. (For amounts postponed see p. 35 of report of Secretary of the Treasury for 1932.)

EXHIBIT NO. 1396

TREASURY DEPARTMENT,
Washington, December 18, 1934.

Honorable GERALD P. NYE,
Chairman Special Committee Investigating the Munitions Industry,
United States Senate, Washington, D. C.

(Attention Mrs. Markley, Room 408, Senate Office Bldg.)

MY DEAR SENATOR: Receipt is acknowledged of your letter of December 15, 1934 (Treasury request no. 51-A), requesting a statement showing the total loans, by countries, made by the United States to foreign governments and the amounts of such loans remaining unpaid from each country.

There is enclosed herewith a statement showing the principal amount of obligations of foreign governments originally acquired under various acts of Congress. These obligations were acquired principally during the years 1917 to 1920, inclusive. There is also enclosed a statement showing the principal of the funded and unfunded indebtedness of foreign governments to the United States, the accrued and unpaid interest thereon, and payments on account of principal and interest as of November 15, 1934.

There is also enclosed for your convenient use a copy of a memorandum revised July 15, 1934, containing certain general information covering the indebtedness of foreign governments to the United States.

Very truly yours,

T. J. COOLIDGE,
Acting Secretary of the Treasury.

Enclosures.

EXHIBIT NO. 1397

[Copy, Readdressed]

DECEMBER 29, 1932.

HON. GERALD P. NYE,
United States Senator, North Dakota,
Senate Office Building, Washington, D. C.

DEAR SENATOR NYE: From a routine statement of the United States Treasury under date of December 11, 1932, I note oversubscriptions of $4,128,000,000 on Treasury offerings, thus disclosing enormous cash reserves of idle money in banks. Simultaneously I see Associated Press publishing statistical information published by the U. S. Treasury indicating enormous drop in income taxes generally and particularly by taxpayers in the $100,000 or more, class.

This reminds me of reports by Mr. L. H. Parker, chief of the division of investigation for the Congressional Committee on Internal Revenue Taxation in 1927, to the effect that scores of big corporations and many individuals escaped paying hundreds of millions of dollars, because of failure of the U. S. Bureau of Internal Revenue to enforce the law.

I have given nearly 20 years of my life to serving the United States Government. I hold a commission as captain in the Military Intelligence Reserves, in which organization I served during the last war. I am a practicing certified public accountant. I have served nearly 10 years, to December 10, 1931, as a special agent in the Internal Revenue Intelligence Unit; and know Mr. Parker's comment to be a fact, and that the privileged few of great wealth pay comparatively no income taxes because of inefficiency or design on the part of internal revenue officials and recover taxes years after same were paid, with interest, through the medium of unjustifiable tax refunds by manipulation on the part of privately employed tax experts and former bureau employees.

Believing the matter of exposing the control by the privileged class of wealth of our taxing machinery will be of interest to you I cite the following specific case—that of Mr. Alfred I. du Pont, of Wilmington, Delaware, and Jacksonville, Florida.

The history of Mr. Alfred I. du Pont, former executive of the great du Pont interests in New Jersey and Delaware, and member of the oldest capitalistic of families in the country, is one of conflict with the Government dating back to dissolution of the original E. I. du Pont de Nemours Powder Company of New Jersey under the Sherman Antitrust Act in 1912. A group of du Ponts, headed by Pierre S. du Pont, acquired on March 6, 1915, large holdings of T. Coleman du Pont, and organized the du Pont Securities Company to hold such stock. The

E. I. du Pont de Nemours Powder Company directors refused to buy up its own stock at Pierre's price. The officers of the powder company obtained a loan of $8,500,000 through J. P. Morgan and Company, which was later increased to $10,000,000. The powder company's stock was collateral on this loan. In order to boost the value of the collateral, it was decided to reorganize the New Jersey Corporation (powder company) so as to capitalize the large munitions contracts it had with foreign governments. On September 9, 1915, the E. I. du Pont de Nemours Powder Company of New Jersey transferred all its operating assets to a new corporation, chartered under the laws of Delaware on September 4, 1915, styled "E. I. du Pont de Nemours Company," in exchange for $120,000,000 in common and debenture stock of the Delaware company. On October 1, 1915, the common stock of the new company was distributed by the old company to its stockholders in the form of a 200% dividend. The debenture stock of the new company was exchanged with the stock holders for stock they held in the old company on January 10, 1918, and the old company (New Jersey) passed out of existence after payment in cash $1.0244529 per share to its stockholders in final liquidation on June 25, 1926. Mr. Alfred I. du Pont originally held 37,767 shares of common stock in the old company on which he received on October 1, 1915, as a dividend, 75,534 shares of common stock of the new company; and in the final wind up turned in his 37,767 shares of common stock of the old company for a like number of shares of debenture stock in the new company plus the liquidating dividend of $1.02 plus, per share, of the old company. His original holdings were not increased or decreased by the exchange of stock in the two corporations. The assets of the new company were the same as those of the old; the accumulated profits of the old company (surplus) being distributed in the form of the 200% dividend.

In his 1915 income tax return Mr. du Pont failed to report the profit received in the 200% dividend. Following examination by Internal Revenue Agent Daniel P. du Ross in 1919, an assessment was made against Mr. du Pont on December 20, 1919, in the amount of $1,576,015.06 for 1915. The assessment was paid only after protracted litigation which was carried through the Supreme Court of the U. S., largely upon the initiative of Alfred I. du Pont. (See Supreme Court decision no. 260, October 1921, *U. S.* v. *C. W. Phellis.*) Following this, Mr. du Pont filed a claim for abatement for 1915, which was rejected, and his efforts to enjoin the collection of the tax were overthrown by the decision of the U. S. Supreme Court in the case of *Graham* v. *du Pont*. He compromised interest and penalties for $118,201.19, on August 13, 1923, when he paid the 1915 tax.

The actual interest and penalties due on the seven years delinquent tax of $1,576,015.06 amounted to over two milion dollars. This was done during the administration of Mr. J. G. Bright as deputy commissioner of internal revenue, who is now employed by Mr. Alfred I. du Pont at a salary of $10,000 per year.

On top of this Mr. du Pont was paid a refund of $2,036,618.78, consisting of 1917–1918 taxes paid in the sum of $1,514,276.61 and interest in the sum of $522,342.17, on March 15, 1926, under representations by Edward H. Batson, another former deputy commissioner of internal revenue, as if the exchange of his common stock in the E. I. du Pont de Nemours Powder Company for like interest in the form of debenture shares in the new company, E. I. du Pont de Nemours Company of Delaware, on January 10, 1918, was a sale of stock of the old company entailing a loss. The claim was filed June 6, 1924, after the Revenue Act of 1918 was repealed by the Revenue Act of 1924 specifically prohibiting refunds on such grounds. It was paid on March 15, 1926, after statute of limitations tolled for the year 1918, and after two attorneys, T. P. Dudley and H. H. Hill, in the office of Solicitor of Internal Revenue recommended against the payment. According to correspondence of record in the Bureau it was aligned for payment in part by Deputy Commissioner J. G. Bright, who resigned as of September 30, 1925; and the payment on March 15, 1926, was "facilitated" by bribes totaling $90,000 paid by Mr. Edward Ball, a brother-in-law of Mr. du Pont.

Although Mr. du Pont's net income from dividends paid on his stock holdings of E. I. du Pont de Nemours Company during the years 1920 to 1926, inclusive, averaged well over two million dollars per year he paid not a cent of income tax for these seven years.

He evaded paying any tax for 1920 to 1926, inclusive, by the simple expedient of prorating alleged losses totaling $8,630,722.57, claimed invested in the Nemours Trading Corporation of Wilmington, Delaware, namely, $5,750,274 capital stock and $2,980,448.57 of said corporation's notes for cash advanced to it. The Nemours Trading Corporation was organized by Mr. du Pont on March 31, 1919, to buy shoes and other surplus war supplies for sale abroad. The scheme was unprofitable from the beginning, and the corporation ceased its efforts and began liquidating early in 1920. It was insolvent on November 17, 1920, when Mr. du Pont sold $2,500,000 of his stock in it at auction for $100; merely to claim the resultant loss of $2,499,000 in his income-tax return to offset stock dividends received from the E. I. du Pont de Nemours Company in that year; then followed it up by selling at auction enough worthless stock of Nemours Trading Corporation to offset his dividends until 1924, in each year's tax return. In 1924 he began to claim losses on the said corporation's notes to offset his income each year including for 1926. Both stock and notes of the Nemours Trading Corporation should have been written off in toto in 1920, when the same were determined worthless, but only superficial examinations were made by revenue agents of Mr. du Pont's individual returns, none of his corporations, and the artifice was not detected until statute of limitations ran against collection of taxes for the years in question. It is noteworthy that examination of Mr. du Pont's returns for the years 1920 to 1926 was not assigned to Revenue Agent du Ross, who recommended the assessment for 1915 against Mr. du Pont as result of examination in 1919 and who was familiar with the du Pont interests, but on the other hand the returns for 7 years were split up between different revenue agents and in some instances passed merely by office audit. There is some indication also that a large block of the stock of Nemours Trading Corporation was received by Mr. du Pont as a bonus in connection with the cash advances, later covered by notes, as well as that the capitalization of Nemours Trading Corporation was manipulated through Nemours Investment Company, another of Mr. du Pont's personal corporations, concerning which Mr. du Pont refused to testify; so there is a possibility that his claims for losses on the said Nemours Trading Corporation stocks and notes were duplicated. No effort was made to determine this when Supervising Internal Revenue Agent J. C. Wilmer cleared that corporation as a bankrupt in a perfunctory report dated April 23, 1925, and when the matter came to my attention all records were reported lost.

For the 4 years, 1927 to 1930, Mr. Alfred I. du Pont paid less than $100,000 per year income tax.

Dividend income from Mr. du Pont's stock holdings in the E. I. du Pont de Nemours Company alone, for these years, was as follows:

1927	$2, 895, 638. 50
1928	3, 183, 925. 50
1929	3, 558, 473. 00
1930	2, 837, 089. 50
Total	12, 475, 126. 50

on which surtax evaded by Mr. du Pont is $2,495,025.50.

He evaded paying this tax through the expedient of forming Almours Securities, Incorporated, organized under the laws of Florida in November 1926, to which he transferred his E. I. du Pont de Nemours Company stocks, on the theory that dividends from a corporation received by another corporation are not taxable for surtax until distributed as dividends to stockholders, which is in direct contravention of sections 220 and 104 of the revenue acts of 1926 and 1928, aimed to prevent surtax evasion through corporate form. The above referred to dividends income combined with other net income of the corporation, Almours Securities, Incorporated, under provisions of sections 220 and 104 of the Revenue Acts of 1926 and 1928, respectively, reflects a tax due of $10,353,793.79 as computed and assessed after exhaustive investigation by former Special Agent Lewis Williams and Revenue Agent J. J. Brown, which said assessment although regularly made in the sum of $7,177,933.42 on May 12, 1931, for 1927 to 1929, inclusive, and subsequently in the additional sum of $3,175,860.37 for 1930, was wiped out by an arbitrary stipulation with the Internal Revenue General Counsel's office before the Board of Tax Appeals, without any hearing before said board, on October 19, 1931, to the effect that no deficiency in tax existed. In other words, provisions of sections 220 and 104 of the Revenue Acts of 1926 and 1928, respectively, are not enforced by the Bureau. The cancellation of this $10,353,793.79 tax liability was accomplished again by the two former deputy commissioners of internal revenue, Edward H. Batson and J. G. Bright, both in the employ of Mr. Alfred I. du Pont, through their close personal contact with Bureau officials and intrigue among officials within the Bureau.

That wide ramifications exist in the Bureau of Internal Revenue, from the Commissioner down, as a result of influence of wealthy political patrons, is reflected in the following facts:

Former revenue agent in charge at Philadelphia, J. C. Wilmer, through whose supervision Mr. du Pont's income-tax returns were passed from 1919 to 1925 without payment of a single cent of tax, is now head of the Income Tax Unit in Washington.

Former Special Agent Daniel Bolich, who was assigned to investigate stock transactions of Mr. du Pont in New York in 1930 and made a negative report, was shortly thereafter appointed and is now serving as revenue agent in charge of the Philadelphia division.

Former Bureau Auditor Albert Lewis, who as head auditor passed the $2,036,618.78 refunds to Mr. du Pont in 1926, was on August 1, 1927, appointed revenue agent in charge of the Richmond division and promoted to a salary of $5,200 per year.

Former Bureau Attorney Aubrey R. Marrs, who originally entered the service on September 7, 1920, at a salary of $2,750 per year, and who was the attorney who rendered the favorable opinion on the $2,000,000 du Pont refund after two other attorneys rejected it, was on August 17, 1927, appointed to the special advisory committee at a salary of $5,600 per year, and is now serving as Assistant Commissioner of Internal Revenue at a salary of $7,500 per year since June 17, 1929.

Former Bureau Attorney Preston C. Alexander, who was employed in the penal division, solicitor's office, on March 16, 1920, at a salary of $2,250 per year; over whose name the $2,000,000 du Pont refunds were "approved" in 1926, was on September 19, 1927, promoted to a salary of $6,500 per year as chief attorney in the General Counsel's office; and on July 1, 1928, was designated head of the appeals division at a salary of $7,000 per year. In his present position in all likelyhood the Board of Tax Appeals stipulation of October 19, 1931, wiping out the $10,353,793.79 du Pont tax liability passed in his hands.

Mr. Eldon P. King, who entered the Internal Revenue Service at a salary of $2,500 per year on October 11, 1920, as a law clerk in the legal unit, signed the name of Attorney Preston C. Alexander to one of the du Pont refund claims (no. 17818), approving same as of November 19, 1925, was promoted to a salary of $3,800 per year on January 16, 1926, and on January 19, 1929, to the position of principal attorney, general counsel's office, at salary of $6,000 per year, in which position, it is interesting to note, he "prepared" cases for overassessment statement for the Joint Congressional Committee in 1929.

Whereas, the agents and attorneys who made adverse reports on the du Pont interests remain in the rank and file of the service or were forced out of the service altogether. I am a victim myself of this sinister influence, having been dropped from the rolls as special agent, without even a hearing, as of December 10, 1931. Incidentally, shortly thereafter Commissioner David Burnet and one of his deputies visited Florida and were the guests of J. G. Bright and Edward Ball, brother-in-law of Mr. Alfred I. du Pont, on a fishing trip on Mr. du Pont's yacht.

Proof of the aforementioned tax liabilities on the part of Alfred I. du Pont, and his corporation the Almours Securities, Inc., including also evidence of further personal tax liability of Mr. du Pont in the sum of $92,820.24 through the formation of trusts 1927 to 1930, in addition to the $10,000,000 tax evasion through corporate form, is contained in my confidential report to the bureau under date of April 16, 1931, copy of which I enclose herewith. The original report with 27 exhibits rests ensconced in innocuous desuetude in the general counsel's office of the bureau at Washington, penal division file no. A–238056, awaiting extinguishment by laches.

I will be pleased to assist in any way I can in any proceedings to compel the du Pont interests to make full payment of all taxes and penalties for which they are liable. In this connection please be advised that Mr. John Zimmermen, a C. P. A., of New York, residing at 449 Elmora Avenue, Elizabeth, N. J., who was comptroller for Almours Securities, Incorporated, from November 1926, to January 1929, and originally exposed, under provisions of section 3463 of Revised Statutes, the tax manipulation iniquities, will join in any such proceedings and testify to facts outlined in my report.

Very truly yours,

LEWIS WILLIAMS.

EXHIBIT NO. 1397–A

NOVEMBER 24, 1934.

Honorable HENRY MORGENTHAU, Jr.,
The Secretary of the Treasury ,Washington, D. C.

MY DEAR MR. SECRETARY: Will you be so kind as to have the following information, relating to the income taxes of Alfred I. du Pont for the years 1920 to 1930, inclusive, prepared for this committee:

1. A statement of the taxes paid by Mr. du Pont for each of the years, 1920 to 1930, inclusive.

2. A statement of refunds, if any, made with respect to taxes specified in paragraph 1, above.

3. Gross income for each of the years, 1920 to 1930, inclusive, disclosed by the income-tax returns filed by Mr. du Pont for such years.

4. A statement for the period 1920 to 1930, inclusive, of the amounts, if any, by years of losses which were claimed by Mr. du Pont with respect to stock of the Nemours Trading Corporation or of the Nemours Investment Company, or with respect to any other stock transactions.

5. A statement of the total stockholdings of Mr. du Pont in the E. I. du Pont de Nemours and Company by years during the period 1920 to 1930, inclusive, as stated in his income-tax returns, together with a statement of any transfer or transfers of such stock to Almours Securities, Inc., and a statement of Mr. du Pont's holdings in this corporation, as such transfer or transfers and holdings appear in Mr. du Pont's income tax returns.

Will you also inform the committee as to what positions J. G. Bright and Edward H. Batson have held in the Bureau of Internal Revenue, together with the dates involved.

Sincerely yours,

AN GERALD P. NYE, *Chairman.*

EXHIBIT NO. 1398

TREASURY DEPARTMENT,
Washington, Dec. 10, 1934.

MY DEAR MR. CHAIRMAN: Further reference is made to your letter of November 24, 1934 requesting that there be furnished the special committee investigating the munitions industry certain data from the income-tax returns of Alfred I. du Pont and also information relative to positions which have been held in the Bureau of Internal Revenue by J. G. Bright and Edward H. Batson.

Although your letter does not specifically so state, it is assumed the information requested is desired for the purpose of the investigation now being made by the committee pursuant to Senate Resolution 206, Seventy-third Congress, and the desired information is being furnished herewith pursuant to authority granted by Executive order dated June 15, 1934 which authorizes inspection of income-tax returns by the committee.

There is furnished below the data called for under items 1, 2, 3, and 4 of your letter:

Taxable years	1 Income tax paid	2 Refunds allowed	3 Gross income	4 Losses on security transactions	
				Nemours trading	Other
1920	None	None	$6,199,639.98	$2,499,900.00	$152,823.65
1921	None	None	1,031,713.46	1,249,875.00	31,703.74
1922	None	None	5,946,324.82	1,000,599.00	4,918,771.43
1923	None	None	5,047,012.94	999,900.00	1,777,681.50
1924	None	None	1,837,886.48	None	804,115.72
1925	None	None	3,947,641.39	None	828,121.75
1926	None	None	5,575,954.57	26,950.00	335,969.32
1927	$7,800.76	None	1,022,990.92	None	4,252.50
1928	115,791.78	None	1,054,482.38	None	[1] 59,246.90
1929	108,584.16	None	1,300,423.51	None	15,229.35
1930	100,134.68	None	713,814.55	None	11,364.28

[1] Indicates profit rather than loss.

The amounts shown in the first column under item 4, "Nemours Trading", are losses claimed on sale or other disposition of stock of Nemours Trading Corporation. In addition to these items, the taxpayer claimed deductions for worthlessness of debts due from Nemours Trading Corporation in the sums of $499,993.70 for the year 1924, $809,704.95 for the year 1925 and $1,670,749.92 for the year 1926.

No losses appear to have been claimed in any of the above-listed years in connection with the Nemours Investment Company although it is possible that loss in connection with stock of such a company is included in the net loss on security transactions for the year 1927 as there is not available at the present time a detailed schedule showing all items which are included in the total security transactions reported for that year.

The amounts shown in the second column under item 4 above as losses on "Other" security transactions cover all losses on all securities such as stocks, bonds, and mortgages except the losses incurred in connection with Nemours Trading Corporation. Although your letter refers only to losses on stock transactions, it is impossible from the information at hand to distinguish between the losses on stock transactions and losses on bond transactions for all years and for this reason the amounts stated above under the second column of item 4 cover all other security transactions rather than all other stock transactions.

The figures stated under item 3, "Gross income", above, should not be confused with amounts shown in individual income-tax returns as "Total income", as for example, the amount shown on line 12 of form 1040, individual income-tax return for the calendar year 1930, which is, in effect, net income with the exception of deductions to be taken on lines 13 to 18, inclusive, for interest; taxes; losses by fire, storm, etc.; bad debts; contributions and "Other deductions authorized by law" (and not claimed elsewhere in the return). The figures stated under the gross income column above have been compiled from the various items of gross income for each year without diminution for such items as cost of securities sold, depreciation and other expenses of rented properties and other items which are applied against gross income items in the income-tax returns in computing the "Total income" figure as contrasted with the "Net income" figure. This explanation of the gross income figures stated above is given somewhat in detail in order that it may be clearly understood that cost of securities sold has not been deducted in computing these figures, which accounts for the fact that, while large gross income figures are reflected for several years, no income taxes were assessed or paid for those years as the cost of securities sold, bad debts, and other deductions allowable under the various revenue acts exceeded the gross income.

It is shown under item 2, above, that no refunds have been allowed. It is to be understood that this refers to refund of taxes paid with respect to the taxable years 1920 to 1930, both inclusive, and that it has no reference to any refunds which might have been made during any of those years of income taxes paid for any taxable year outside of the period 1920 to 1930, both inclusive.

The figures shown above are as reflected in the returns as originally filed by the taxpayer but adjusted to show any corrections made thereto by the Bureau of Internal Revenue before final approval of the returns.

The returns filed for the years 1921 to 1926, both inclusive, were joint returns of Albert I. du Pont and his wife, Jessie Ball du Pont, and the various items of gross income and deductions of each spouse are not segregated in the returns, therefore, the figures stated for such years cover the income and deductions of both Mr. and Mrs. du Pont.

It is requested, under item 5 of your letter, that there be furnished a statement of the total stockholdings of Mr. du Pont in the E. I. du Pont de Nemours and Company by years during the period 1920 to 1930, inclusive, as stated in his income-tax returns, together with a statement of any transfer or transfers of such stock to Almours Securities, Inc. Taxpayers are not required to furnish in their income-tax returns statements of stockholdings in any corporation and this information cannot be supplied from the information available at the present time. It has been ascertained from the income-tax files of Mr. du Pont and Almours Securities, Inc., that on or about November 24, 1926, Mr. du Pont transferred to Almours Securities, Inc. 180,830 shares of common stock valued at $30.605,410 and 10,470 shares of debenture stock valued at $1,130,990 of E. I. du Pont de Nemours and Company in consideration of the issuance to him of 317,364 shares of the common capital stock of Almours Securities, Inc. This transfer and exchange was made at the time of the organization of Almours Securities, Inc., and no further transfers appear to have been made by Mr. du Pont to Almours Securities, Inc., of capital stock of E. I. du Pont de Nemours and Company at any time during the period ended December 31, 1930.

Item 5 of your letter also requests a statement of Mr. du Pont's holdings in Almours Securities, Inc., as such transfer or transfers and holdings appear in Mr. du Pont's income-tax returns.

The following analyses of Mr. du Pont's stockholdings in Almours Securities, Inc., have been compiled from such information as is available in the files of the

Bureau of Internal Revenue and, while there may be some slight inaccuracy, due to absence of definite information on certian stock transfers, it is believed that the analyses given are correct:

Common stock

Date	Consideration	No. of shares	Percentage of total stock outstanding
11/24/26	180,830 shares common E. I. du Pont de Nemours and Company, 10,570 shares debenture E. I. du Pont de Nemours and Company	317,364	99.9984
12/31/26	Balance	317,364	99.9984
1927	Sundry securities (no E. I. du Pont de Nemours and Company stock included)	7,628	
12/29/27	Stock dividend	24,628	
12/31/27	Balance	349,620	91.6865
7/5/28	Sundry securities (no E. I. du Pont de Nemours and Company stock included)	7,058	
12/31/28	Balance	356,678	91.8376
3/8/299	Gift to Jessie Ball du Pont 10,000 Gift to Edward Ball, 10,000	20,000	
3/8/29 12/31/29	Balance	336,678	85.4545
2/21/30	Sundry securities (no E. I. du Pont de Nemours and Company stock included)	150	
9/12/30	Stock of Gulf Coast Properties, Inc	1,817	
12/31/30	Balance	338,645	85.0345

Preferred stock

12/7/28	8% stock dividend on common stockholdings, plus $74.00 in cash	28,535	91.8291
12/31/28	Balance	28,535	91.8291
1/4/29	Transferred to Nemours, Inc	20,000	
		8,535	
3/12/29	5% stock dividend on common stockholdings	16,834	
		25,369	
3/18/29	Transferred to Florida National Bank, trustee, Alfred I. du Pont Trust	20,000	
		5,359	
1929	Other dispositions, probably gifts	2,000	
12/31/29	Balance	3,369	7.4806
1930	Other dispositions, probably gifts	1,200	
12/31/30	Balance	2,169	4.8102

The service record of Mr. Edward H. Batson with the Bureau of Internal Revenue is as follows:

Feby. 19, 1918, appointed as law clerk, income-tax unit, Bureau of Internal Revenue.

March 1919, designated as assistant to the assistant head of the claims division, income-tax unit.

May 1, 1920, designated head of the staff division, income-tax unit.

Nov. 1, 1920, designated assistant head, income-tax unit.

June 1, 1921, designated deputy commissioner, income-tax unit.

Feby. 5, 1922, appointed deputy commissioner in charge of the income-tax unit under Executive Order No. 3611, dated January 9, 1922.

Dec. 15, 1922, tendered his resignation effective January 15, 1923.

Jan. 16, 1923, resignation effective this date.

The service record of Mr. James G. Bright with the Bureau of Internal Revenue is as follows:

March 29, 1918, appointed an auditor, income-tax unit, Bureau of Internal Revenue.

Aug. 13, 1918, resigned.

Feby. 5, 1919, reinstated as an auditor.

June 1, 1919, designated section unit auditor in the audit and administration division, income-tax unit.

March 1, 1920, transferred to consolidated returns section of the technical division, income-tax unit.

March 7, 1921, designated chief of section, consolidated returns subdivision of the special audit division, income-tax unit.

Nov. 1, 1922, designated assistant chief of the consolidated returns subdivision, special audit division, income-tax unit.

Jany. 16, 1923, appointed assistant deputy commissioner, income-tax unit.

July 1, 1923, appointed deputy commissioner in charge of the income-tax unit.

Aug. 20, 1925, tendered his resignation effective September 30, 1925.

Sept. 30, 1925, resignation effective.

In the event further correspondence relative to this matter is necessary, kindly refer to IT:E:RRR-CWC.

Very truly yours,

T. J. Cooley,
Acting Secretary.

Honorable Gerald P. Nye,
Chairman Special Committee Investigating Munitions Industry,
United States Senate.

"Exhibit No. 1399" is the report of the secretary of the War Industries Board to the President, February 1919, and was ordered printed as a separate document, see text, p. 4316. (Printed as Committee Print No. 3.)

Exhibit No. 1399–A

War Department, Army Officers Serving as Administration Members

October 31, 1934.

DIVISION I

Name	Code
Lt. Col. C. T. Harris, War Department, Washington, D. C.	Cement.
Capt. Harry R. Lebkicker, Office of Asst. Secty. of War, War Department, Washington, D. C.	Feldspar, manganese industry.
Col. H. R. Smalley, War Department, Washington, D. C.	End grain strip, woodblock.

DIVISION II

Name	Code
Major M. K. Barroll, Room 1117, New Post Office Bldg., Ordnance Department, U. S. A., Chicago, Ill.	Rock crusher mfg., shovel, drag-line & crane.
Major W. L. Clay, 1014 Diamond Bank Bldg., Pittsburgh, Penn.	Plumbing fixtures.
Major W. H. Crom, War Department, Washington, D. C.	Machine tool & forging, special tool die & machine shop.
Capt. J. D. McIntyre, 250 Federal Bldg., Birmingham, Ala.	Cast iron soil pipe.
Major F. H. Miles, Jr., Ordnance Dept., Springfield, Mass.	Alloy casting, cylinder mould & dandy roll.
Major R. W. Pinger, 1524 Keith Bldg., Cleveland, Ohio (termination of assignment suggested to War Dept. No reply yet).	Malleable iron.
Lt. Col. H. K. Rutherford, 39 Whitehall Street, New York City, N. Y.	Newspaper printing press builders, printing equipment, wire rod & tube die.
Capt. Herman U. Wagner, War Department, Washington, D. C.	Cooking & heating appliances.

CHEMICAL DIVISION

Name	Code
Capt. Harry R. Lebkicker, Office of Asst. Secy. of War, War Department, Washington, D. C.	Hardwood distillation.
Major A. B. Quinton, Detroit District Ordnance Office, Detroit, Mich.	Salt producing.

MANUFACTURING DIVISION

Major W. L. Clay, 1014 Diamond Bank Bldg., Pittsburgh, Penn.	Forged tool mfg.
Major D. C. Cordiner, War Department, Washington, D. C.	Metal window.
Lt. Col. Carl C. Oakes, War Department, Washington, D. C.	Fabricated metal products.

CHEMICAL DIVISION (2)

Capt. Hubert B. Bramlet	Pyrotechnic mfg. (to be relieved), carbon dioxide.
Lt. Harry A. Kuhn	Oxy-acetylene, Furn. & floor wax.

DIVISION III

Capt. Fred A. McMahon	Wrecking & salvage.

List of officers of the Army who are now serving with other departments of the Government

Colonel James P. Barney, Field Artillery: C. C. C., Fort Knox, Kentucky, in command of the discharge and replacement camp.

Lieutenant Colonel Thomas E. Jensen, U. S. Army, retired: On duty with the Director of the Budget, Washington, D. C.

Major Philip B. Fleming, Corps of Engineers: Office of the Administrator, P. W. A.

Major Donald C. Hawley, Cavalry: C. C. C., Camp Dix, New Jersey.

Captain Thomas Kenney, Quartermaster Corps: C. C. C., Little Rock, Arkansas, District quartermaster.

Captain Joseph F. Battley, Chemical Warfare Service: Office of Administrator, N. R. A.

First Lieutenant Kilbourne Johnston, Infantry: Office of Administrator, N. R. A.

First Lieutenant Joseph K. Baker, Cavalry: C. C. C., Fort Oglethorpe, Georgia, Assistant Education and Welfare officer.

WAR DEPARTMENT, A. G. O.,
Officers Division, Dec. 8, 1934.

Appendix "C"

WAR DEPARTMENT,
Washington, December 15, 1934.

Memorandum for Mr. Martyn

In response to your inquiry of today I report that so far as is shown by the records of this office and so far as I personally know, there are no civilian officials of the War Department serving in any other Government department.

C. S. WEST,
Acting Chief, Civilian Personnel Division.

EXHIBIT NO. 1400

Excerpts from meeting of the WAR INDUSTRIES BOARD (ALSO JUDGE RITCHIE, MR. PERKINS) HELD TUESDAY, JUNE 25TH, 1918, 11:00 A. M. ROOM 909, C. N. D. BUILDING.

Explosives—Contract with the du Pont Company for 30,000,000 pounds of lyconite.—A memorandum dated June 11th, from the Procurement Division, was submitted, in which it was proposed to place an order with the du Pont Company for 30,000,000 pounds of lyconite. The Board disapproves the placing of this contract, so long as there is no provision made for a fair salvage value of the plant after the contract is completed; in other words, the Board is of the opinion that wherever the Government pays for a plant, all the salvage value of the same shall accrue to the Government after the contract or contracts are finished.

The meeting adjourned at 12:45 p. m.

(Signed) H. P. INGELS,
Secretary.

Exhibit No. 1401

[Gov. bus.—P. S. du Pont file]

August 31, 1917.

MEMORANDUM OF VISIT TO WASHINGTON, AUGUST 30, 1917

In response to telephone request from Mr. Baruch's office Colonel Buckner, Mr. Edge, W. S. Carpenter, Jr., Mr. Spruance, and the writer, met Mr. Baruch and Mr. Summers at about two o'clock. The following points were discussed:

Mr. Baruch first made the statement that a purchasing commission had now been appointed consisting of himself as chairman, Mr. Lovett, and Mr. Brookling, who would have full charge of the purchasing for the combined accounts of the Allies and the United States. He read us part of this contract and stated it had been signed by the ambassador's of the different countries and by the United States. He also made the statement that the purchase of all explosives had been put in the hands of Mr. Summers. Mr. Baruch then asked whether we would give him full information on the linter situation, stating to him what percentage of the linter crop we require, and also stated that he would like to take up the question as to whether the du Pont Company would assume the purchasing of linters for the Government and Allies, as well as ourselves. I stated to him that it would be best for him to either receive a letter from Mr. Connable on the subject or discuss the matter with Mr. Connable as he had full charge of the purchase of linters.

Nitrate.—The question was asked as to what supply of nitrate we had in this country and enroute at the present time, it being stated that the nitrate question was rather serious as the Shipping Board were contemplating commandeering some of our boats now in the nitrate trade as it was absolutely necessary to secure more boats for trans-Atlantic trade. Mr. Edge made a more or less complete statement in regard to this, stating that we had about 72,000 tons in this country at the present time, this including du Pont, Hercules, and Atlas. He also stated it was necessary for us to get into this country about 48,000 more tons before the end of the year and that it would be most serious to commandeer any of our boats. It was understood that the Purchasing Department would address to Mr. Baruch a letter advising him fully in regard to this in order that he may lay the question before the Shipping Board as a strong argument.

They also requested that we advise Mr. Summers the exact amount of nitrate we had in this country at the present time, and our guess as to what other people have in this country.

TNA.—The question of TNA was discussed at some length between Mr. Spruance Col. Buckner, and Mr. Summers, and it was understood that Col. Buckner would write to them a full statement of our position in regard to this matter.

TNT.—The TNT question was discussed as well as substitutes for TNT. Mr Summers made the statement that ammonia explosives were in great danger in this country as he had on his desk at that time enough orders from the Allies to take so much ammonia out of this country that there would not begin to be enough for the ordinary commercial explosives, or for any other use. He stated that the Government had recently purchased 6,000 tons from the Atlas Company, of nitrate of ammonia. It was interesting to note here that we were not even asked to bid on this, although I understand from Mr. Spruance that we could have filled the order and would have been glad to receive it. It is understood, in regard to TNT and other like explosives, that Col. Buckner and Mr. Spruance will write Washington on this subject and will make them a bid on additional amounts, it being understood we would have to build a plant for this and that they would pay amortization charges. They made a new statement in regard to this—that any plant which the Government amortized should belong to the Government after the war. This is a new phase in the question and one which it is going to be difficult to handle, but there seemed to be no argument to it.

Mr. Summers stated that the Navy have finally accepted TNT for torpedo heads and mines, it being still unsettled in the Government.

Mr. Summers turned over to Mr. W. S. Carpenter a report on the Consolidated Gas Company of New York, and it was understood we would go over this and determine whether we would be willing to arrange with the Consolidated Gas Co. so that they could turn out about 3,000,000 gallons of toluol per year for our account, and that we would, as soon as possible, make a proposition to the Government for supplying them with TNT made from this toluol or any other toluol which we were able to secure. It is understood Col. Buckner will make this proposition when the time comes.

EXHIBIT NO. 1402

Chart from page 221 of the report of the investigation of the Bureau of Internal Revenue, Senate Report No. 27, Sixty-ninth Congress, first session.

Refunds, credits, and abatements exceeding $250,000 through special assessment

[Sec. 210 of 1917 act; sec. 328 of 1918 act]

Name and address of taxpayer	Section	Total refunds, credits, and abatements
W. Beckers Analine & Chemical Works (Inc.), New York, N. Y	210	$446, 625. 19
Schoellkopf Analine & Chemical Works (Inc.), Buffalo, N. Y	210	1, 829, 141. 16
Jos. Joseph & Bros., Cincinnati, Ohio	210	348, 757. 02
T. A. Gillespie Co., 7 Dey Street, New York N. Y	328	600, 629. 74
Runyon Corporation, 7 Dey Street, New York, N. Y	328	526, 091. 69
International Shell & Ordnance Co., New York, N. Y	328	1, 819, 009. 54
International Loading Co., 7 Dey Street, New York, N. Y	328	1, 010, 919. 33
American Shell Co., 7 Dey Street, New York, N. Y	328	1, 943, 170. 25
Pickands Brown & Co., Chicago, Ill	328	456, 256. 39
Coca Cola Co., Plum Street and North Avenue, Atlanta, Ga	210	316, 453. 36
Rockford Mitten & Hoisery Co., Rockford, Ill	328	279, 713. 97
Mass & Waldstein Co., 92 William Street, New York, N. Y	210	462, 038. 34
J. F. Duthie & Co., Seattle, Wash	328	330, 385. 15
Atlas Crucible Steel Co., Dunkirk, N. Y	328	788, 334. 88
R. J. Reynolds Tobacco Co., Winston-Salem, N. C	328	1, 698, 265. 47
Four Wheel Drive Auto Co., Clintonville, Wis	210	348, 931. 60
Theta Oil Co., 76 West Monroe Street, Chicago, Ill	328	427, 615. 57
Hecla Mining Co., Wallace, Idaho	210	492, 915. 80
Allegheny Steel Co., Pittsburgh, Pa	328	556, 553. 59
United States Branch of Employers' Liability Assurance Corporation, Boston, Mass	328	325, 270. 72
H. W. Johns-Manville Co., Madison Avenue and Forty-first Street, New York	328	519, 000. 87
Neuss Hesslein & Co., New York, N. Y	210	421, 378. 13
Fulton Bag & Cotton Mills, Atlanta, Ga	210	352, 506. 86
Fellows Medical Manufacturing Co., New York, N. Y	210	280, 446. 88
Bessemer Coal & Coke Co., Pittsburgh, Pa	210	261, 153. 57
The Centaur Co., 250 Broadway, New York, N. Y	328	368, 063. 26
Whitaker-Glessner Co., Wheeling, W. Va	210	353, 033. 07
Four Wheel Drive Auto Co., Clintonville, Wis	328	241, 334. 31
Globe & Rutgers Fire Insurance Co., New York, N. Y	210	450, 011. 32
Atolia Mining Co., San Francisco, Calif	210	256, 018. 46
Latrobe Electric Steel Co., Latrobe, Pa	328	426, 047. 32
Curtis & Co. Manufacturing Co., St. Louis, Mo	328	278, 336. 38
E. J. Lavine & Co., Philadelphia, Pa	210	521, 825. 00
American Car & Foundry Co., 165 Broadway, New York, N. Y	328	5, 209, 204. 74
Cleveland & Western Coal Co., Cleveland, Ohio	210	457, 324. 44
Lindsay Light Co., 116 East Grand Avenue, Chicago, Ill. (fiscal year)	328 210	316, 890. 33
Youngstown Sheet & Tube Co., Youngstown, Ohio	210	3, 482, 610. 51
Northwest Steel Co., Portland, Oreg	210	923, 235. 81
Select Pictures Corporation, New York, N. Y	328	384, 475. 17
Carbon Steel Co., foot Thirty-second Street, Pittsburgh, Pa	328	559, 039. 14
New Jersey Worsted Spinning Co., Garfield, N. J. (fiscal year)	328 210	401, 577. 98
The Otis Steel Co., 1140 Leader News Building, Cleveland, Ohio	210	398, 629. 35
Jobbers Overall Co., Lynchburg, Va	328	331, 981. 62
J. B. Inderrieden Co., 332 River Street, Chicago, Ill	328	265, 373. 04
Bartlett-Hayward Corporation, Baltimore, Md	328	1, 443, 735. 21
Gans Steamship Lines, 12 Broadway, New York, N. Y	328	508, 285. 10
West Virginia Coal Co. of Missouri, St. Louis, Mo	328	402, 458. 00
Whitney Blake Co., New Haven, Conn	328	337, 332. 02
Electric Storage Battery Co., care of J. M. Haynes, attorney, Investment Building, Washington, D. C	328	640, 188. 12
Kokomo Steel & Wire Co., Kokomo, Ind	210	282, 426. 05
W. and A. Fletcher Co., Hoboken, N. J	328	388, 526. 84
J. C. Penney Co., 354 Fourth Avenue, New York, N. Y	210	469, 246. 88
Pittsburgh Steel Products Co., Pittsburgh, Pa	328	1, 830, 227. 55
Hartford Machine Screw Co., Hartford, Conn	210	914, 497. 97
Total		39, 686, 500. 00

Exhibit No. 1403

NOTICE OF PROTEST

To: Secretary of the Treasury, Commissioner of Internal Revenue, collector of internal revenue for the district of Maryland.

Sirs: The undersigned, in preparing its return required by section 13, part 2 of title 1 of an act entitled "An act to increase the revenue, and for other purposes", approved September 8th, 1916, and commonly known as the "income tax" on corporations, has included therein, as required by said act, its receipts, income and profits derived from the shipment of articles exported to foreign countries, and in submitting its return protests against the assessment of any tax thereon insofar as said tax is based upon that part of the income of the undersigned so derived, on the ground that such an assessment would be invalid and unlawful by virtue of section 9 of article 1 of the Constitution of the United States, which provides that "no tax or duty shall be laid on articles exported from any State."

Respectfully submitted.

E. I. du Pont de Nemours & Company
By Pierre S. du Pont, *President.*

Dated at Wilmington, Delaware, this twenty-seventh day of February 1917

Exhibit No. 1404

A summary of the expenditures, by classes, reported by the foreign governments specified as made in the United States between Apr. 6, 1917, and Nov. 1, 1920

[In millions of dollars]

	Total	Great Britain	France	Italy	Belgium	Russia	Other countries [1]
Expenditures:							
Munitions, including remounts	2, 493. 6	1, 330. 6	827. 2	259. 1	14. 1	58. 7	3. 9
Munitions for other governments	205. 5	205. 5					
Exchange and cotton purchases	2, 644. 8	1, 682. 4	806. 6	87. 6		53. 2	15. 0
Cereals	1, 422. 5	1, 375. 4		41. 8	5. 3		
Other foods	1, 629. 7	1, 169. 2	295. 2	141. 4	22. 2	1. 7	
Tobacco	145. 1	99. 2	40. 7		5. 2		
Other supplies	613. 1	215. 3	276. 6	63. 5	8. 4	49. 3	
Transportation	136. 1		32. 5	99. 9	1. 5	2. 2	
Shipping	173. 4	48. 9	122. 4	. 8		1. 3	
Reimbursements	1, 872. 9	19. 3	1, 045. 8	784. 0	23. 2	. 6	
Interest	730. 5	387. 8	268. 8	57. 6	11. 0	4. 1	1. 2
Maturities	648. 2	353. 5	289. 7			5. 0	
Relief	538. 2	16. 0	143. 1	16. 0	264. 5		98. 6
Silver	267. 9	261. 6	6. 3				
Food for northern Russia	7. 0	7. 0					
Purchases from neutrals	18. 7			18. 7			
Special credit against credits to be established for United States Government war purchases in Italy	25. 0			25. 0			
Miscellaneous	168. 6	47. 7	41. 3	56. 4	3. 1	3. 1	17. 0
Total reported expenditures	13, 740. 8	7, 219. 4	4, 196. 2	1, 651. 8	358. 5	179. 2	135. 7

[1] Cuba, Czechoslovakia, Greece, Liberia, Rumania, Yugoslavia.

EXHIBIT No. 1405

Chart from pages 176 to 183 from the report of the investigation of the Bureau of Internal Revenue, Senate Report No. 27, Sixty-ninth Congress, first session.

Summary of amortization allowances of $500,000 or over, as allowed by appraisal section up to April 30, 1925

[*S.E.P., Sound engineering principles. **"Solicitor's ruling", Ruling of Solicitor Hartson, published November, 1924, in the J. I. Case Threshing Machine Co. case]

Name of taxpayer	Classification of business	Original amount claimed	Final amount claimed	Amount finally allowed	Amortization allowed on property discarded or sold	Amortization allowed on reduced replacement cost
Air Reduction Co	Miscellaneous	$541, 839. 96	$1, 126, 658. 95	$887, 098. 95		$533, 623. 18
Alabama Dry Dock & Shipbuilding Co	Shipbuilding		540, 616. 67	508, 943. 41	$439, 543. 28	
Allan Wood Iron & Steel Co	Iron and steel	566, 185. 50	2, 817, 232. 05	2, 091, 893. 63	30, 995. 11	
Allegheny Steel Co	do	201, 375. 94	718, 701. 10	519, 970. 57	242, 323. 80	
Allis-Chalmers Manufacturing Co	Manufacturers of machinery	598, 908. 61	1, 573, 171. 59	1, 001, 438. 71	141, 641. 09	
Aluminum Co. of America	Aluminum manufacturers	6, 852. 697. 36	18, 268, 435. 82	15, 589, 614. 39		
American Clay Machinery Co	Munitions	670, 953. 65	1, 565, 936. 14	1, 365, 335. 65	1, 054, 373. 63	
American Locomotive Co	Machinery manufacturers	816, 488. 86	2, 834, 896. 14	1, 714, 403. 18	484, 709. 81	160, 670. 61
American Manufacturing Co	Miscellaneous	521, 191. 58	1, 448, 734. 54	751, 092. 77	688, 202. 43	62, 890. 34
American Rolling Mills Co	Iron and steel	201, 751. 13	2, 597, 982. 94	1, 537, 318. 18	67, 108. 14	
American Shell Co	Munitions	1, 202, 267. 67	864, 721. 77	864, 721. 77	657, 623. 59	
American Shipbuilding Co	Shipbuilding	8, 004, 114. 60	8, 737, 047. 58	3, 567, 509. 60	2, 659, 339. 92	
Ames Shipbuilding & Dry Dock Co	do	1, 703, 728. 07	1, 474, 778. 65	1, 018, 642. 72	1, 018, 642. 72	
Anaconda Copper Mining Co	Mining	538, 949. 26	6, 207, 932. 31	2, 744, 410. 77		
Acheson Graphite Co	Miscellaneous	394, 480. 46	699, 065. 89	577, 282. 88	577, 282. 88	
Atlantic Coast Co	Shipping	2, 182, 674. 65	2, 182, 674. 65	1, 136, 330. 80		1, 136, 330. 80
Atlantic & Pacific Steamship Co	do	1, 206, 487. 36	1, 206, 487. 36	1, 029, 223. 36		1, 029, 223. 36
Atlas Crucible Steel Co	Iron and steel	251, 803. 20	778, 440. 74	710, 793. 23	119, 634. 84	
Atlas Powder Co. and subsidiary (Richards & Co.)	Munitions	1, 748, 080. 30	1, 951, 275. 45	1, 882, 054. 67	1, 022, 138. 07	
Atlantic Refining Co	Oil	2, 820, 547. 23	6, 542, 743. 50	3, 165, 001. 67		2, 992, 853. 76
Babcock & Wilcox	Machinery manufacturers	4, 274, 215. 89	4, 274, 215. 89	2, 145, 625. 28	96, 553. 14	
Baldwin Locomotive Works	do	Not stated	4, 070, 630. 53	2, 990, 806. 64		
Baltimore Dry Dock & Shipbuilding Co	Shipbuilding	Not stated	3, 812, 306. 36	3, 384, 965. 86	3, 384, 965. 86	
Bartlett Haywood Co	Machinery manufacturers	1, 508, 819. 03	1, 459, 368. 34	1, 442, 056. 43	*697, 515. 27	
Bauer & Black	Miscellaneous	176, 822. 57	537, 726. 07	537, 726. 07	372. 331. 73	
Bausch & Lomb Optical Co	Scientific instruments	2, 493, 094. 31	2, 682, 539. 41	2, 377, 789. 21	1, 092, 588. 46	
Bethlehem Steel Co	Iron and steel		48, 008, 536. 73	22, 103, 942. 43	9, 822, 588. 58	10, 045, 243. 99
Bliss, E. W., Co	Machinery manufacturers	1, 731, 746. 97	1, 730, 746. 97	1, 243, 571. 09	96, 930. 69	
Brier Hill Steel Co	Iron and steel	3, 498, 676. 88	9, 293, 733. 28	6, 217, 973. 95	6, 217, 973. 95	
Brill, J. G., Co	Machinery manufacturers	Not stated	900, 788. 54	603, 182. 63	132, 631. 75	
Brown & Sharpe Manufacturing Co	Machine tools	1, 119, 357. 32	949, 858. 82	541, 325. 62		
Buda Co	Machinery manufacturers	280, 721. 77	955, 554. 50	668, 765. 27		
Camden Forge Co	Iron and steel	816, 536. 09	1, 434, 334. 74	1, 336, 829. 27	1, 268, 507. 95	
Carbon Steel Co	do	Not stated	1, 854, 089. 74	1, 191, 896. 24	1, 191, 896. 24	

Summary of amortization allowances of $500,000 or over, as allowed by appraisal section up to April 30, 1925—Continued

Name of taxpayer	Classification of business	Original amount claimed	Final amount claimed	Amount finally allowed	Amortization allowed on property discarded or sold	Amortization allowed on reduced replacement cost
Carib Steamship Co	Shipping	$669, 211. 05	$669, 211. 05	$664, 211. 05	$664, 211. 05	
Central Steel Co	Iron and steel	419, 284. 00	2, 121, 675. 23	1, 571, 391. 35	172, 171. 40	
Chile Copper Co	Mining	4, 313, 223. 24	4. 313, 223. 24	2, 844, 603. 07		$2, 844, 603. 07
China Mail Steamship Co. (Ltd.)	Shipping	Not stated	1, 530, 502. 50	1, 312, 861. 25		1, 312, 861. 25
Chino Copper Co	Mining	282, 165. 64	1, 628, 702. 34	1, 107, 086. 14	133, 416. 82	
Cleveland Cliffs Iron Co	do	900. 180. 44	4, 156, 210. 27	1, 860, 791. 06	506, 582. 80	303, 623. 21
Colorado Fuel & Iron Co	Iron and steel	4, 653, 560. 21	4, 653, 560. 21	2, 959, 432. 75		
Colts Patent Fire Arms Co	Munitions	2, 871, 036. 92	6, 734, 144. 25	3, 060, 109. 96	2, 405, 406. 01	
Columbia River Shipbuilding Corporation	Shipbuilding	1, 101, 717. 99	1, 101, 717. 99	938, 692. 92	938, 692. 92	
Crucible Steel Co	Iron and steel	659, 000. 00	10, 924, 025. 52	8, 912, 879. 00		
Cuban-American Sugar Co	Foodstuffs	Not stated	2, 742, 612. 86	1, 675, 703 39		
Cudahy Packing Co	Food products	215, 705. 99	501, 626. 71	500, 360. 13	113, 701. 29	
Diamond Alkali Co	Chemicals	586, 537. 71	1, 756, 453. 64	1, 344, 465. 15		
Dollar Steamship Co	Shipping	536, 999. 69	721, 958. 44	713, 080. 38		713, 080. 38
Doullut & Williams Shipbuilding Co. (Inc.)	Shipbuilding	Not stated	1, 371, 747. 67	1, 241, 720. 53	1, 241, 720. 53	
Downey Shipbuilding Co	do	1, 425, 948. 90	1, 425, 948. 90	1, 270, 991. 78	357, 967. 91	
E. I. Du Pont De Nemours & Co	Munitions	Not det.	17, 246, 224. 45	15, 369, 123. 55	15, 204. 780. 49	
J. F. Duthie & Co	Shipbuilding	1, 142, 615. 61	1, 142, 615. 61	707, 972. 78	707, 972. 78	
Edgewater Steel Co	Iron and steel	448, 304. 71	951, 848. 93	700, 817. 37	36, 525. 35	435, 759. 42
Eddystone Munitions Co	Munitions	1, 757, 350. 21	1, 595, 179. 37	1, 595, 179. 37	1, 595, 179. 37	
Erie Forge Co	Iron and steel	1, 265, 306. 08	1, 265, 306. 08	1, 132, 354. 33	360, 140. 13	
Evans Engineering Corporation	Munitions	812, 863. 73	812, 863. 73	512, 401. 85	512, 401. 85	
Federal Shipbuilding Co	Shipbuilding	6, 887, 854. 14	12, 084, 402. 34	10, 849, 786. 04	1, 958, 379. 78	(1)
W. & A. Fletcher Co	do	1, 456, 245. 56	1, 456, 245. 56	529, 574. 63		
Ford Motor Co	Auto manufacturers	4, 464, 277. 67	1, 863, 845. 88	1, 089. 072. 11	371, 264. 65	297, 640. 82
Firestone Tire Co	Tires and rubber		3, 950, 679. 61	2, 016, 194. 30	551, 210. 57	
General Chemical Co	Chemicals	1, 815, 598. 60	4, 092, 895. 45	3, 110, 102. 92	1, 713, 926. 01	
General Electric Co	Machinery manufacturers	9, 075, 180. 89	6, 508, 432. 85	3, 249, 367. 49	1, 391, 706. 58	670, 304. 39
Globe Shipbuilding Co	Shipbuilding	125, 945. 05	800, 705. 50	646, 850. 43	567, 238. 89	
Gorham Manufacturing Co	Munitions	521, 700. 60	614, 498. 40	594, 636. 72	505, 018. 31	
Grace, W. R. & Co	Shipping	437, 715. 00	3, 860, 539. 68	2, 158, 500. 60		1, 886, 140. 02
Great Lakes Engineering Co	Shipbuilding	Not stated	2, 142, 277. 21	1, 700, 712. 16	1, 700, 712. 16	
The Hamilton Furnace Co	Iron and steel	1, 128, 181. 16	1, 128, 181. 16	769, 904. 65		
Hanlon Dry Dock and S. Co	Shipbuilding	408, 833. 41	961, 382. 20	914, 934. 39	885, 999. 10	
Heppenstall Forge & Knife Co	Machinery manufacturers	679, 220. 68	955, 678. 23	899, 387. 44	279, 808. 53	
Hydraulic Press Steel Co	Iron and steel		3, 582, 924. 83	1, 854, 650. 05	1, 461, 894. 65	
Ingersoll Rand Co	Machinery manufacturers	254, 494. 50	2, 324, 323. 44	829, 320. 33	260, 192. 25	
International Harvester Co	do	1, 567, 811. 42	4, 300, 597. 99	3, 716, 284. 20		1, 586, 068. 92
Interstate Iron & Steel Co	Iron and steel	110, 977. 42	610, 919. 93	534, 878. 44	50, 643. 11	181, 017. 62
Jones & Laughlin Steel Co	do	10, 902, 580. 84	16, 479, 478. 12	7, 258, 499. 17	1, 501, 332. 84	4, 408. 32
Kerr Navigation Co	Shipping	Not stated	5, 498, 063. 12	4, 390, 115. 49	4, 390, 115. 49	
The Koppers Co	Iron and steel	4, 104, 338. 34	4, 104, 338. 34	2, 505, 923. 16	251, 790. 00	

La Belle Iron Works	do	600,000.00	2,517,143.76	1,088,092.52	77,947.83	
Lackawanna Steel Co	do	6,202,014.77	5,207,810.04	3,400,579.66	3,400,579.66	
Le Bond Machine Tool Co	Machine tools	413,858.45	678,603.51	629,514.75	47,789.27	39,605.54
Lincoln Motor Co	Auto manufacturers	4,819,645.81	4,819,645.81	6,648,915.69	6,048,915.69	
Long Beach Shipbuilding Co	Shipbuilding	1,526,958.57	1,526,958.57	1,465,334.87	1,465,334.87	
Los Angeles Shipbuilding & Dry Dock Co	do	1,203,718.50	4,646,268.54	2,915,922.70	2,915,922.70	
Luckenbach Steamship Co. (Inc.)	Shipping	613,026.44	4,194,627.16	2,017,060.62		2,017,060.62
Lukens Steel Co	Iron and steel	1,012,425.35	3,385,273.37	2,418,142.54		
McDougal-Dnluth Co	Shipbuilding	Not stated	2,875,920.86	2,763,880.44	2,763,880.44	
McKeesport Tin Plate Co	Iron and steel	811,121.12	1,134,865.33	691,423.71		
Mckinney Steel Co	do	1,102,858.78	1,200,286.08	1,185,859.15	14,427.93	
Manitowoc Shipbuilding Co	Shipbuilding	1,289,896.74	1,023,695.99	1,014,558.99	1,014,558.99	
Mattiessen & Hegler	Miscellaneous	287,081.48	969,159.73	832,355.37	687,682.16	47,823.61
Merchants Shipbuilding Co	Shipbuilding	Not stated	4,493,535.49	1,422,770.58	1,422,770.58	
Mesta Machine Co	Machinery manufacturers		1,296,930.30	854,845.86	230,539.00	
Midvale Steel & Ordnance Co	Iron and steel	5,018,661.00	10,289,558.18	9,330,440.16	9,330,440.16	
Moline Plow Co	Machinery manufacturers	157,466.42	934,905.42	928,816.58	56,804.31	493,336.01
Moore Shipbuilding Co	Shipbuilding	407,710.86	7,726,243.15	4,412,653.94	2,104,112.54	
Morgan Engr. & Canton Co. (steel foundry)	Machinery manufacturers	43,888.85	1,118,109.12	720,525.13	97,263.05	
Morse Dry Dock & Repair Co	Shipbuilding	2,253,327.64	2,675,259.20	1,684,024.06	532,607.23	
Munson Steamship Line	Shipping	546,965.90	1,072,130.84	927,668.08		927,668.08
National Acme Co	Machine tools	310,279.02	1,289,231.05	1,003,751.91	102,000.00	
National Aniline Chemical Co	Chemicals and dyes	550,567.38	10,788,867.06	9,912,740.08	8,258,989.43	1,653,750.65
National Malleable Casting Co	Iron and steel		1,111,764.59	988,235.19		
Newport Mining Co	Mining	1,211,000.09	3,452,013.41	1,185,270.33	521,517.69	
New York Air Brake Co	Machinery manufacturers	722,077.34	1,705,115.01	1,462,237.64	1,065,083.90	
New York Shipbuilding Corporation	Shipbuilding	1,885,436.83	4,262,336.69	3,584,295.80	1,968,539.39	
Nicholson File Co	Machine tools		678,281.26	678,281.26		
Niles Bement Pont Co	do		1,388,833.84	1,113,465.38		
Northwest Steel Co	Shipbuilding	815,762.46	815,762.46	615,762.46	615,762.46	
Norton Co	Abrasives		1,296,133.69	1,002,977.30	35,590.51	190,182.65
Ohmer Fare Rrgister Co	Munitions	831,747.90	597,942.68	539,313.83	530,708.90	
Ore Steamship Corporation	Shipping	Not stated.	1,534,952.74	1,466,389.53		
Oriental Navigation Co	do	349,286.25	827,443.77	710,883.00	710,883.00	
Pacific Coast Shipbuilding Co	Shipbuilders	1,299,884.34	2,233,879.53	1,097,950.50	561,988.07	
Pacific Coast Steel Co	Iron and steel	1,153,351.81	1,153,351.81	1,015,275.24	604,526.82	
Pacific Steamship Co	Shipping	440,000.00	1,423,917.12	645,264.07		
Pan American Petroleum Transportation Co	do	5,663,360.21	5,663,360.21	1,892,624.98		1,892,624.98
Pierce Oil Corporation	Oil	2,000,000.00	3,922,719.19	1,393,368.21	848,625.83	482,275.51
Pittsburgh Steel Products	Iron and steel	1,985,422.08	4,671,276.48	2,696,858.86	142,577.91	19,113.52
Pocohontas Fuel Co	Mining	1,270,248.86	1,539,763.33	854,218.02		246,922.70
Potters & Johnson Machine Co	Machine tools	492,527.27	502,156.33	502,156.33	410,725.68	
The Pressed Steel Car Co	Machine manufacturers	460,911.70	1,175,453.88	572,167.06	268,020.88	
Procter & Gamble	Soap		5,333,254.49	3,997,848.67	666,912.00	1,017,433.00
Pure Oil Co	Oil	809,792.50	809,792.50	788,559.59		788,559.59
Pusey & Jones Co	Shipbuilding	6,732,796.67	6,530,173.15	4,067,964.81	3,832,528.72	175,436.09
Quaker Oats Co	Food products	1,285,463.73	4,145,518.13	2,583,048.00		
Ray Consolidated Copper Co	Mining	259,219.07	1,283,341.78	919,310.77	158,604.34	390,472.49
Republic Iron & Steel Co	Iron and steel	5,453,302.49	5,148,798.61	3,341,998.73	174,918.51	
Roeblings Sons Co	do	1,435,611.09	1,435,611.09	1,182,725.80		
Seattle Northern Pacific Shipbuilding Corporation	Shipbuilding	1,828,664.65	1,828,664.65	1,828,664.65	1,828,664.65	
Sharon Steel Hoop Co	Iron and steel	3,630,932.24	3,629,154.55	736,999.72	29,313.65	697,973.85
Sherwin-Williams Co	Chemicals and dyes	802,081.85	802,081.85	591,244.37	218,645.05	

Summary of amortization allowances of $500,000 or over, as allowed by appraisal section up to April 30, 1925—Continued

Name of taxpayer	Classification of business	Original amount claimed	Final amount claimed	Amount finally allowed	Amortization allowed on property property discarded or sold	Amortization allowed on reduced replacement cost
Sinclair Oil & Refining Co	Oil	$2,014,403.74	$3,752,869.71	$2,236,512.20	$750,331.16	$1,486,181.04
Skinner & Eddy Corporation	Shipbuilding	4,752,108.62	4,752,108.62	4,442,978.09	4,442,978.09	
Solvay Process Co	Miscellaneous	1,797,414.00	2,551,495.87	909,869.24	135,075.47	
South Porto Rico Sugar Co	Foodstuffs	495,224.27	1,521,684.46	1,009,170.57		1,009,170.57
Southwestern Shipbuilding Co	Shipbuilding	195,840.71	2,004,215.40	1,563,262.62		
Sperry Flour Co	Foodstuffs	447,997.84	2,757,636.80	1,027,023.81		
Standard Oil Co. of Indiana	Oil	3,952,000.00	2,887,867.43	2,876,318.24	1,418,020.49	1,380,385.91
Standard Shipbuilding Corporation	Shipbuilding	1,015,788.79	2,365,117.13	2,365,117.13	2,365,117.13	
Standard Steel Works	Iron and steel	430,060.95	745,641.53	574,213.29		
The Stanley Works	Machine tools	790,440.10	790,440.10	715,305.01	556,362.65	
Steel & Tube Co. of America	Iron and steel	2,114,151.37	5,889,013.06	5,232,176.46	5,232,176.46	
Sun Oil Co. and allied companies	Oil	3,230,442.59	10,332,259.87	2,756,694.86	1,352.40	2,755,342.46
Swift & Co. (Libby, McNeil & Libby)	Foodstuffs	894,083.23	894,083.23	555,304.45		
Swift & Co	do		1,464,006.41	809,353.65	405,334.61	
Symington Machine Corporation	Munitions	696,578.25	696,578.25	696,578.25	696,578.25	
Standard Steel Car Co	Machinery manufacturers		3,071,451.14	3,039,763.34	142,959.10	
Saginaw Shipbuilding Co	Shipbuilding	1,239,757.72	1,239,757.72	1,234,763.13	1,234,763.13	
Standifer, G. M., Construction Co	do	2,939,918.79	2,990,397.46	2,665,215.13	2,665,215.13	
Terry Shipbuilding Co	do		1,417,939.89	1,340,531.49	1,340,531.49	
Timkin Roller Bearing Co	Machine tool	984,568.52	832,414.98	772,813.89	73,568.96	
Todd Shipyards	Shipbuilding	2,014,081.33	3,609,625.82	2,943,103.46	81,790.87	
Toledo Shipbuilding Co	do	669,525.92	669,525.92	863,192.62		
Union Carbide & Carbon Corporation	Carbon and carbide	3,628,598.67	8,947,339.74	6,561,752.09	244,796.08	
Union Construction Co	Shipbuilding	861,900.00	1,844,980.44	1,411,561.26	1,411,561.26	
Union Shipbuilding Co	do	1,581,731.26	1,581,731.26	1,333,163.96	691,493.15	
United Verde Extension Mining Co	Mining	4,127,142.40	4,072,303.03	3,322,648.92		
U. S. Steel Co	Iron and Steel	83,065,169.21	86,411,952.61	55,063,312.60	9,783,244.02	16,608,264.87
Utah Copper Co	Mining	4,855,691.69	5,232,820.69	2,783,636.89		13,490.36
Vacuum Oil Co	Oil	1,798,360.24	3,473,779.60	2,267,928.69	244,578.49	1,650,239.29
Weirton Steel Co	Iron and steel		2,974,033.76	1,988,553.50		1,372,426.74
Western Pipe & Steel Co	Shipbuilding	1,433,399.34	1,474,599.71	1,440,174.61	1,440,174.61	
Westinghouse Air Brake Co	Machinery manufacturers	702,820.81	2,403,968.71	1,471,369.24	83,569.27	
Westmoreland Coal Co	Mining	422,526.00	787,254.62	508,093.12	508,093.12	
Wheeling Steel & Iron Co	Iron and steel	813,475.36	1,135,184.09	718,406.16		
Whittaker Glessner Co	do	3,268,709.65	3,268,709.65	2,171,888.65	10,054.99	
Winnett Operating Co	Shipping	705,886.54	705,886.54	576,835.27	576,835.27	
Worthington Pump & Machinery Corp	Machinery manufacturers		2,127,929.64	1,900,293.78	176,233.93	
Youngstown Steel & Tube Co	Iron and steel	3,942,848.82	9,965,145.57	6,611,647.86	3,204,511.88	
The Texas Co	Oil	2,727,561.95	2,727,561.93	2,431,720.43	271,298.23	2,160,422.20
Total		331,527,046.18	635,934,923.16	425,921,945.92	172,625,445.74	65,712,505.79

Name of taxpayer	Amortization allowed on lowered value in use	Amount based on solicitor's ruling and on S. E. P.	Amount not based on solicitor's ruling	Amount not based on S. E. P. and not specifically condemned by solicitor's ruling	Closed under 1312	Outlawed	Inactive	Open
Air Reduction Co.	$353, 475. 16	$533, 623. 18		$353, 475. 46		$887, 098. 65		
Alabama Dry Dock & Shipbuilding Co.	69, 400. 13	439, 543, 28		69, 400. 13		508, 943. 41		
Allan Wood Iron & Steel Co.	2, 060, 898. 52	30, 995. 11		2, 060, 898. 52		2, 091, 893. 63		
Allegheny Steel Co.	277, 646. 77	242, 323. 80		277, 646. 77	$519, 970. 57			
Allis-Chalmers Manufacturing Co.	859, 797. 62	141, 641. 09		859, 797. 62				$1, 001, 438. 71
Aluminum Co. of America	15, 589, 614. 39	9, 151, 076. 23		6, 438, 538. 16				15, 589, 614. 39
American Clay Machinery Co.	310, 962. 02	1, 054, 373. 63	$310, 962. 02					1, 365, 335. 65
American Locomotive Co.	1, 069, 022. 76	645, 300. 42	1, 069, 022. 75					1, 714, 403. 18
American Manufacturing Co.		751, 092. 77						751, 092. 77
American Rolling Mills Co.	1, 470, 210. 09	67, 108. 14	1, 470, 210. 04					1, 537, 318. 18
American Shell Co.	207, 098. 18	657, 623. 59		207, 098. 18	864, 721. 77			
American Shipbuilding Co.	908, 169. 68	3, 567, 509. 60				3, 567, 509. 60		
Ames Shipbuilding & Dry Dock Co.		1, 018, 642. 72					$1, 018, 642. 72	
Anaconda Copper Mining Co.	2, 744, 410. 77		2, 744, 410. 77					2, 744, 410. 77
Acheson Graphite Co.		577, 202. 88				577, 282. 88		
Atlantic Coast Co.		992, 360. 95		143, 969. 85		1, 136, 330. 80		
Atlantic & Pacific Steamship Co.				1, 029, 223. 36		1, 029, 223. 36		
Atlas Crucible Steel Co.	591, 158. 39	119, 634. 84		591, 158. 39	710, 793. 23			
Atlas Powder Co. and subsidiary (Richards & Co.)	859, 916. 60	1, 022, 138. 07	859, 916. 60					1, 882, 054. 67
Atlantic Refining Co.	172, 147. 91	319, 741. 10		2, 845, 260. 57				3, 165, 001. 67
Babcock & Wilcox	2, 049, 072. 14	96, 553. 14	2, 049, 072. 14			2, 145, 625. 28		
Baldwin Locomotive Works	2, 990, 806. 64		2, 990, 806. 64					2, 990, 806. 64
Baltimore Dry Dock & Shipbuilding Co.		3, 384, 965. 86						3, 384, 965. 86
Bartlett Haywood Co.	744, 541. 16	697, 515. 27		744, 541. 16		1, 442, 056. 43		
Bauer & Black	165, 394. 34	122, 869. 47		414, 856. 60		537, 726. 07		
Bausch & Lomb Optical Co.	1, 285, 200. 75	1, 423, 789. 08		954, 000. 13				2, 377, 789. 21
Bethlehem Steel Co.	2, 236, 109. 86	14, 845, 210. 57		7, 258, 731. 86			22, 103, 942. 43	
Bliss, E. W., Co.	1, 146, 640. 40	336, 132. 34	558, 149. 88	349, 288. 87	1, 243, 571. 09			
Brier Hill Steel Co		6, 217, 973. 95				6, 217, 973. 95		
Brill, J. G., Co.	470, 550. 88	132, 631. 75	470, 550. 88			603, 182. 63		
Brown & Sharpe Manufacturing Co.	541, 325. 62		541, 325. 62					541, 325. 62
Buda Co	668, 765. 27		668, 765. 27					668, 765. 27
Camden Forge Co.	68, 321. 32	1, 268, 507. 95		68, 321. 32		1, 336, 829. 27		
Carbon Steel Co.		1, 191, 896. 24						1, 191, 896. 24
Carib Steamship Co.		664, 211. 05				664, 211. 05		
Central Steel Co.	1, 399, 219. 95	172, 171. 40	1, 399, 219. 95			1, 571, 391. 35		
Chile Copper Co.		2, 844, 603. 07						2, 844, 603. 07
China Mail Steamship Co. (Ltd.)		1, 312, 861. 25				1, 312, 861. 25		
Chino Copper Co.	673, 669. 32	433, 416. 82	673, 669. 32			1, 107, 086. 14		
Cleveland Cliffs Iron Co.	1, 050, 585. 05	810, 206. 01		1, 050, 585. 04				1, 860, 791. 06

Summary of amortization allowances of $500,000 or over, as allowed by appraisal section up to April 30, 1925—Continued

Name of taxpayer	Amortization allowed on lowered value in use	Amount based on solicitor's ruling and on S. E. P.	Amount not based on solicitor's ruling	Amount not based on S. E. P. and not specifically condemned by solicitor's ruling	Closed under 1312	Outlawed	Inactive	Open
Colorado Fuel & Iron Co	$2, 959, 432. 75	$365, 323. 75	$2, 591, 109. 00				$2, 959, 432. 75	
Colts Patent Fire Arms Co	654, 703. 95	2, 405, 406. 01	654, 703. 95				3, 060, 109. 96	
Columbia River Shipbuilding Corporation		938, 692. 92				$938, 692. 92		
Crucible Steel Co	8, 912, 879. 00		8, 912, 879. 00		$8, 912, 879. 00			
Cuban-American Sugar Co	1, 675, 703. 39			$1, 675, 703. 39				$1, 675, 703. 39
Cudahy Packing Co	386, 658. 84	113, 701. 29	38, 658. 84			500, 360. 13		
Diamond Alkali Co	1, 344, 645. 15		1, 344, 465. 15					1, 344, 465. 15
Dollar Steamship Co		713, 080. 38				713, 080. 38		
Doullut & Williams Shipbuilding Co. (Inc.)		1, 241, 720. 53					1, 241, 720. 53	
Downey Shipbuilding Co	913, 024. 17	1, 270, 991. 78						1, 270, 991. 78
E. I. du Pont De Nemours & Co	164, 343. 06	15, 204, 780. 49	164, 343. 06					15, 369, 123. 55
J. F. Duthie & Co		707, 972. 78			707, 972. 78			
Edgewater Steel Co	228, 532. 60	472, 284. 77		228, 532. 60		700, 817. 37		
Eddystone Munitions Co		1, 595, 179. 37				1, 595, 179. 37		
Erie Forge Co	772, 214. 20	360, 140. 13		772, 214. 20		1, 132, 354. 33		
Evans Engineering Corporation		512, 401. 85			512, 401. 85			
Federal Shipbuilding Co	8, 891, 406. 26	3, 374, 272. 13	7, 475, 513. 91			10, 849, 786. 04		
W. & A. Fletcher Co	529, 574. 63		529, 574. 63			529, 574. 63		
Ford Motor Co	420, 166. 64	668, 905. 47		420, 166. 44		1, 089, 072. 11		
Firestone Tire Co	1, 464, 983. 73	551, 210. 57	1, 464, 983. 73		2, 016, 194. 30			
General Chemical Co	1, 396, 176. 91	1, 713, 926. 01		1, 396, 176. 91				3, 110, 102. 92
General Electric Co	1, 187, 360. 52	2, 062, 006. 97	1, 187, 360. 52					3, 249, 367. 49
Globe Shipbuilding Co	79, 611. 54	646, 850. 43				646, 850. 43		
Gorham Manufacturing Co	89, 618. 41	594, 636. 72						594, 636. 72
Grace, W. R. & Co	272, 360. 58	1, 374, 816. 44		783, 684. 16				2, 158, 500. 60
Great Lakes Engineering Co		1, 700, 712. 16				1, 700, 712. 16		
The Hamilton Furnace Co	769, 904. 65		769, 904. 65					769, 904. 65
Hanlon Dry Dock and S. C. Co	28, 935. 29	885, 999. 10		28, 935. 29				914, 934. 39
Heppenstall Forge & Knife Co	619, 578. 91	279, 808. 53	619, 578. 91					899, 387. 44
Hyrdaulic Press Steel Co	392, 755. 40	1, 461, 894. 65		392, 755. 40				1, 854, 650. 05
Ingersoll Rand Co	569, 128. 08	260, 192. 25	569, 128. 08					829, 320. 33
International Harvester Co	2, 130, 215. 28	1, 586, 068. 92	2, 130, 215. 28		3, 716, 284. 20			
Interstate Iron & Steel Co	303, 217. 71	231, 660. 73	303, 217. 71			534, 878. 44		
Jones & Laughlin Steel Co	5, 752, 758. 01	1, 505, 741. 16	5, 752, 758. 01					7, 258, 499. 17
Kerr Navigation Co		4, 390, 115. 49				4, 390, 115. 49		
The Koppers Co	2, 254, 133. 16	251, 790. 00	2, 254, 133. 16					2, 503, 923. 16
La Belle Iron Works	1, 010, 144. 69	77, 947. 83	1, 010, 144. 69					1, 088, 092. 52
Lackawanna Steel Co		3, 400, 579. 66						3, 400, 579. 66
Le Bond Machine Tool Co	542, 119. 94	87, 394. 81	542, 119. 94		629, 514. 75			
Lincoln Motor Co		4, 819, 645. 81		1, 229, 269. 88		6, 048, 915. 69		

Long Beach Shipbuilding Co.		1, 465, 334. 87						1, 465, 334. 87
Los Angeles Shipbuilding & Dry Dock Co.		2, 604, 435. 64		311, 487. 06		2, 915, 922. 70		
Luckenbach Steamship Co. (Inc.)		1, 518, 060. 62		499, 000. 00				2, 017, 060. 62
Lukens Steel Co.	2, 418, 142. 54		2, 418, 142. 54					2, 418, 142. 54
McDougal-Duluth Co.		2, 763, 880. 44						2, 763, 880. 44
McKeesport Tin Plate Co.	691, 423. 71		691, 423. 71					691, 423. 71
McKinney Steel Co.	1, 171, 431. 22	14, 427. 93	1, 171, 431. 22				1, 185, 859. 15	
Manitowoc Shipbuilding Co.		1, 014, 558. 99						1, 014, 558. 99
Mattiessen & Hegler	96, 849. 60	735, 505. 77	96, 849. 60			832, 355. 37		
Merchants Shipbuilding Co.		1, 422, 770. 58						1, 422, 770. 58
Mesta Machine Co.	624, 306. 86	230, 539. 00		624, 306. 86			854, 845. 86	
Midvale Steel & Ordnance Co.		9, 330, 440. 16						9, 330, 440. 16
Moline Plow Co.	378, 676. 26	550, 140. 32		378, 676. 26		928, 816. 58		
Moore Shipbuilding Co.	2, 308, 541. 40	2, 104, 112. 54		2, 308, 541. 40				4, 412, 653. 94
Morgan Engr. & Canton Co. (steel foundry)	623, 262. 08	256, 900. 89	14, 401. 40	449, 222. 84				720, 525. 13
Morse Dry Dock & Repair Co.	1, 151, 416. 83	532, 607. 23		1, 151, 416. 83		1, 684, 024. 06		
Munson Steamship Line				927, 668. 08		927, 668. 08		
National Acme Co.	901, 751. 91	102, 000. 00		901, 751. 91				1, 003, 751. 91
National Aniline Chemical Co.				9, 912, 740. 08				9, 912, 740. 08
National Malleable Casting Co.	988, 235. 19		988, 235. 19					988, 235. 19
Newport Mining Co.	663, 752. 64	521, 517. 69		663, 752. 64				1, 185, 270. 33
New York Air Brake Co.	397, 153. 74	1, 065, 083. 90		397, 153. 74				1, 462, 237. 64
New York Shipbuilding Corporation	1, 615, 756. 41	1, 968, 539. 39		1, 615, 756. 41		3, 584, 295. 80		
Nicholson File Co.	678, 281. 26		678, 281. 26			678, 281. 26		
Niles Bement Pont Co.	1, 113, 465. 88		232, 421. 00	881, 044. 38		1, 113, 465. 38		
Northwest Steel Co.				615, 762. 46		615, 762. 46		
Norton Co.	777, 204. 14	225, 773. 16	777, 204. 14					1, 002, 977. 30
Ohmer Fare Register Co.	8, 604. 93	530, 708. 90		8, 604. 93				539, 313. 83
Ore Steamship Corporation	1, 466, 389. 53	1, 466, 389. 53						1, 466, 389. 53
Oriental Navigation Co.		710, 883. 00						710, 883. 00
Pacific Coast Shipbuilding Co.	535, 962. 43	362, 942. 38	80, 500. 00	654, 508. 12				1, 097, 950. 50
Pacific Coast Steel Co.	410, 748. 42	604, 526. 82		410, 748. 42				1, 015, 275. 24
Pacific Steamship Co.	645, 264. 07	645, 264. 07				645, 264. 07		
Pan American Petroleum Transportation Co.				1, 892, 624. 98				1, 892, 624. 98
Pierce Oil Corporation	62, 466. 87	44, 453. 86	1, 348, 914. 35			1, 393, 368. 21		
Pittsburgh Steel Products	2, 535, 167. 43	161, 691. 43	2, 535, 167. 43			2, 696, 858. 86		
Pocohontas Fuel Co.	607, 295. 32		607, 295. 32	246, 922. 70		854, 218. 02		
Potters & Johnson Machine Co.	91, 430. 65	410, 725. 68		91, 430. 65		502, 156. 33		
The Pressed Steel Car Co.	304, 146. 18	268, 020. 88		304, 146. 18				572, 167. 06
Procter & Gamble	2, 313, 503. 67	666, 912. 00	3, 330, 936. 67					3, 997, 848. 67
Pure Oil Co.				788, 559. 59				788, 559. 59
Pusey & Jones Co.		4, 007, 964. 81				4, 007, 964. 81		
Quaker Oats Co.	2, 583, 048. 00			2, 583, 048. 00		2, 583, 048. 00		
Ray Consolidated Copper Co.	370, 233. 95	158, 604. 34		760, 706. 43		919, 310. 77		
Republic Iron and Steel Co.	3, 167. 080. 22	174, 918. 51	3, 167, 080. 22					3, 341, 998. 73
Roeblings Sons Co.	1, 182, 725. 80		1, 182, 725. 80			1, 182, 725. 80		
Seattle Northern Pacific Shipbuilding Corporation		1, 828, 664. 65				1, 828, 664. 65		
Sharon Steel Hoop Co.	9, 712. 22	736, 999. 72				736, 999. 72		
Sherwin-Williams Co.	372, 599. 32	218, 645. 05	372, 599. 32					591, 244. 37
Sinclair Oil & Refining Co.		1, 476, 926. 76	759, 585. 44					2, 236, 512. 20
Skinner & Eddy Corporation		3, 027, 085. 74	1, 415, 892. 35			4, 442, 978. 09		
Solvay Process Co.	774, 793. 77	146, 703. 79	763, 165. 45			909, 869. 24		

Summary of amortization allowances of $500,000 or over, as allowed by appraisal section up to April 30, 1925—Continued

Name of taxpayer	Amortization allowed on lowered value in use	Amount based on solicitor's ruling and on S.E.P.	Amount not based on solicitor's ruling	Amount not based on S.E.P. and not specifically condemned by solicitor's ruling	Closed under 1312	Outlawed	Inactive	Open
South Porto Rico Sugar Co.				$1,009,170.57				$1,009,170.57
Southwestern Shipbuilding Co.	$1,563,262.62	$643,604.13		919,658.49		$1,563,262.62		
Sperry Flour Co.	1,027,023.81		$1,027,023.81					1,027,023.81
Standard Oil Co. of Indiana	77,911.84	2,349,135.56		527,182.68				2,876,318.24
Standard Shipbuilding Corporation		1,332,141.25		1,032,975.88		2,365,117.13		
Standard Steel Works	574,213.29		574,213.29					574,213.29
The Stanley Works	158,942.36	556,362.65		158,942.36		715,305.01		
Steel & Tube Co. of America		5,232,176.46						5,232,176.46
Sun Oil Co. and Allied companies		1,352.40		2,755,342.48				2,756,694.86
Swift & Co. (Libby, McNeil & Libby)	555,304.45			555,304.45				555,304.45
Swift & Co.	404,019.04	405,334.61	404,019.04					809,353.65
Symington Machine Corporation		696,578.25						696,578.25
Standard Steel Car Co.	2,896,804.24	142,959.10	2,896,804.24			3,039,763.34		
Saginaw Shipbuilding Co.		1,234,763.13				1,234,763.13		
Standifer, G. M., Construction Co.		1,842,991.13		822,224.00		2,665,215.13		
Terry Shipbuilding Co.		1,340,531.49				1,340,531.49		
Timken Roller Bearing Co.	699,244.93	73,568.96	699,244.93			772,813.89		
Todd Shipyards	2,861,312.59	81,790.87	2,861,312.59					2,943,103.46
Toledo Shipbuilding Co.	863,192.62	575,461.75		287,730.87	$863,192.62			
Union Carbide & Carbon Corporation	6,316,956.01	244,796.08	6,316,956.01			6,561,752.09		
Union Construction Co.		1,411,561.26						1,411,561.26
Union Shipbuilding Co.	641,670.81	691,493.15		641,670.81				1,333,163.96
United Verde Extension Mining Co.	3,322,648.92		3,322,648.92					3,322,648.92
U. S. Steel Co.	28,671,803.71	27,136,899.99	27,926,412.61					55,063,312.60
Utah Copper Co.	2,770,146.53	46,144.98	2,737,491.91					2,783,636.89
Vacuum Oil Co.	373,110.91	1,894,817.78	373,110.91					2,267,928.69
Weirton Steel Co.	616,126.76		616,126.76	1,372,426.74		1,988,553.50		
Western Pipe & Steel Co.		1,440,174.61				1,440,174.61		
Westinghouse Air Brake Co.	1,387,799.97	83,569.27	1,387,799.97					1,471,369.24
Westmoreland Coal Co.		508,093.12						508,093.12
Wheeling Steel & Iron Co.	718,406.16			718,406.16				718,406.16
Whitaker Glessner Co.	2,161,833.66	10,054.99	2,161,833.66					2,171,888.65
Winnett Operating Co.		576,835.27						576,835.27
Worthington Pump & Machinery Corp.	1,724,059.85	176,233.93		1,724,059.85	1,900,293.78			
Youngstown Steel & Tube Co.	3,407,135.98	3,204,511.88	3,407,135.98					6,611,647.86
The Texas Co.		131,572.92	2,300,192.51					2,431,720.43
Total	187,583,994.39	215,256,585.52	136,116,453.66	74,548,906.74	22,597,789.94	117,778,885.43	$32,424,563.40	253,120,717.15

Exhibit No. 1406

[BTM, 12/16/34]

Memorandum on Price Control as a Means of Eliminating War Profits

In the consideration of policies designed to "take the profit out of war", special prominence has been given to control of prices. The War Policies Commission gave the question first place among the measures which it takes up in its report.[1] It is discussed at some length in the industrial mobilization plan of the War and Navy Departments. The claim has been made that price control, in conjunction with certain other policies, would eliminate profiteering in the event of another war.[2]

In order to control prices, two fundamental tasks must be accomplished. What prices are to be set must be determined and some agency must see to it that the prices so fixed are properly administered.

I. THE DETERMINATION OF PRICES

A. The problem on paper

The Industrial Mobilization Plan recommends the fixing of "uniform per unit prices slightly above the 'bulk line' of cost". The term, "bulk line", came into usage in connection with the price-control efforts of the World War. In any given industry a number of different concerns contribute to the supply of most commodities. These concerns differ as to the efficiency with which they are operated and the advantages with which they are endowed and as a result their unit costs diverge considerably. Some fortunate producers have very low costs, while those of others are extremely high. But the bulk of the supply is produced at costs falling somewhere between these two extremes.

Thus, the cost conditions under which a majority of commodities are produced may be represented on graphs which resemble the one attached herewith. This charts costs in the beet-sugar industry during the season 1917–18. It was prepared by the Tariff Commission and placed at the disposal of the Food Administration to assist it in its war-time profit-control program.[3] The cost data here used are simply the actual money costs of production in the various concerns as determined by accountants.[4]

It will be seen that for about 85% of the production the costs increase gradually as more inefficient plants are needed to produce a given supply. Thus it would be possible to draw a line, AB, which would represent a cost covering the bulk of the output. Such a line would be the bulk line.

The Industrial Mobilization Plan enunciates as a further basis for price-fixing the principle that "just compensation must be allowed." [5] In this connection it should be pointed out first that "just compensation" is an extremely indefinite term. One interpretation of "just compensation" might be that return which the industry would have received had normal competitive conditions not been upset by the advent of the war. Under normal competitive conditions there is no guarantee that all concerns will maintain intact and get back the capital which they have invested. Indeed, all experience would indicate that the forces of competition will compel a certain number of high-cost producers either to reorganize and write down the value of their assets or to liquidate entirely and go out of business. In either case they will have lost some or all of their capital.

If the price fixed includes an allowance for depreciation, it may put those concerns whose costs fall above the price line CD out of business, but those whose costs come below that line need not question the safety of their capital. This is not the case under competitive conditions. Then a few marginal concerns who fall just under the price line will be operating without getting their capital back. Including depreciation charges results in a higher price for a given volume of production than would otherwise be necessary. If just compensation is viewed as that return which would duplicate normal competitive conditions, the net effect of including depreciation as cost is to guarantee a return which is more than just.

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[1] Documents by War Policies Com. H. D. No. 271, p. 9.

[2] Ibid. p. 11.

[3] Taussig, F. W., "Price Fixing as Seen by a Price-Fixer."

[4] Ibed., p. 223.

[5] Industrial Mobilization Plan, p. 65.

The Industrial Mobilization Plan goes on to set forth several bases which may be used by the price-fixing body always within the limitation of providing just compensation.[6]

1. "Actual cost of production plus a reasonable return on capital investment." The plan says of this criterion that difficulties in the determination of capitalization restrict its use severely. The present value of capital invested in machinery, buildings, land, etc., i. e., capitalization, is dependent upon income which in turn is greatly affected by prices. To use capitalization as a basis for fixing prices is to depart radically from the processes of normal competition.

2. "Prevailing market prices." There is no guarantee that this method will both ensure the necessary war production and prevent huge war profits. On one hand it is quite possible that to fix the prevailing market prices for some commodities would give a price line EF. This would obviously fall short of meeting war needs. On the other hand, a market price GH is quite likely as war approaches, in which case price fixing would result in tremendous war profits. There is no guarantee that price fixing on the basis of market conditions will result in an offsetting of the vast dislocations, inevitable in war time, of such a character that profits will be kept in check and production maintained at the required level.

3. "The cost of producing the last unit of the indispensable amount of the commodity required by the war program." On such a basis, the price fixed would be no different from that which would result from the abnormal competitive conditions engendered by the war. For those commodities required in great quantities it would be something like the line GH and for almost every commodity there would be a sizeable area above the cost curve. Such a plan would invariably permit huge profits.

4. "Profits earned by the industry of the commercial activity concerned over a pre-war period to be specified by the committee." Even under this sort of control, low-cost producers would reap large profits. The chief difficulty would be that in a number of commodities, such as steel, war requires all producers. Many high-cost producers would be shut out under the above plan. The number would be even greater if, as is the case in some industries, the cost curve started to rise sharply at F rather than at B. Under these circumstances a price which would give only the equivalent of a pre-war return would not call forth the required volume and would not encourage the required plan expansion. It would be possible to subsidize those producers above the price line by giving them different prices graded in accordance with their varying costs. This involves administrative complications which may be the reason why the plan dismisses a graded scale of prices as unsatisfactory.[7]

A further complication raised by the flat price, fixed to ensure pre-war profits, results from the necessity of limiting civilian demand in wartime. While the Government takes a much larger proportion of the supply than it does in peacetime, there is still considerable civilian purchasing of almost all products. This was the case in the last war. Some way must be employed to reduce civilian demand so that Government requirements may be satisfied.[8] This aim may be met in part by methods such as the Food Administration used to reduce consumption of scarce foods. If normal civilian consumption is MI and normal Government consumption is IJ, war propaganda may cut down civilian use to K but Government needs may demand that it be reduced to L.[9]

In the last war this problem was never squarely faced. Dr. Frank Taussig, a member of the price-fixing committee of the War Industries Board, says: "In the main the course of action by that committee was comparatively simple: A maximum price the same for public purchases as for private, the Government taking all it wanted and the general public scrambling to buy at the maximum price whatever it could get." [10] This method of procedure is open to serious objection, especially if intended for use in a long-drawn-out conflict. It entails an inequitable distribution to private citizens since the total civilian supply goes to those who are fortunate enough to buy first while the rest go unsatisfied. It creates a tremendous incentive to supply this importunate private demand at additional compensation acquired in some underhand method. The degree of facility with which such bootlegging may be carried on will be considered later. Should it develop to any considerable extent, the Government would find it increasingly difficult to place its orders at the fixed price. Such a situation might well become serious.

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[6] Industrial mobilization plan, pp. 65 and 66.

[7] Industrial Mobilization Plan, p. 65.

[8] Taussig, po. cit., p. 213.

[9] This manner of speaking is for the purposes of clear presentation. It does not mean that the Government demand must be filled by the plants falling between I and J.

[10] Taussig, op. cit., p. 216.

It might be prevented in several ways. The goal of permitting only pre-war profits might be abandoned and a price fixed high enough to shut off a portion of the private demand. Or some sort of rationing scheme might be adopted. Because of administrative considerations, this might require having the Government take over the entire output at a fair price and reselling to the public at a higher price.

B. The problem in practice

When the field of activity is transferred from the study to the political and economic arena the problems are multiplied. By a study of the three major steps in price fixing with particular reference to the experience of the World War, it should be possible to get a fairly accurate picture of the probabilities of the future.

1. DETERMINATION OF COST

A first essential of any program of price fixing designed to prevent undue profits is an accurate knowledge of the actual cost conditions under which commodities are produced. Yet this information is extremely difficult to obtain. In the first place it is not past costs but future costs that are required. The prices are fixed to apply to a period in the future and in order to be comparable, the costs must be a forecast of conditions during the same period. However, costs are never the same. Dr. Taussig writes in a memorandum to the Price Fixing Committee: "In the first place, costs are not clearly ascertainable. They vary from month to month, from year to year. We get figures from cost accountants which are worked out to the last cent, but which as a matter of fact, contain arbitrary and debatable elements." [11] This means that figures on past costs must be revised and this revision is bound to be an uncertain process. Mr. Robert Brookings, chairman of the Price Fixing Committee, stated at one of his meetings, "We have gone into that very exhaustively and as I have explained to you, we have had the cost sheets for the month of March; that is the latest month we could get; we never can bring figures much closer than sixty days to a meeting of this kind if we get relaible figures;" [12]

Such a gap is even more serious in war time when all economic conditions are in a particularly disturbed and fluid state. It means that in almost every case the price-fixing body must make generous upward revisions in its cost data to cover possible increases. Mr. Brookings stated at a meeting called to fix the price of aluminum, "We felt after hearing all Mr. Davis (president of the Aluminum Company of America) had to say about it, and taking into consideration the probable increase as raises (sic) were going up, and we fixed the price at 32 cents.[13] Since the costs of the Aluminum Company, practically the only producer, were 17½ cents a pound by their own statement [14] and 15¼ cents according to the Federal Trade Commission,[15] this price of 32 cents a pound was designed to cover any probable increases in costs to say the least.

A further complication in getting accurate cost information arises from the fact that due to the importance of overhead or fixed costs in modern industry, there is a tendency for unit costs to decrease as volume rises and overhead is spread over more units. There is no instance on record where prices were reduced by the price-fixing committee due to this factor. That it was operative was pointed out to them by a representative of the small producers of cooper who said, "The trouble is with these low-cost producers that their expenses have been overtaken much faster than the other producers of copper. The Anaconda have been able to make such tremendous profits by spending so much money, and the nature of their mines is such that have made savings there that have practically come up to the increased costs in many of their departments." [16] Mr. Kelly, president of the Anaconda Copper Company, and present at the meeting, let this statement go unchallenged. Many firms are able to produce at capacity during a war period. This means that they are able to take advantage of all the tendencies toward lower costs which such large production affords. If the prices which they get for their products are based on cost figures compiled during a period of slack production when such economies were not operative, large windfall profits are bound to ensue.

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[11] Garrett, P. W., Government Control Over Prices, p. 385.
[12] Minutes of Price Fixing Committee, May 22, 1918, p. 4.
[13] Ibid., May 9, 1918.
[14] Ibid., Jan. 9. 1918.
[15] Ibid, May 9, 1918.
[16] Ibid., May 22, 1918.

The difficulty of determining costs is enhanced by reason of the necessary dependence of the cost finding body on the cooperation of industry. Even when data are gathered through the medium of an independent body like the Federal Trade Commission, the need for industrial cooperation is still apparent. The Commission must get the costs from the books of the companies in some way. The legislation proposed by the War Department does not contain any provision giving the Government access to industry's books and records.[17] Reliance on industry for this information was an announced policy in the last war and is continued in the plans for the next. Mr. Brookings stated it. General MacArthur, in his statement before the War Policies Commission, stressed the importance of a "maximum use" of the war-service committees with their "detailed data as to price factors and trade conditions."[18]

The efforts of the War Industries Board to fix the prices of cotton textiles are in point. The Board met and fixed a price but, according to "Government Control Over Prices" (Garrett, P. W.), "there was a decided absence of cost data. Several requests had been made for such data, but the representatives of the industry claimed that the time required for their collection and compilation would be too long to make them available for immediate use."[19] When price revision was considered, "The same lack of cost information held up negotiations. Indeed, 'the failure of a large number of cotton mills to submit their cost sheets' resulted in the postponing of any revision until November 16." [20] When cost data finally were obtained, the price-fixing committee found that under the prevailing price a profit considerably larger than 25% on plant investment was being made.[21]

Again, in the case of sole and belting leather: "It was not until the middle of July 1918 that the question of sole leather prices was taken into consideration by the price-fixing committee and even then, because of lack of sufficient cost data, no definite action was taken." [22] In addition, it is clear that any attempt adequately to check costs by examination of the books of a large number of companies is a herculean task, especially when it must be done in the haste required by war-time conditions.

Even when the data are furnished by industry, the complexities of cost determination make their validity doubtful. The following discussion at the copper meeting on making out cost sheets is illuminating:

"Mr. Bancroft. I filled in our figures there. Our conditions at the Lake are different in figuring the profits. On the forms they sent to me, I would work them one way and the next day I would shift it some other way. My final result would be the same, but I couldn't help but feel that they should have a different form for the making out of those cost sheets for the Lake companies. I believe our work is different, I think we should spread it out. In your final figures they ask for the labor, supplies, and overhead, that brings it down to three items. I don't know whether they want to separate and get the exact labor costs, the exact supply costs and the true overhead. Now of course in my figures, I have thrown any amount into that overhead that is really not truly overhead; it should go into the rest of the figures in some other place. It is all there but I know their figures aren't right and I don't like to give anyone a set of figures that isn't right.

"Mr. Brookings. If you submit that in writing to the Federal Trade Commission, they want to get all of the information that they can. They want to get the absolute facts. They don't intend to give us anything, this is the figures according to the books of the company. If you gentlemen wish to change it, when they don't take those figures off themselves, I suppose the blank form they ask you to fill out is in the usual way of dividing or subdividing the accounts.

"Mr. Bancroft. They don't know why to report certain items. One man will say to put it in one place and another in another place. I don't think they are correct. It all depends upon what figures are essential and what they should get." [23]

Even when adequate information is at hand, there arises the problem of detailed familiarity with such information on the part of the Government representatives. According to Government Control Over Prices: "Neither the price-fixing committee nor the Food Administration to any extent availed themselves of a detached scientific committee whose business it was to analyze for them and interpret the cost sheets prepared by the Federal Trade Commission." [24] This resulted in a tendency to permit the representatives of industry, who were, of course, thoroughly familiar with their own figures, to substitute their own information. Their figures almost invariably showed higher costs. Furthermore, no committee of experts can be as familiar with the details of an industry as those permanently engaged in the industry.

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[17] Plan, p. 87, sec. 7.

[18] H. D. No. 163, 72d Cong. 1st sess., p. 372.

[19] Garret, op. cit., p. 299.

[20] Ibid., p. 301.

[21] Ibid., p. 302.

[22] Ibid., p. 322.

[23] Ex. D., p. 15.

The War Industries Board says, "The result of its (the Board's) action in fixing prices in any case should be considered in the light of the circumstances under which and the purposes for which it acts—getting within the time required an adequate supply of war materials which the Government needs, and the price question, though always important, is after all not the first consideration, and there should always be considered the fact, as illustrated by its action with respect to steel prices, that it uses a very broad business judgment in a great emergency without regard to strictly Federal Trade Commission reports or other cost data."[25] The reference to steel prices concerns the Board's action in fixing a price for steel considerably higher than could be justified on the basis of the Federal Trade Commission's cost figures.

Such a procedure, combined with lack of complete familiarity with the details of industry, makes effective limitation of profits a technical impossibility. When the fixing of tanning prices was considered, the Federal Trade Commission figures indicated that average tanning costs were 12 cents. Figures were presented by the industry showing costs of 13.5 cents. The prices suggested by the tanners were those which the committee fixed.[26]

One of the most difficult cost problems is that of determining what items should be included and how large they should be. Such matters as wages make little trouble, but the number of border-line items is large. There was no definite or consistent policy followed by the price-fixing agencies in existence during the World War as to what constituted allowable costs.[27] They met and disposed of each problem as they were confronted with it.

The difficulties raised by including depreciation as a part of cost have already been touched upon. These same difficulties are applicable to the item of depletion of capital values caused by the using up of natural resources in such industries as oil and copper. Mr. Brookings stated the policy of the committee on both these points at a meeting with the copper industry. His words were, "I wish to say that when we have a cost that leaves out depletion and depreciation, we recognize both depletion and depreciation as an adequate part of cost.[28] At this same meeting he made a remark showing the difficulty of getting definite figures on depletion. He said: "We have here before us the production of all these properties. To show you the amount of detail when we gather eight or nine hundred producers that are producing (sic) fifty million, it won't look as queer. We have found difficulty in some of these costs. We have had cost sheets presented to us of twenty-three, twenty-four, twenty-five, or twenty-six cents, whatever the case may be, and when we have analyzed them, we have reduced them to nineteen cents or something like that. They have put in other things that are their views as to depletion. My own experience teaches me that the average man is as honest as I am; I try to be honest; that is all I say. There are different methods of accounting, different methods of arriving at these things. When we change a cost, we generally do it with the consent or acknowledgment of the party; that is fair." [29] Depreciation and depletion are largely matters of someone's "views", and in most cases, either because of a necessity to avoid arbitrariness in order to assure the needed cooperation of industry or because of the committee's physical inability to cope with its huge task, the views adopted were those of the industry.

Another question which plagued the committee was the contention by the industrialists that in addition to ordinary depreciation, there should be included in cost, allowance for amortizing the investment in plant due to war expansion. On May 9, 1918, the committee increased the price of aluminum from 32 to 33 cents a pound in response to this plea.[30] They seem to have been sympathetic to it at all times. The basis for this attitude was the argument that such expansion is made at high war prices and that the post-war drop in both prices and demand will cause the companies to sustain large losses, sometimes amounting to the total investment.

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[24] Ibid., p. 179.

[25] War Industries Board Minutes, Mar. 4, 1918, p. 11.

[26] Garrett, op. cit., p. 322.

[27] Ibid, p. 280.

[28] Ex. D., p. 14.

[29] Ex. D., p. 26.

[30] Garrett, op. cit., p. 286.

It has been pointed out in the case of the du Pont Company that war plants are far from being total losses after the war is over. Judge Gary did not seem too reluctant to build them when he said to the price-fixing committee, "There are members of this committee who are apprehensive in regard to future deliveries of steel. It is part of their duty to be sufficiently apprehensive so as to secure the fullest efforts on the part of steel producers. I believe the Government is going to have supplies, and if at any time there is any doubt in regard to that, I hope the large producers will be notified and given an opportunity to increase capacity for the purpose perhaps of making money, and for the purpose of doing exactly what you have urged us to do, what Mr. Baruch and others have said when they have urged us to do what was necessary." [31] The effects of including amortization of war facilities as a part of cost is that the Government sets a price which causes the public to pay for these plants. But the public does not get what it pays for. At the end of the war, the plants still belong to the companies and, for whatever they are worth, constitute a gift from the Government.

Instead of paying for expensive wartime expansion which will have to be scrapped later, the Government might pursue a policy of substituting for such expansion, insofar as possible more intensive exploitation of existing equipment. This would produce higher costs but they would not be nearly so high as those resulting from the other method.

In many instances the industrialists urged upon the waritme agencies the inclusion of taxes as a part of cost. The following discussion occurred at a copper meeting

"Mr. BROOKINGS. I would like to ask just one question. You have given the costs of last year of North Butte production at 20.36.

"Mr. COTTON. Yes; that is as we construe it.

"Mr. BROOKINGS. What did you publish it to the public?

"Mr. COTTON. I am not in a position to say whether it included depletion or not.

"Mr. BROOKINGS. Your figures are very much lower than published by your company.

"Mr. COTTON. I am not sure whether we included a depletion or taxes which should be included.

"Mr. TAUSSIG. You include excess profits tax?

"Mr. COTTON. We had no excess profits, we had income-tax profits. When you get to the question of cost-price fixing, in order to arrive at what is the real cost to you or else you will deceive yourself, you have to figure depletion, taxes, and elements of that kind." [32]

The committee fixed the price of cotton textiles on June 21, 1918. It then had data which showed profits of 25 to 30 percent. According to Government Control of Prices, "Several representatives of the cotton industry justified such profits on the basis of the tax situation."[33] The same document says, "In contrast with the methods of price-fixing for commodities other than food, the following clause in the Food Administration regulations for canners is of interest: 'Cost shall not include income and excess profits taxes * * *'" [34] It is anomalous to have a tax program intended to take the profits out of war used as an excuse for fixing prices high enough to enable those profits to be made and retained.

A further source of difficulty was found in intercompany or interdepartment profits. Most large concerns, such as United States Steel or the Aluminum Co. of America, are highly integrated. They generally carry on the various processes required for the production of their product through the medium of subsidiary corporations or separate departments. If, in transferring goods from one subsidiary to another, a profit is made, this profit should appear as a profit in the consolidated statement of the parent company. It is obviously very easy to permit such an item to appear as a cost rather than a profit and very difficult to check up on this sort of practice. The following item appears in the minutes of a meeting of the price-fixing committee that occurred less than a month before the end of the war: "Rails: The chairman announced that contrary to his previous understanding, he had discovered that the United States Steel Corporation's cost figures on rails are not strictly integrated, and that there is about a $5 per ton intercompany profit, a part of which might possibly be charged to transportation."[35] The following conversation occurred at the meeting which raised the price of aluminum to 33 cents:

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[31] Ex. E., Minutes of Price Fixing Com., Mar. 21, 1918, p. 44.
[32] Ex. D., p. 7.
[33] Garrett, op. cit., p. 299.
[34] Ibid., p. 116.
[35] Minutes of price-fixing committee, Oct. 21, 1918, p. 1.

"Mr. Taussig. What is the reportion (sic) of your consumption of bauxite as compared with the others?

"Mr. Davis. I suppose we use perhaps 66⅔% of the total consumption of the country; we produce practically all there is produced in this country.

"Mr. Wooster. You fixed the price on it? Do you say it is selling at $10.00 a ton, that is your price, and you practically make the price on bauxite throughout the United States?

"Mr. Davis. That never has been the case, because the French people have always fixed the price on bauxite.

"Mr. Wooster. What is the duty?

"Mr. Taussig. It is free.

"Mr. Brookings. That same question came up before and we simply sidetracked it and said, we are treating your investment and capital as one, and your return on your capital, and to be consistent, inasmuch as you had fixed the price under which bauxite is sold, we must take the cost to you, and the cost to you is what we have given you credit for.

"Mr. Davis. Our contention in that is a little different, I think, from what you put it. As a matter of fact, 25 or 30 years ago, we having practically invented the use of bauxite for aluminum, bauxite was nothing but dust with no value, but we went to our concern, and of course we did not realize how large this industry was going to grow and we bought for two or three hundred thousand dollars some bauxite land. We have spent nearly $2,000,000 for bauxite, within the last two years, in cash. My point, is Mr. Brookings, that because we were fortunate enough to buy this bauxite 30 years ago at a cheap price that anybody should say that aluminum can be made with bauxite at 25 cents a ton, for it could not, unless somebody should take our place.

"Mr. Wooster. The fact is that it is made for that. It costs you $0.50, I think." [36]

A raw material which actually costs $0.50 a ton is set down on the company's books at $10.00 a ton.

Mr. Colver further elaborates on this practice in a memorandum written for the price-fixing committee:

"In the first place, the Steel Corporation, through its control of a large part of the railroad transportation at the head of the Lakes, was able to levy a toll on the bulk of the iron ore produced in the country. Just as in the case of anthracite coal, in which a plan was worked out where the profit in anthracite coal lay in many cases not in mining but in its transportation to market, so in the case of iron ore, the mining of the ore itself was often relatively unprofitable, while the transportation of the ore by rail was made to yield enormous profit. The anthracite railroads owned a great many of the anthracite mines; they often mined practically at a loss, transporting the coal at an enormous profit, and competitors were compelled to mine at the lowest possible margin and all the natural profits were absorbed by the transportation companies as freight." [37]

In some cases there is actual padding of costs. The Federal Trade Commission describes this practice as follows:

"In cases where the Government fixes a definite margin of profit above costs, as in the case of flour, there is a considerable incentive to a fictitious enhancement of costs through account juggling. This has added to the volume of unusual profits. Increase of cost showing on the producers' books can be accomplished in various ways. The item of depreciation can be padded. Officers' salaries can be increased. Interest on investment can be included in cost. New construction can be recorded as repairs. Fictitious valuations on raw material can be added, and inventories can be manipulated."

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"Payment of extraordinary salaries and in some instances bonuses to executives of corporations have been found by the Commission during its investigations. An illuminating example of high remuneration charged to the expense account is that given by the American Metal Co. (Ltd.), of New York, the chief dealings of which are in zinc. Appended are the salaries and tantieme (French—an interest, commission, or proportional amount) of some of the chief officials: [38]

B. Hochschild, chairman of board of directors	$179, 663. 36
C. M. Loeb, president	364, 326. 73
Otto Sussman, vice president	221, 596. 04
J. Loeb, vice president	147, 930. 69
Sol Roos, manager St. Louis office	148, 530. 69
M. Schott, manager Denver office	136, 553. 12

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[36] Ibid, May 9, 1918.

[37] Garrett, op. cit., p. 392.

[38] Senate Doc. No. 248, 65th Cong., 2d Sess., p. 7.

Mr. Sussman attended the meeting of the price-fixing committee with the copper industry on May 22, 1918, and participated in determining a price for copper.[39] The task of searching through the accounts of many companies for hidden profits is enormous

In reporting to Mr. McAdoo, Director General of Railroads, on his interview with the price-fixing committee, Mr. Walker D. Hines says: "They (the committe members) pointed out that the average cost was about $47 per ton; that the average profit of steel producers on steel rail prior to the war had for many years been as much as $8 per ton; and that under war conditions it could not be expected that any profit would be regarded as reasonable which did not equal the pre-war profit, plus some allowance, from $2 to $4 per ton additional investment at the present time."[40] It has already been indicated that this cost of $47 per ton included an intercompany profit of $5.[41] Mr. John S. Williams of the Treasury Department writing to the Director General on the annual report of the U. S. Steel Corporation for 1918 says, "* * * *. It should be noticed that there have been included in operating expenses, the sum of $96,675,000 expended during the year 1918 for maintenance and repairs; but attention is called to the fact that the company was carrying on its books, to the credit of depreciation and extraordinary replacement funds on December 1, 1918, the impressive sum of $191,281,000. (The annual report does not make it entirely clear exactly how this fund is being handled but the inference is that this represents the accumulation of charges for depreciation and extraordinary replacements in excess of the actual expenditures for this purpose.)"[42] So the prices of $55 per ton for Bessemer rails and $57 for open hearth rails finally fixed by the committee must have been based upon a very liberal interpretation of cost.[43]

2. "JUST COMPENSATION"

The next step in fixing prices after determination of cost is to decide what margin of profit above cost should be received. The industrial mobilization plan states that "just compensation" must be allowed. Mr. Hoover said during the war, "I do not believe that any person in the United States has a right to make 1 cent more profit out of any employment than he would have made under pre-war conditions. I do not care whether this refers to the farmer, to the laborer, to the manufacturer, to the middleman, or to the retailer."[44]

There is abundant evidence to show that the price-fixing committee did not and could not apply the criterion of pre-war profits rigidly. According to Government Control Over Prices, "the price-fixing committee tried in a rough way to measure the pre-war profits, and, with that weapon in hand, they fought in conference for the opportunist policy most favorable to the Government upon which they and the industry could agree. They were compelled, for want of adequate legal powers, to accomplish their ends by resort to indirect methods and did not have the same relative success with all industries. There was not, therefore, established by the price-fixing committee, and given out to the public as their formal policy, any resolute or general rule with respect to what they considered a 'reasonable profit.' It was, indeed, not possible for them to formulate any such general policy by reason of various complications within certain industries. It has already been noted, for example, that the difficulties of negotiation made finally mandatory the approval of particular cotton-goods prices at figures more than 25 percent above cost." [45] Chairman Brookings stated that "we have nothing to say about our own policy, we may change it tomorrow," and Dr. Taussig wrote that "a frankly opportunist policy alone was possible." [46] Instead of taking the cost sheets, adding pre-war profit, which would have to be computed on a per-unit basis, and promulgating the resulting prices, the committee called the industrialists to Washington and bargained with them until some sort of compromise was effected.[47] At one of the steel meetings, Mr. Brookings said, "You remember that at our last meeting it broke off with the statement that we did not want you gentlemen to make more money than you could take care of, and keep you from starving the other fellow. We want to stabilize prices without making it too hard for any company to give us the products we need." [48] Judge Gary said at this meeting, "It would be a very great mistake to adopt any base that is calculated to put any fear of the prosperity of our concern into the industry of this country." [49]

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[39] Ex. D., p. 1.
[40] Ex. F., memo from Hines to McAdoo, Sept. 27, 1918, p. 1.
[41] Garrett, op. cit., p. 392.
[42] Ex. G., letter from J. S. Williams to W. D. Hines, May 5, 1919, p. 3.
[43] Garrett, op. cit., p. 51.
[44] Garrett, op. cit., p. 51.
[45] Garrett, op. cit., p. 410.
[46] Ibid, p. 242.
[47] Ibid, p. 382.

A constant source of irritation was the wide range of cost to be found among the different concerns producing the same product. The following are some examples: "But the cost of producing a ton of pig iron varied from $18.14 to $45.72 in September 1918, according to figures collected by the Federal Trade Commission. The cost of producing a ton of beehive coke varied, in like manner with different producers, from $2.93 to $11.45. The cost of producing a ton of anthracite coal within the Pennsylvania district varied from $2.64 per ton to $7.06. An excellent example in the diversity of unit costs is brought out by the Federal Trade Commission report upon the costs of producing rosin, which show a variation in the percent of margin on investment running for different companies from 10.7 percent to 275.1 percent." [50]

Differences such as these would materially affect the shape of the cost curve on our chart. The curve might begin at Q rather than at P. It might also run to R before any substantial rise set it. Either or both of these circumstances must have applied to various of the commodities with which the Committee was concerned. In either case, the profit area would have been greatly enlarged.

There arises from war an irresistible pressure for increased production. The spectre of a shortage of supply was ever present to those entrusted with the conduct of the war, whether civilians or military men. The Army member of the price-fixing committee, Lieutenant Colonel Montgomery stated that to stimulate production by one way or another was the policy always uppermost in the minds of the committee.[51] A similar statement was made by General Pierce before the War Policies Commission.

"Senator ROBINSON. In your view, I assume the prime necessity is adequate supply?

General PIERCE. Yes, sir.

Senator ROBINSON. And prompt supply?

General PIERCE. There is no question about that.

Senator ROBINSON. Were the prices you fixed made with regard to that consideration?

General PIERCE. Yes, sir; and the protection of the Government." [52]

Mr. Brookings stated to the steel men: "Take the cost of producing ore, assemble it, and follow it around through the production of the different grades of steel. I find it difficult to justify in my mind the prices that exist today, but we have not that sort of problem. We believe it necessary to stimulate production." [53] When those charged with the repsonsibility of fixing prices hold such views, an effective program of profit limitation is unlikely.

The corollary of this view was a tender regard for the high-cost producer, since it was believed that his production was necessary to maintain the necessary volume. Mr. Brookings told the steel men, "We cannot get away from the feeling that the smaller concern does require consideration. We thought something ought to be done to help them * * *." [54]

The low-cost producers were active in backing up this solicitude for the "small men". Judge Gary followed Mr. Brookings' remark by saying later on in the meeting, "I can't rid myself of the idea from the standpoint of trying to assist in some respects the small high-cost plant. It has a good deal of bearing on the question from my viewpoint." [55] Obviously, a price high enough to support the small inefficient steel plants would net such a highly integrated concern as the U. S. Steel Corporation a huge profit. The result of these two types of pressure—from the military for production and from the powerful low-cost producers—was a price which gave at least a small profit to almost every concern in the country and enormous returns to the large companies.

A further consideration which the committee advanced in fixing high prices was its belief that the excess-profits tax would recapture the profits thus allowed.

"At an executive session of the price-fixing committee, held July 8, 1918, a discussion took place to determine to what extent, if any, the excess-profits tax should be considered in the fixing of prices. Mr. Brookings submitted a memorandum stating that the price-fixing committee was created to stabilize values and prevent extortionately high prices. It was not intended, however, unnecessarily to depress values to a point where there would be little or no excess-profits tax. The policy of the committee should be, he believed, so to shape prices that the less efficient or small producer would receive a fair profit, even though that gave the larger and more efficient producer a very liberal profit. It was expected that the new excess-profit tax would equalize this discrepancy by taking a larger proportion of the liberal profits earned." [56]

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[48] Minutes of Price-Fixing Com., Mar. 20, 1918, p. 4.
[49] Ibid. p. 7.
[50] Garrett, op. cit., p. 384.
[51] Garrett, op. cit., p. 244.
[52] War Policies Com. Hearings, p. 148.
[53] Minutes of price-fixing committee, Mar. 20, 1918.
[54] Ibid.
[55] Ibid.

Such a policy makes the question of taking the profit out of war a matter of the efficacy of the excess-profits tax rather than of price control.

A final influence affecting the committee's attitude was doubt of its legal position. Price fixing has always been considered a delicate subject by the courts of this country. Although the final result of prolonged litigation might have been favorable to the committee, it did not want to take the risk and made its rulings accordingly.

There can be little doubt that the effect of all these influences was to allow tremendous profits. The Federal Trade Commission observed: "The experience with steel, flour, and coal shows that a high stimulating fixed price, while stabilizing an ascending market, produced an ecomonic situation which is fraught with hardship to the consuming public and with ultimate peril to the high-cost companies through increasing the power of their low-cost competitors."[57]

Much was made of the great reductions in price brought about when the price-fixing committee stepped in. However, the fantastic prices in effect before the price-fixing committee was created were largely a result of the hysterical market conditions which prevailed when we entered the war. Very few sales were made at prices as high as the peaks shown on the charts. Garrett, in referring to the commodities with which the price-control agencies were concerned, says: "In the case of several of the most important commodities dealt with, the bulk of sales was made under contract. For a great many of the transactions current quotations were of little significance, because of outstanding contracts. Old contract prices were of particular importance in the consideration of control over crude iron, steel, copper, and sulphuric acid." [58] The same thing was true of bituminous coal when the Fuel Administration fixed a price for that commodity.[59]

The price-fixing of the committee boils down to this: When we entered the war the prices of those commodities which would be most in demand by the Government rose to unheard of peaks. The committee attacked those speculative peaks (which never represented more than a fraction of the total transactions) and got them down. Probably it also prevented a runaway market in some commodities. But it never stepped in except where Government purchases were such a large proportion of the total that they had already upset or threatened to disturb the market. And it never fixed a price which resulted in anything less than a fair profit even to the high cost producers. Mr. Baruch himself upheld this view before the War Policies Commission. He said:

* * * I vividly recall that during the war, even after we had by price fixing compelled a reduction of 35% from the peak index figures of iron and steel, and even after the 80 percent excess-profits tax was in effect, some high-minded and public-spirited steel men came to me expressing apprehension over the enormous profits they were making under our restrictive system operating at its best." [60]

A number of instances have been cited where the Committee consciously permitted much larger profits than were made before the war. Another occurred at a meeting with the copper industry. Mr. Brookings said; "If we attempted to take the annual expenditures made by the copper people as a basis of compensation on capital, there are no figures that we have seen on last year on any so-called 'A class' coverings, that would justify the price we would have made on copper, as far as we are able to see and as far as the criticism that came to us from every source."[61]

The prices fixed were maximum prices, but with a very few exceptions, they might just as well have been minimum prices. Chairman Colver of the Federal Trade Commission said in his brief to the price-fixing committee: "A maximum price becomes a minimum price, and few will voluntarily sell under the maximum price, even though they could well afford to do so. Not only has this practice been approved, but it has been aided and abetted by a declaration that the Government itself will not accept voluntary offers of commodities at prices lower than fixed prices. This would seem to be a complete inversion of the second purpose of price fixing," which, Mr. Colver had said, was to guard against a dangerously inflated price structure.[62]

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[56] Garrett, op. cit., p. 241.
[57] Federal Trade Com., Report on Profiteering, p. 6.
[58] Garrett, op. cit., p. 383.
[59] Ibid, p. 169, p. 261.
[60] War Policies Commission hearings, p. 799.
[61] Minutes of Price-Fixing Committee, May 22, 1918, p. 10.

One final result to which the price fixing policy contributed should be mentioned. By permitting the low-cost producers tremendous profits, it created an opportunity for them to strengthen their already dominant position in the trade. Upon the return to peace time conditions, this was made even more apparent.[63] The war did not discourage monopoly.

3. REVISION OF PRICES AND EXTENT OF CONTROL

As indicated by some of the instances referred to above, extensive revision of prices after they had been fixed was not characteristic of World War price fixing. Most of the commodities controlled were those whose prices had gotten so far out of line that even considerable reductions failed to bring them down to the general level. Mr. Baruch, obviously referring to the last war, says, "It is only when we start from a distorted schedule of prices that we can stabilize prices piecemeal, and then only in respect of such prices as we find to be so grotesquely out of line with their component costs that there is no confiscation in fixing them until their component costs rise to relative parity with the prices fixed." [64] It is indicative of the size of the gap between costs and price that there were so few revisions.

However, there were some revisions. Mr. Colver, chairman of the Federal Trade Commission, says:

"We have seen unduly high prices raised and raised again on the representation of fear of future increase in costs, and, as industries are interrelated and buy and sell from and to each other and as we raise one because it anticipates an increase in cost, and raise others on the same anticipation, these raises, reacting, tend to justify the darkest fears. In other words, business concerns are busy skinning each other and the public and the Government is paying for the hide that is removed." [65]

These upward revisions would have been infinitely more frequent if price control had been undertaken in 1914 rather than in 1917. The difficulties of applying piecemeal pricefixing such as was tried in the last war to conditions prevailing before inflation had set in were fully brough out before the War Policies Commission by Mr. Baruch. He pointed out that if some prices are fixed while others are left free to fluctuate, the control will be either unenforceable or confiscatory. This is because the free elements will rise due to the strong inflationary forces released by the war. But all elements of the price structure are so interdependent that some or all of the costs of the controlled commodities are bound to be affected. If this process goes far enough without upward revision, controlled commodities will be selling at prices too low to cover their costs. Mr. Baruch says, "Those who suggest partial price fixing propose to create what amounts to an artificial price structure and * * * because they leave the generality of prices free, they will be obliged to adjust fixed prices so frequently, and always upward, that, at least in the usual circumstances of war, they would perhaps better leave the whole schedule free."[66]

The industrial mobilization plan makes no specific suggestions as to the extent of control which will be necessary in the event of another war. It says,

"Whether early action is to be limited to a selected class of necessaries and essential war material, or is to be extended to include the entire price structure is dependent upon conditions which exist at the time and upon the extent to which it can be shown that the action taken is reasonably necessary for the national defense and the successful prosecution of the war."[67]

Mr. Baruch, however, leaves no doubt as to his views on the subject and after they were presented, he was informed by General Moseley that the War Department was in "close accord" with him.[68]

PRICE FREEZING

Mr. Baruch recommends what he calls "price freezing." Its bare essentials are as follows: Instead of trying to determine costs and fix prices so as to give a profit margin above these costs equivalent to that obtained before the war, a task the difficulties of which have been described at length, he would take an entirely new tack. He would assume that the prices, which exist at some arbitrarily chosen period shortly before war upsets the markets, are normal. The President would order that after a certain date no sales should be made at prices higher than those which had prevailed on the chosen date, unless permitted by duly constituted authorities. The maximum prices so set would include every price for every article or service in the country. It is important to realize that this scheme includes all wages, all retail prices, all capital charges, in fact every element in the extremely complicated price structure of our national economy. Mr. Baurch was quite explicit on this point in his testimony before the War Policies Commission. He says, "There would not be anything exempted" under his plan.[69] Necessary changes and exceptions in these frozen prices would be made by a body similar to the price-fixing committee of the World War.[70]

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[62] Garrett, op. cit., p. 390.

[63] Garrett, op. cit., p. 392, and Federal Trade Commission, Report on Profiteering, p. 6.

[64] War Policies Commission Hearings, p. 833.

[65] Garrett, op. cit., p. 394.

[66] War Policies Commission Hearings, p. 796.

[67] Industrial mobilization plan, 1933, p. 64.

[68] War Policies Commission, Hearings, p. 381.

There is no actual experience with such a scheme which would enable us to determine how it would operate.

(*a*) If strictly enforced, it might result in the loss of the war due to underproduction; or (*b*) there might be a complete breakdown in enforcement and the wartime rise in prices would not be prevented; or (*c*) the maximum prices might be revised upward so frequently and placed so high that they would closely approximate those which would have prevailed had there been no control.

A major war of necessity would involve tremendous dislocation in the economic life of the country. Four million men would be withdrawn from their ordinary occupations and placed in the Army. This will result in a shortage of labor, even with a considerable number of unemployed, since the labor market is divided into many compartments which are more or less noncompetitive in the short run. Employers will strongly desire additional workers and the tendency for wages to rise will be almost irresistible. When the men stop working and enter the Army, this has a tendency to reduce the productive capacity of the country. There need not necessarily be an actual decrease in production, the reverse will probably be true, but it will mean that additional production will require the relatively inefficient labor of untrained workers or workers putting in overtime. It will require the adoption of machinery in jobs where manpower would be more efficient. These things mean higher production costs.

The character and intensity of demand change overnight. The Government goes into the market on a tremendous scale. It wants goods the peacetime market for which is negligible or nonexistent, such as heavy ordnance, deep-sea mines, and trench helmets. It takes the bulk of the total output of such raw materials as copper, steel, wool, and cotton. It has to feed, clothe, and equip 4,000,000 men in ways far different from their normal consumption habits. Meanwhile, the needs of the civilian population must be satisfied pretty much as before. Much of this Government demand is of such a nature that delay in satisfying it or failure to provide sufficient amounts would be disastrous. This sort of demand will not permit any course of action which does not compel maximum production.

This shift in demand tends to produce a corresponding shift in the character of production. Plants turn to producing commodities which they have had no previous experience in manufacturing. The urgent need for these commodities within a short time requires intensive operation and overtime. Both the inexperience and the urgency make for waste and higher costs.

There is a tremendous pressure for new plants to produce essential commodities in greater quantities. This swells demand even more and increases the consumption of capital goods without a sufficiently compensating decrease in the consumption of finished goods. The desire to amortize these new plant facilities tends to increase costs and prices.

Both domestic and foreign trade channels are disrupted. Goods are needed at places where they are not required in peacetime, such as army camps. The increase in volume of freight taxes the railroads to the breaking point. Imports and exports are greatly reduced both because of the danger to shipping and because the domestic demand requires almost all of the output. Supplies of essential raw materials, such as rubber, may be cut off. These are further inflationary factors.

Finally, there are tremendous repercussions in the capital market. The Government cannot pay for its purchases out of current tax collections and it must resort to borrowing. It needs every dollar of savings that it can get its hands on and this means that it is willing to pay a relatively high interest rate if necessary. This drives up the cost of capital generally, and reacts on business costs. There is a strong incentive for those with idle funds to invest them in either private securities or Government bonds. In either case they will be spent immediately and will add to an already swollen demand, this normally non-operative increment.

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[69] Ibid, p. 65.

[70] Ibid, p. 34.4

Costs would increase even though there were no raises in per unit prices for goods and services. Less efficient labor would mean that more man-hours would be required to produce the same volume of goods and hence labor costs would be higher. Goods needed in a hurry would cost more than in peacetime. Drastic shifts in the character of production mean that peacetime prices are not applicable to wartime production costs. In the case of most of the items purchased by the Ordnance Department (which was responsible for one-third of the Government purchases in the last war), there might not be any peacetime prices to freeze.

Then there is the problem raised by such industries as agriculture which may remain in a depressed condition over a considerable period of time. If a war had occurred during the last 3 years and the prices of farm products had been frozen, it would have meant a terrible injustice to the farming population. There would certainly be many other industries which would claim such special treatment and some which could make out a good case for it.

There would certainly be many cases throughout industry in which price freezing would not call forth the greatly expanded production required by war. For example, it is clear that increased farm production is almost entirely dependent on increased prices. Note the expansion in wheat production due to the price of $2.20 a bushel fixed during the World War. Such an increase would never have been forthcoming had wheat prices been frozen as of 1914. Mr. Baruch's way of providing for this contingency is to permit a price-fixing committee to raise such prices as are necessary. But there would be few industries which would be unable to demonstrate increases in cost sufficient to entitle them to raises. At the first sign of an impending shortage or of recalcitrance on the part of producers, the importunings of the Army would be added to the clamor of industry. The two together would be likely to overcome the resistance of any control committee. The increases in behalf of depressed industries and those due to the inevitable occurrence of violations represent a considerable inflationary impetus.

Each increase allowed adds to the already great pressure for further increases, because of the interrelations in the price structure so admirable pointed out by Mr. Baruch. The theory behind price freezing is that by clamping a lid on all prices it would prevent that upward spiralling which makes the partial price fixing a failure. But if the exceptions and violations ever constitute a considerable portion of the whole, price freezing is in no better case than the piecemeal variety.

The low prices set would give industry a tremendous incentive to ask private citizens for additional compensation of some sort. If these illicit transactions reached any substantial volume, the possibility of a shortage in the Government's supplies must be added to the effect of such transactions on the price structure.

II. ADMINISTRATION OF PRICES

There are strong indications that maximum price fixing in wartime will always result in widespread violations. The effectiveness of administration will vary with different commodities and different types of trade organization. Thus industries composed chiefly of large corporations which are closely banded together in trade associations will have little difficulty in enforcing prices if they are so minded. Violations will also vary as the price which is set is more or less profitable. Most of the industries with which the price-fixing committee of the World War was concerned were in a position with regard to both these points that was conducive to effective administration. As a result, there is little indication that the prices fixed by the committee were violated.

But the situation is different with regard to most industries. Here the administrative body is confronted with the double task of building up an organization to see that prices are enforced and then making it function effectively.

The experience of the Food Administration in the last war is in point. It made a most elaborate and determined effort to enforce its regulations pertaining to flour mills. A survey of the experience in that industry should furnish a guide to the character of the Administration's wartime experience in general.

The first step was to build up an organization. This was done by the formation of a milling division within the Food Administration. This organization was composed of successful millers, in sympathy with the trade.[71] It had a central office in New York and district offices in various parts of the country.

The method of the Food Administration differed from that of the price-fixing committee. Instead of fixing a flat price applicable to all producers, it fixed a maximum margin of profit to be added to the costs of each unit to determine unit price. This margin was set at 25 cents a barrel.

Such a method of regulating the profits of an industry is predicated upon a thorough audit of the accounts of every concern since it is impossible to determine individual profits without an accurate knowledge of individual costs. But the milling division did not see to it that such audits were carried out. It took the attitude that it was not its business to police the industry or to discipline millers. It declined to avail itself of the facilities for independent auditing offered by the Federal Trade Commission.[72]

A contemporary report describes the result as follows:

"Not a few millers took advantage of the situation and loaded their cost reports with improper items. Some came to believe that they would never be investigated or molested if they should pad their cost reports. Such items as new construction and equipment, largely increased salaries to officers (in some cases made retroactive to include a fiscal period closed before the beginning of Food Administration control), bad debts of ancient standing, excessive depreciation charges, losses on miscellaneous outside investments, etc., were added to current costs of production and so charged to the consuming public. Under the conditions of demand which then existed, prices inflated in this way could be easily obtained for the flour; in fact, flour could be sold for almost any price limited only by the flexibility of the seller's conscience."[73]

In addition to these practices, many mills set up jobbing departments, sold their output to these departments at the 25-cent profit, and then resold to the public, getting the larger additional profit permitted under the more liberal jobbing rules.[74]

The net result of administration of this sort was that almost all millers made more than the prescribed 25 cents a barrel. The Federal Trade Commission's report on profiteering says, "The Commission has tabulated returns covering the sale of something over 4,000,000 barrels of flour made and sold under the Food Administration's regulations from September 1917 to March 1918 inclusive. In face of the regulation of 25 cents per barrel maximum, the average profit per barrel on this flour was about 45 cents or over three times the normal profit per barrel referred to above."[75]

As a further indication of the tremendous difficulties involved in auditing a company's accounts, the Bethlehem Shipbuilding Company's wartime contracts with the Emergency Fleet Corporation may be cited. The announced policy of the management of the parent company, the Bethlehem Steel Corporation, was one of cooperation with the government auditors. In spite of this the following situation prevailed at the Shipbuilding Company's Harlan plant located in Wilmington, Del., according to the final report of the Government auditor.[76]

"The working conditions at this plant were very unsatisfactory.

"The works accountant was far from even being agreeable and his assistance during the whole period of reaudit was practically useless and of no value whatever. The writer cannot recall even one instance where anything but misleading replies were given to questions asked pertaining to a proper solution of the various questionable conditions that were brought to light throughout the entire course of the reaudit. * * *

"Certain valuable cost records pertinent to our needs on the overhead audit were withheld, some were never handed over, and others given after we were forced to build up the costs from amounts shown on controlling-journal vouchers.

"Of those cost records which we were unable to obtain, the entire stores requisitions for the years 1916 and 1917 and a part of 1918, 1919, and 1920, totaling about $30,000 were an outstanding feature.

"Of those records which the contractor withheld until we had completed our build-up, the following were the most important.

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[71] Eldred, Wilfrid, Wheat and Flour Trade: 1917-1918. p. 21, Quarterly Journal of Economics, November 1918. This article is cited several times as a source in Government Control Over Prices; see p. 72. It s also listed in a book called, "Official Sources of American War History."

[72] Eldred, op. cit., p. 47.

[73] Ibid., p. 47.

[74] Ibid., p. 48.

[75] Federal Trade Commission, Report on Profiteering, p. 17.

[76] Report of C. C. Colliflower, traveling auditor of U. S. Shipping Board Emergency Fleet Corporation on Audit of Operating Expense of Harlan Plant, Beth. Ship. Corp., January 1916 to December 1920, inclusive, page 1 ff.

"1. Detail cost ledger for repair and renewal orders.

"2. Contractors detailed statement of items credited cost and charged disallowed cost.

"The time employed to work up these two features practically covered a period of six months for each of three auditors. This is a conservative estimate.

"Many journal entries were made without any explanatory reference; this feature consumed considerable time in order to determine the true nature of such entries, working papers showing detail were evidently destroyed, in fact Bethlehem relied on memory to give an explanation of these entries. Other entries purporting a description were entirely misleading."

Even if there had been active cooperation on the part of all the company officials, an effective audit would have been extremely difficult. A current audit was carried on while the ships were being built but, according to a report by the construction auditor of the Shipping Board, it was necessarily a superficial job.[77] In the first place, the E. F. C. was short-handed. Whereas the Navy Department had about 70 auditors at Bethlehem's Alameda plant and 100 at Fore River, the E. F. C. had only seven men at Alameda and about twelve at Fore River. It requires from seventy to a hundred men at a single plant of one company for a thorough current audit. Furthermore, the different government auditors at the five plants failed to agree as to what should constitute cost.[78]

Because of the ineffective character of the current audit, it was decided in the early part of 1920 that a reaudit was necessary. This work was first entrusted to a private accounting firm. After this firm had been at work for over a year and had been paid about $600,000, they were ordered to stop, on the ground that the results of their audit were of no use to the E. F. C.[79] The E. F. C. auditors then undertook to finish the job and did so about two years after it had been begun.

This was the situation with regard to the audit of one company. Extensive profit-fixing such as that attempted by the Food Administration would multiply these difficulties many times over, require thousands of auditors, and cost the Government thousands of dollars.

The Food Administration refused to fix a flat price applicable to all concerns in the industry on the ground that such a price would not make sufficient allowance for such factors as differentials of quality and service or regional differences. Some of the unfortunate consequences of this refusal have been pointed out. Yet it is likely that the same difficulty with a flat price will prevail in a number of industries in the event of another war.

Even if it is possible to fix one prevailing price for the whole industry, all the administrative problems are not by any means thereby solved. If there are a large number of concerns in the industry, if the demand is larger than can be satisfied (as is generally the case in war time), and especially if the price set does not afford large profit margins, there are bound to be widespread violations. The temptation for business men to obtain increased compensation under these circumstances would be irresistible. And bootlegging would be facilitated because of the connivance of purchasers who would be more than willing to pay higher compensation in return for larger quantities of goods.

The ease with which violations of price-fixing can be arranged is indicated by the experience of the N. R. A. Dr. Corwin Edwards, technical director of staff of the Consumers' Advisory Board of the N. R. A. in a statement at the hearings on price policy referred to the lumber industry and the cleaning and dyeing industry as "notorious case of bootlegging."[80] He further points to an example in the fur dressing and dyeing industry. The code for this industry provided for a minimum service charge for cleaning furs. Within 3 months the New York firms had lost so much business to firms outside of New York, which violated the service charge provision, that they asked and received permission to suspend price fixing. In this instance, as in all N. R. A. examples, the prices violated were minimum prices whereas in war time they would be maximum prices. However, the incentives for violation and the facility with which they can be accomplished are similar under both circumstances.

Dr. Edwards goes on to give some examples of the technique of bootlegging which does not involve a direct violation of the fixed prices. One method is to sell at the fixed price but to give the retailer larger allowances for advertising the product in his community than those offered by competitors. Under war conditions the procedure would be for the retailer to forego advertising allowances in order to get producers to sell him greater quantities. There are a number of opportunities for practices of this sort in the complicated relations between buyer and seller.[81]

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[77] Report of J. A. Honsick, General Scope of the Audit of Bethlehem Shipbuilding Corporation Records, U.S.S.B.E.F.C. November 24, 1934.

[78] Ibid.

[79] Ibid.

[80] Edwards, C. D., Statement at Price Hearing, Jan. 9, 1935.

Another method of evasion was practiced in the machined waste industry. Prices were filed by brand name and if a producer wanted to sell at a higher or lower price he had only to change the name of his brand.[82]

The following information was supplied by the Compliance Division of the N. R. A. in response to a request for figures giving some indication of the extent of price violations covering codified industry as a whole:

"COMPLAINTS HANDLED BY N. R. A. FIELD OFFICES

"The following statistics indicate the number of complaints of code violations handled by the field offices of the Compliance Division from November 18, 1933, to February 16, 1935. Alleged violations of labor provisions and trade practice provisions are segregated. The number of 'closed cases' represents complaints disposed of by field offices without further administrative action. The number of complaints referred to other agencies represents those referred to Code Authorities officially authorized to handle complaints, to regional labor boards, to other special adjustment agencies, and to the Compliance Division for further administrative action.

	Labor	Trade	Total
Complaints received	118, 441	31, 687	150, 128
Total closed	97, 281	24, 249	121, 530
Adjusted	64, 577	17, 945	82, 522
Investigated, no violation found	32, 704	6, 304	39, 008
Referred to Compliance Division for special handling and to other agencies	6, 574	4, 053	10, 627
Pending Feb. 16, 1935	14, 586	3, 385	17, 971

"SOURCE OF INFORMATION AS TO TYPES OF CODE VIOLATION

"The following estimates of the proportion of field office complaints alleging given types of violation, have been based on complaints docketed between August 18, 1934, and February 16, 1935. Since the middle of August a brief summary of the code violations alleged in each complaint has been reported to Washington by means of carbon copies of the docket sheet or "face sheet" used on each file.

"While the face-sheet file does not give a one hundred percent coverage of complaints docketed, because of a lag in instituting the face-sheet system in the New York, Philadelphia, and Pittsburgh offices, it may be used as a sample of experience with code provisions. One set of the face sheets has been filed by code, and another set by certain broad types of violations. The classification by type is admittedly rough.

"For comparison with the count by type or violation, the statistics on the number of labor and trade practice complaints received over the period covered by the face sheets are as follows:

Aug. 18, 1934, through Feb. 16. 1935

	Labor	Trade	Total
Complaints received	43, 625	14, 282	57, 907
Total closed [1]	43, 969	13, 168	57, 137
Adjusted	24, 818	9, 689	34, 507
Investigated, no violation found	19, 151	3, 479	22, 630

[1] The number of labor complaints closed Aug. 18, 1934, through Feb. 16, 1935, is greater than the number received during that period, with a consequent reduction in the number of labor complaints on hand Feb. 16, as compared with Aug. 18.

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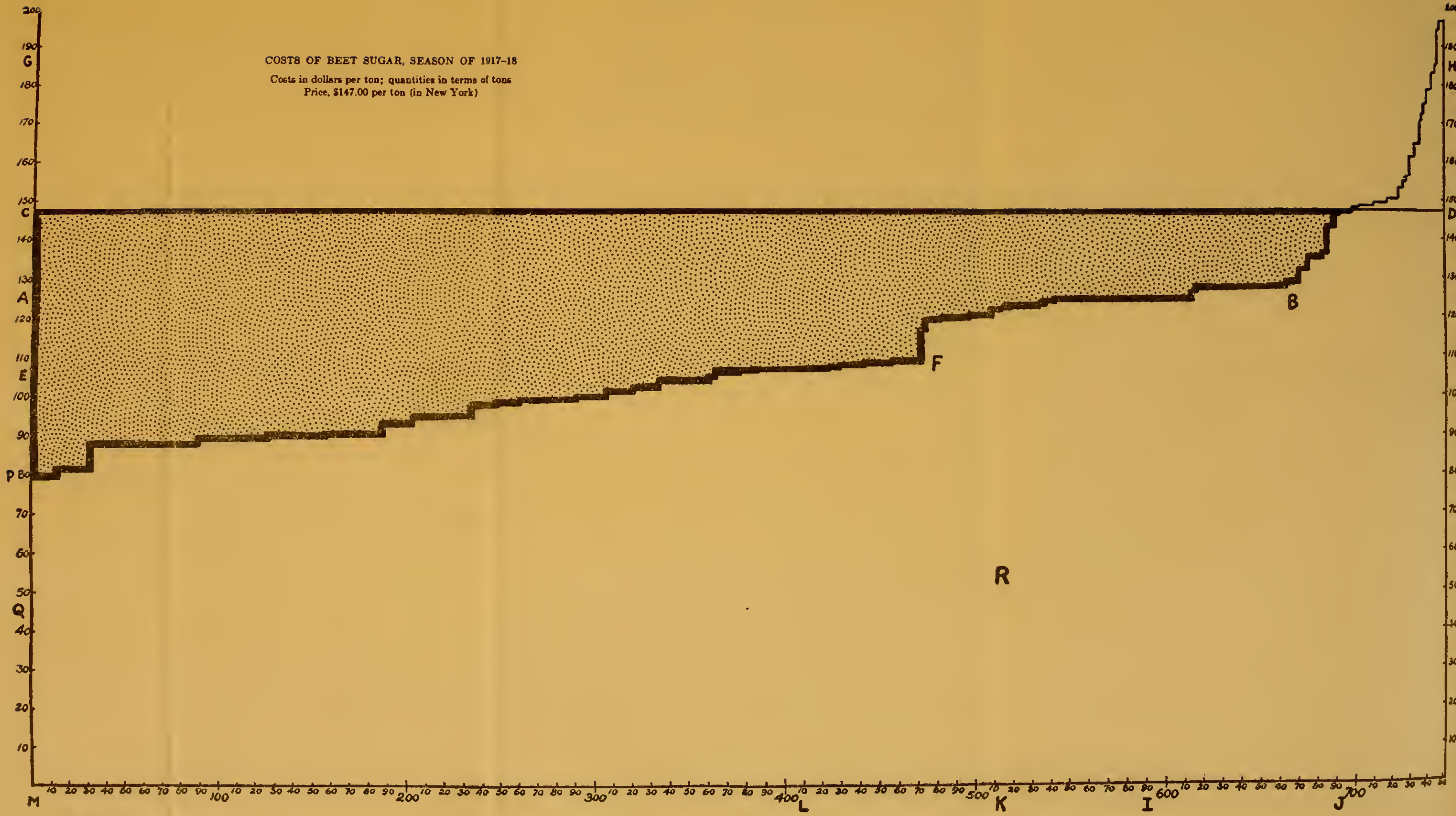
[81] Edwards, C. D., Statement at Price Hearing, Jan. 9, 1935.

[82] Edwards, C. D., statement at price hearing, Jan. 9, 1935.

APPENDIX A TO EXHIBIT NO. 1406



COSTS OF BEET SUGAR, SEASON OF 1917-18

Costs in dollars per ton; quantities in terms of tons
Price, $147.00 per ton (in New York)

Complaints alleging violation of price provisions, Aug. 18, 1934, to Feb. 16, 1935

Total complaints	5, 310
Selling below cost	645
Selling below minimum prices	850
Violation of loss-limitation provision	413
Violation of price-determination schedule	348
Unfair bidding below code price	178
Failure to file prices	2, 876
Total trade-practice complaints docketed	14, 282
Percent of price violations to trade-practice complaints docketed	37. 2

"In the figures quoted above only one complaint against each respondent is counted. If several violations by the same respondent are alleged, only the major one is counted.

"Since it is difficult to draw a clear-cut distinction between the different types of price violations listed above, and since the original complaints are often stated inexactly, the total count of price violations probably has greater validity than the break-down by individual types. Furthermore, the category of 'selling below minimum price' has arbitrarily been used as a miscellaneous group to include price violations not assigned to other classes.

"The percentage relationship between price violations and total trade practice complaints cannot be considered exact, because of incomplete coverage. On the basis of other analyses made on a selective basis, however, we believe the proportion of price violations (including price filing) to be approximately 35 percent.

Labor complaints involving method of payment (*Aug. 18, 1934, to Feb. 16, 1935*)

Company script	11
Method of payment, other	593
Total complaints	604
Labor cases docketed, Aug. 18, 1934, to Feb. 16, 1935	43, 625
Percent, method of payment cases, to total labor cases docketed	1.4

"Since a large number of face sheets state the alleged violation as 'hours and wages', without further details, the above figures probably minimize the number of complaints concerned with methods of wage payment."

These figures while not conclusive are significant. They show that there have been many allegations of violation, a number of which have certainly been justified, even over the comparatively short period which they cover. They also indicate that a large percentage of the difficulty in the trade-practice field lies with the price provisions. There are thirty-three different headings under which trade-practice complaints are classified. Yet the six categories having to do with the price provisions account for 37.2 percent of the total. This would indicate that price fixing is among the most difficult types of regulation to enforce.

In conclusion it should be pointed out that the incentive to bootleg would be at least as strong in wartime as under the N. R. A. Probably it would be more intense. Furthermore, under the plan for wartime price freezing, price regulations would extend over one hundred percent of industry while under the N. R. A. they apply to only a small portion of it. The difficulties of the N. R. A. in the service industries, where enforcement has completely broken down, would be multiplied many fold under price freezing.

Exhibit No. 1406–A

EXCESS PROFITS TAXES

1. GENERAL DIFFICULTIES OF ADMINISTRATION

The delay attendant upon the administration of the excess profits tax in this country during and after the World War has frequently been noted. The complex problems involved in the application and calculation of this tax moved Secretary of the Treasury Houston to conclude that the law is—

"clogging the administrative machinery, and, threatening, indeed, its possible breakdown." (Annual Report of Secretary of the Treasury, 1920, p. 30.)

In 1927, nine years after the termination of the war and six years after the repealof the tax, the Bureau of Internal Revenue still had pending approximately 4,000 cases under the excess profits tax law:

"A statement showing the number for each year, as of October 14, 1927, is as follows:

1917	512
1918	736
1919	1, 035
1920	1, 615
Total	3, 898"

(Report of U. S. Joint Committee on Internal Revenue Taxation, vol. III, November 15, 1927, p. 14.)

While, as indicated in the above-cited report of the Joint Committee on Internal Revenue Taxation, these cases represented but a small percentage of the total number of excess profits tax cases (ibid., p. 20), the percentage becomes more significant if certain other facts be borne in mind. We have an administrative unit wrestling with the vast and difficult problem of excess profits taxation; this unit is given by statute (see R. S. 3229) certain powers of compromise, and possibly in practice goes further than its specific statutory authorization (see Couzens Report, pp. 184-192). Furthermore, a determination favorable to the taxpayer can only be challenged by him, and he does not in the usual case challenge such a decision. There, is therefore, present an inevitable tendency to close old cases without according them the consideration which would be accorded current matters. Administration is directed to an effort to do the current work efficiently, rather than towards investigating matters on which records and recollections have become somewhat dim. Furthermore, as controversy wears on and expenses are incurred in connection therewith, there is an increasing tendency to settle cases. The taxpayer is limited in economic resources, and the Bureau of Internal Revenue, after all, has a limited appropriation. Taxpayers with greater financial capacity and better expert talent may therefore get more generous treatment because better equipped to withstand delay.

The number of cases before the Board of Tax Appeals and the courts is probably a much better index of the difficulties of administration than the number of cases pending in an administrative unit faced primarily with the problem of current enforcement. In this connection—

"The controversies under the excess-profits tax acts impose by far the greater burden upon the Board of Tax Appeals. For example: Fifty-three percent of the tax years involved in cases before the Board are under the Revenue Acts 1917 and 1918. Thirty-three percent are under the Revenue Act of 1921. That is, 86 percent are under the Revenue Acts of 1917, 1918, and 1921. The provisions of the Revenue Act of 1918 appear 18,472 times, and the provisions of the Revenue Act of 1921 appear 16,042 times in the cases pending before the board.', (Report of U. S. Joint Committee on Internal Revenue Taxation, vol. III, November 15, 1927, p. 41.)

It should also be borne in mind that past due taxes are much more difficult and costly to administer than current ones:

"Approximately 40 percent of the cost of administering internal-revenue tax laws during the fiscal year 1927 was expended in the auditing of back-year returns. It is not possible for the Bureau to segregate the cost of auditing back-year returns from the cost of collecting the current year's revenue, as the work is interlocking to a vast extent, and the attempt to segregate such cost would require a very extensive as well as an expensive system of cost accounting." (Report of U. S. Joint Committee on Internal Revenue Taxation, vol. III, November 15, 1927, p. 18.)

Furthermore, effective collection of back taxes always provokes considerable psychological resistance:

"It is much better to stop profits at the source than attempt to recapture profits already realized." (Documents by War Policies Commission, 72d Cong., 1st sess., 1932, House Document No. 71, p. 31.)

The difficulty, always present in taxation procedure, arising from the fact that people are reluctant to surrender what they consider as earned, is intensified if the "recapture" be delayed in point of time.

The authorities in the field of taxation agree that the excess-profits tax in the past war was difficult of enforcement and are pessimistic as to whether any possible excess-profits tax that could be devised would ever be susceptible of effective enforcement, or even of adequate comprehension. T. S. Adams, of Yale University, formerly chairman of the Advisory Tax Board of the Bureau of Internal Revenue, comments thus on the difficulties of administration:

"Why not improve the administration? The reply is that it will take years to improve it. The intricacy of the excess-profits tax is such that it is hardly an exaggeration to say that it takes more time to teach an accountant to master its mysteries than the average accountant can be retained in the service after he has attained such mastery. * * * Ten years would be a radically short estimate of the time required in which to bring the taxpayers and the administrative authorities of the country to a point where the excess-profits tax could be reasonably well enforced." (35 Quarterly Journal of Economics, pp. 371–2, Should the Excess-Profits Tax Be Repealed (1920–21).)

While the administrative process moves cumbersomely toward the collection of the excess-profits taxes due the Government, the Government must resort to bond issues and possibly inflation as a means of temporarily remedying the lack of funds due to deficient tax yields. Mr. Colver, Chairman of Federal Trade Commission said before a House Committee:

" * * * the way to make anything expensive is to tax it; and if you levy a tax on war, you make war cost more than it should. A study of the actual working out of our excess-profits tax during the last war will demonstrate beyond any possible question that it *did not recover the excess profits;* that it did not keep prices down, and that it did not stimulate production, but that on the contrary, it *slowed production down*, it stimulated prices, and it made the cost of the war to the taxpayers, I should say, twice what it should have been. I would say that for every dollar collected in excess-profits taxes that got into the Treasury, it cost the people of the United States, or it will cost them $10 unnecessarily." (Italics ours.) (Hearings before the Committee on Military Affairs, House of Rep., 68th Cong., 1st sess., Mar. 11, 13, and 20, 1924, p. 237.)

Frequently the Government may find that the assets which it seeks to claim in payment of its taxes have been distributed. Or they may have been otherwise dissipated, since business may enter into slumps and depressions which eliminate potential taxpayers. To the extent that the excess profits tax rate approaches the taking away of a business' complete profit, it comes dangerously near to eliminating reserves which a business must carry in order to preserve itself from downward fluctuations in profit. Furthermore, there is a real difficulty in estimating what profit is, since profit is a bookkeeping item. If a tax is moderate, an error in the determination of profit may not be crucial, but if the tax be very high, there is no margin left for possible errors of such a kind. This is the basis of Mr. Ballantine's statement that an 80%, or possibly, at the outside, 90%, rate of tax was the maximum that could safely be used in connection with excess-profits taxation.

"In the case of any business which is at all complicated the determination of the profit for a particular year can rarely be exact but must rest in part upon assumptions and estimates. Almost never does the entire profit take the form of an actual excess of cash or securities at the end of the year. Generally speaking, part of the profit is in the form of inventories and in the form of improvements or additions to factories. Where the rate of tax is moderate, errors in determination do not have vital consequences and average out over the years. If, however, the entire profit is to be taken out of the business, errors in computation might be disastrous. Without elaborating on this difficulty, it may be stated that to allow some margin for error, any workable tax would presumably have to be computed on some percentage less than 100 percent—say, 80 percent or, perhaps, at the outside, 90 percent. Eighty percent was the rate urged by the Treasury and adopted as the maximum in 1918 and was the rate finally used in the British excess-profits tax. Leaving some relatively small margin of profit also serves the purpose of furnishing a guaranty to the Government that the taxpayer will see to the administration of the business with efficiency and economy." (War Policies Commission, House Document No. 163, 72d Cong., 1st sess. (1931), pp. 691–2.)

English experience on the efficacy of excess-profits tax administration is in accord with authoritative American statements.

"The Rt. Hon. Reginald McKenna, who, when Chancellor of the Exchequer, introduced the profits tax, remarked that the inland revenue had been since 1842 building up an income tax which would prevent evasion and that it would require another hundred years to devise a successful method of administering a profits tax." (Haig, Taxation of Excess Profits in Great Britain 1920 p. 150.

It should be noted, in contrasting the relative feasibility of the English and American schemes of excess-profit taxation as they worked out in the last war, that the discretion vested in the English administrators was much wider than thataccorded our own Bureau of Internal Revenue. The English administrator—

"meets the taxpayer with every disposition to be fair both to him and to the Treasury, and in cases of doubt as to what is fair, to be generous to the taxpayer. This attitude on the part of the local surveyors is deliberately fostered and encouraged by the higher officials of the inland revenue. The instructions issued to surveyors contain specific injunctions regarding the attitude to be assumed toward the taxpayer. There is full appreciation of the importance both of securing the taxpayer's cooperation and of getting assessments definitely settled in such a manner that they will not be constantly reopened for minor adjustments and corrections. In the case of the excess-profits duty particularly, with its high rates and its many opportunities for disagreement, it has been considered wise to conduct the administration along broad lines. The assessors have not failed to utilize their administrative discretion. As one of them remarked: 'We wipe off £20,000 one way or another as though it were a "half-penny."' The Board of Inland Revenue has specifically said to the local surveyors that 'owing to the present high rates of taxation' they desired 'that in doubtful cases the allowances granted in calculating excess-profits duty should err on the side of generosity rather than otherwise.'" (Haig, Taxation of Excess Profits in Great Britain, 1920, p. 97.)

Ingrained American distrust of administrative and bureaucratic procedure, a distrust shared by the American judiciary, stands in the way of similarly broad administrative discretion being vested in tax officials in the United States. The attitude of the judiciary plays a more important role in American tax administration than in the British scheme, a fact which explains the following recommendation of the Joing Committee on Internal Revenue Taxation:

"The recommendation that tax cases should be settled by *administrative* action, rather than through litigation, and the abandonment of the policy that all cases must be decided upon the basis of absolute accuracy, have been discussed. It is believed that the adoption of these recommendations is vital." (U. S. Joint Committee on Internal Revenue Taxation, vol. III, 1927, p. 45.)

Both of these suggestions for improving the administration of the tax laws emphasize departing from adherence to a strict statutory standard in favor of allowing the administrative body to fix assessments on a fluctuating basis. Such latitude of administrative discretion may well have to be expanded to a length never envisaged by the English administrator or the Joint Committee, should the proposal of a ninety-five percent rate of tax, contained in Documents by War Policies Commission, House Document 271, March 12, 1932, p. 23, be put into effect.

It has been suggested that patriotism will operate to secure a fuller measure of cooperation from the taxpayer in war time than could be gotten in peace time. See Documents by War Policies Commission, House Document 271, March 12, 1932, pp. 22–23. The measure of such cooperation is dependent upon the rate of tax, and the degree of closeness to the war situation. This latter point is significant, since a high rate of taxation may have to be continued as a governmental necessity after the termination of the war, when there is no longer present the same patriotic incentive towards payment of tax obligations. Even while retaining patriotic intentions, businesses may be hit by a post-war contraction of their profits or by deficits, and consequently unable to pay their taxes, which, it must be remembered, are due only after the income upon which they are based has been earned.

Patriotism in the last war was tested in a situation where the highest excess-profits tax rate during the war, continued in existence only for a short time, was, for the highest brackets, eighty percent. In fact, Mr. Haig, in speaking of the British experience on the subject, indicated that abuses would develop even with a rate far below 80 percent:

Best-informed British opinion places the maximum share which can be safely taken by the Government at about 50 percent. If the government takes more than the half of the pound of profit, abuses, it is believed, are certain to develop." (Haig, Taxation of Excess Profits in Great Britain, 1920, p. 149.)

Mr. Colver, chairman of the Federal Trade Commission, was quite dubious as to the extent of the patriotic reaction:

"As a group, men are patriotic; as individuals, they will pay as small a tax as can be calculated and will secure as high prices and as great profits as can be extracted." (Garrett, Government Control over Prices, p. 391.)

High war profits taxation will affect the incentive to increased production of capital facilities required for the production of war goods, since undoubtedly considerable war plant capacity will become obsolescent and useless in peacetime; investment therein will therefore not be profitable. (See Garrett, Government Control over Prices (1920) p. 390.) While this is to some extent met by provision for amortization, (to be discussed on p. 4485 infra), such provisions possess their own difficulties of administration.

Even with the comparatively moderate rate of war-profit taxation in effect during the war evasion was rife, both in England and America. The high rate of taxation was an encouragement to extravagant expenditure, since high cost items would be deducted from the net income upon which a tax would have to be paid. In the desire to avoid having the Government get the lion's share of the profits, salaries of executives were increased inordinately and bonuses liberally distributed. (Compare the report on the American Metal Mining Co. in the Federal Trade Commission Report re "Profiteering" (65th Cong., 2d Sess., Doc. 248, (1918) pp. 19–20)). The expansion of advertising to a volume beyond what certain authorities have argued to be socially desirable dates from the war period. "Only the shortage of paper limited the expenditure for advertising, according to one Treasury official." (Haig, Taxation of Excess Profits in Great Britain 1920, p. 148 et seq.) Inasmuch as the amount of capitalization determined the amount of profits exempted from the increased rate of tax, the "invested capital" (see p. 4481, infra) of many corporations was increased. Corporations were therefore frequently organized on an undesirable financial basis.

"In fact, if the new corporation or combination was generously capitalized it may relieve the corporation of all excess profits tax whatever." (Needed Tax Reform in the U. S. T. S. Adams (1920).) (Reprint from N. Y. Evening Post.)

This overcapitalization frequently occurred quite unintentionally.

There was also present a tendency to incur liabilities which were not real ones. Loans were camouflaged as invested capital in order to take advantage of the fact that a fixed rate of profit was allowed on "invested capital" before any profit would be considered an excess profit. Inventories subsequently acquired were undervalued in order to minimize profits.

Furthermore, expenditures were encouraged which were neither extravagant nor designed to be evasive, but were of the type aiming at future speculative profits, such as:

"repairs and betterments not presently needed or made with an eye to the future and in anticipation of a return to peace-time basis. Further, expenditures are lavishly made by big concerns out of rapidly accumulating surpluses which are in the nature of strategic advances upon other weaker competitors and which, upon a return to peacetime basis, will tend to result in a permanent elimination of weaker competitors and the rapid extension of monopolistic conditions. These expenditures are made on the theory that out of every dollar so spent, the Government itself contributes anywhere from 20 to 80 cents of the cost." (Garrett, Government Control over Prices (1920) pp. 391–2.)

Accordingly, business ploughed back earnings into capital, and made enlarged expenditures, either in the hope of reaping a profit in the future when the excess-profits tax should have been repealed or on the theory that the rate of tax made necessary greatly expanded business, regardless of cost.

It may also be noted that excess-profit taxation brings home to business men a realization that the Government is making large expenditures and a feeling that the Government is wasteful, so that the peculiar popular partiality towards tax evasion becomes accentuated.

"To take the referendum of the National Chamber of Commerce at its face value and apply it, would probably draw forth some hoarse cries. As a group, men are patriotic; as individuals, they will pay as small a tax as can be calculated and will secure as high prices and as great profits as can be extracted. High excess-profit taxes themselves have a bad effect on business men. They nourish a feeling that the Government is wasteful, and, as a result, tax evasions do not carry any particular feeling of guilt. When tax evasion takes the form of padded and increased costs, of lavish expenditures made for the sole purpose of reducing the rate of profit, the result must be detrimental to the maximum production at maximum efficiency. The business organization is softened by bad practice and by unbusinesslike methods, and while it holds to such unhealthy practices it can not maintain the highest degree of efficiency." (Garrett, Government Control over Prices, 1920, pp. 391–2.)

Whether the excess profits tax, characterized as it was by so much opportunity for evasion and administrative delay, actually accomplished the purpose of depriving industry of excess profits is extremely difficult to determine, but the opinion of Mr. Colver is to the effect that it did not so operate and that the excess profits tax got only 34% of the profit actually due to the war:

"I dissent wholly and entirely from the theory that excess profit taxes justify unreasonable price structures and purge unreasonable profits. Not a penny of excess profit tax has been or will be paid to the Government that has not first been collected with many other pennies from the people of the country, either as consumers or as tax payers. Since the Government itself is by far the largest of all buyers at fixed prices, it seems to be absurd to take an excess dollar out of the Treasury in order to get 34 cents of it back in by way of excess-profit taxes. The net result of such a transaction is merely creating the necessity of raising an otherwise unnecessary 66 cents by some other means of taxation or by bond sale. In the main, it is not industry which ultimately pays excess profit taxes, but the consumer, and only a small part of the excess which the consumer pays reaches the Treasury in the form of taxes. The whole excess profit-tax theory is an attempt to lift oneself by his boot-straps, and there is lost from 20 to 80 percent of the energy employed in the process." (Garrett, Government Control over Prices (1920), p. 391.)

Mr. Baruch, in his testimony before the War Policies Commission, stated very emphatically that

"Even with a fixed price structure and a high excess-profits tax there will huge war profits." (War Policies Commission, House Document No. 163, 72d Cong., 1st sess. (1931), p 799.)

His statement was based on the fact that increased wartime demand would result in accelerated production, which would bring in its wake greatly decreased costs of production.

"Mechanical mass production brings low costs, but only when the machines are operating close to capacity. * * * These machines represent enormous aggregations of capital, on which fixed charges are very great. * * * when they are speeded the results in reduced cost per unit of production are sometimes almost fabulous." (War Policies Commission, House Document No. 163, 72d Cong., 1st sess. (1931), p. 799.)

Mr. Baruch also supplied a specific illustration of the way in which this might operate.

"Consider, for example, the simple case of a company capitalizing for $1,000,000 selling $1,000,000 worth of goods annually, making 20-percent gross profit, or $200,000, on its turnover, and having $100,000 of expenses of administration and selling, leaving a net profit of $100,000, or 10 percent, on both its normal turnover and its capital. Suppose also that 10 percent of its costs of manufacture, or $80,000, are fixed overhead charges—depreciation, maintenance, supervision, taxes, etc. Then its costs for material and direct labor are $720,000 for every million dollars' worth of goods it sells. Now, suppose that war comes and we need the full capacity of that plant. We give it orders for $4,000,000 worth of goods, to be delivered in a single year. It has no increased selling and general administrative expense, because the demand is so great that no such effort is required. Neither do the fixed overhead elements of its manufacturing costs increase greatly—say, only to $90,000. What happens to the profits of that plant? Its material and direct labor costs on its $4,000,000 sales are $2,880,000. To this it must add $90,000 for fixed overhead charges in its factory and $100,000 for general and administrative expense, making a total cost for goods sold of $3,070,000. Its net profit is, therefore, $930,000, or 930 percent, of its normal profits in peace. It is making nearly 100 percent on its investment, and its net profit on turnover has increased from 10 to 23 percent. Even if we assess a tax of 80 percent on the $830,000 of excess over peace profit, that plant will still be making $260,000, or 260 percent of its normal profits." (War Policies Commission, House Document No. 163, 72d Cong., 1st sess. (1931), p. 798.)

He was careful to stipulate that this illustration took no account whatsoever of price increases; and came to the same conclusion as Mr. Colver about the tendency of excess-profits taxes to increase prices and to get passed to the consumer.

"Excess-profits taxes—standing alone—have no effect whatever to check inflation. Their only effect is to increase it. Thus 20 percent of $500,000 profit is $100,000 and 20 percent of $1,000,000 profit is $200,000. One way to increase $500,000 profit to $1,000,000 profit without increased risk or effort is to double price. For this reason there is more incentive to increase prices—and therefore profits—under an 80-percent excess-profits tax than there is without it. Indeed,

the main result of such a system is to induce rapid price increases to absorb the tax. Precisely because it accelerates and in nowise checks inflation the excess-profits tax—without more—offers no cure at all for war evils. On the contrary, it aggravates them." (War Policies Commission, House Document No. 163, 72d Cong., 1st sess. (1931), p. 798.)
For another possible index of the efficacy of the excess-profits tax in eliminating war profits, see p. 4481, infra.

On this analysis, the higher the excess-profits tax rate, the more complete would be the failure to eliminate war profits in the expected degree of the rate of tax. Even though the relative percentage of profits, which is cut off by a tax, be very high, increased production would nevertheless mean that profits, as calculated on an absolute dollar basis, would remain very large. Furthermore, with respect to any tax of this type, a steep tax is inevitably passed back in large measure to the consumer so that industry has in reality only a small part of its profit eliminated. In war-time, the Government is beyond doubt the Nation's biggest consumer, so that it is placed in the anomalous position of imposing a high excess-profits tax in order to eliminate profits, and then paying a considerable portion of that tax itself. This is still another way in which reality does not match with expectation in the field of excess-profits taxation.

Experts are in agreement that the concept of "invested capital" was in large measure responsible for the difficulty of administration of the excess-profits tax during the past war. Thus, R. H. Montgomery said:

"There is the even more damning criticism that in actual operation the standard of invested capital does not perform the function of determining the richness of profits even reasonably well; that the results of its application are eccentric and unfair and that the task of calculating the standard is an impossibly burdensome one on both administrator and taxpayer." (Excess Profits Tax Procedure (1921), p. 122.)
To a similar effect, Professor Seligman said:

"What constitutes invested capital, however, is so elusive as to be virtually impossible of computation." (Essays on Taxation (1925), p. 704.)
In fact even Mr. Ballantine, former Assistant Secretary of the Treasury, who has generally a more hopeful outlook on excess-profits-tax legislation than most of the experts in the field feels that invested capital is an exceedingly baffling problem. His remarks were thus summarized:

"There is no other question that the experience of the Government and taxpayers with the determination of invested capital was unsatisfactory and that this basis should not be used again except as a last resort.

"He insisted that the method of recapturing war profits should be made simple and effective. Most of the administrative difficulties arising out of the excess-profits tax laws were due to the necessity of ascertaining invested capital. This base should not be used in another war. Some of the provisions of the laws were so highly complicated that they could not even be litigated because they could not be reduced to logical argument, pro and con. The determination of what constituted invested capital was an insoluble problem during the continuance of the tax, and is still unsolved. Some of the fundamental principles of invested capital are now in the courts and will be there for years to come." (Documents by War Policies Commission, House Document No. 271, 72d Cong., 1st sess. (1932), p. 21.)
Compare also, in this regard, a letter from Secretary of the Treasury Mills to the President of the Senate. (72d Cong., 1st sess., Document No. 105, p. 4.)

Some idea of the difficulty of the invested capital provisions of the war revenue acts may be gotten from the fact that, of the cases pending in 1927 in the Appeals Division of the Office of the General Counsel, Bureau of Internal Revenue, the interpretation of the basic invested capital section was more often involved than that of any other section in the case of the Revenue Act of 1917, and second in numerical frequency only to the very broad and inclusive section 234 in the case of the Revenue Act of 1918. (See Report of the Committee on Internal Revenue Taxation, vol. 3, p. 172.)

The major problem of excess-profits taxation was the segregation of normal peace-time from extraordinary war-time profit. Normal profit was computed by taking a fixed percentage (in 1917, from 7 to 9%; in 1918 and succeeding years, 10%) of the capital which had been invested in the business. Income up to this amount was exempted from taxation at the excess-profits rate but was still subject to the ordinary rate of income taxation; the remaining income, representing profits not considered to be normal, was taxed at a very high rate.

"Invested capital" conjures up all the usual engineering difficulties attendant upon valuation generally. (See "Exhibit No. 1343".) Since a certain percentage of "invested capital" is permissible before the excess-profits stage is reached, there is a tendency for the taxpayer to place a high valuation on his business; the higher the permitted valuation, the larger the total profit before excess-profits-tax rates go into effect. Intangible factors, such as going-value, patent rights, and goodwill are therefore likely to be considerably "written up." (Couzens' report, pp. 207–212; The American Economic Review, vol. IX, no. 1, supp. no. 2, pp. 20–22; Report of Committee on War Finance of the American Economic Ass'n (1919).)

Cash as an element of invested capital is comparatively easy to determine, granted that accounts are reliably and noncollusively kept; but cash may be a minor factor in comparison with the value of tangible and intangible property contributed in return for stock. Each chronologically distinct contribution of property of this nature involves a separate valuation in the light of all the attendant circumstances. There is present—

"The necessity of tracing the capital history of the corporation from the moment of its inception; of checking continuously its depreciation accounts and revaluation of assets; of averaging for the taxable year its distributions and its purchases or sales of 'inadmissable assets', remembering all the while that some mistaken practice of charging depreciation or taking the inventories may cost the taxpayer or the Government several million dollars. Additional taxes and penalties of $10,500,000 were imposed a few months ago upon a single corporation; the treatment of a particular 'loss' in another case changed the taxes of another corporation by more than $15,000,000; the income- and excess-profits tax of another corporation for the single year 1918 approximate $300,000,000. It is a common thing for a million dollars or more in taxes to turn on some accident of organization, or some fine-spun distinction about which nearly as much can be said upon one side as upon the other." (Needed Tax Reform in the United States, T. S. Adams, 2nd ed., 1920, p. 9.)

Accidental features of a corporation's history often assumed an untoward significance.

"The determination of invested capital was all important in the actual fixing of the tax but such determination was in many cases very difficult and in not a few cases impossible. Where a corporation had been formed by turning in the property for stock the determination of invested capital depended upon the valuation of the property at the time turned in. Retroactive valuations are difficult and were the subject of many controversies. The amount of invested capital was in many cases affected by the time of organization of the corporation. Where it happened that a corporation had been reorganized or formed in a year shortly before our entry into the war, the valuation of its assets would be on a much higher basis than if there had been no such reorganization. The determination of invested capital was also affected by accident or incorporate relationships.

"Problems as to the fixing of invested capital for consolidated groups have not yet been actually solved. In a good many cases also records were not available to show the capital put in. In every case current invested capital was affected by the computation of surplus or deficit resulting from the operation of prior years and such computation was, of course, a fruitful source of controversy." (War Policies Commission, House Document No. 163, 72d Cong., 1st sess. (1931), p. 692.)

According to the Joint Committee on Internal Revenue Taxation,

"Some of the most complex problems in the administration of the revenue laws are involved in the determination of invested capital of a closely allied, or consolidated, group of corporations.

"The proportions which a single case may assume are brought out by the case of a certain large corporation, where the assessment letter, merely showing the mathematical adjustments, covered 2,267 pages, with 317 pages of exhibits. The difficulty of the questions involved in adjusting cases is shown by the fact that in 15 recent tax cases decided by the Supreme Court of the United States 9 have been decided by a divided court." (Report of U. S. Joint Committee on Internal Revenue Taxation, vol. III, Nov. 15, 1927, p. 21.)

Difficulties cumulate the further back in point of time the valuation is attempted.

"The fundamental error is in the attempt to perpetuate original investment or cost values (modified of course by depreciation, depletion, and the like). The attempt is in part impractical. In the case of the oldest corporations and those, like the larger railroads, which represent a combination of many preexisting corporations, it is literally impossible to follow the letter of the law; and in other cases—through formal reorganizations, statutory 'affiliation', accumulation of depletion reserves based upon permitted revaluations or discovery values, and in a dozen other subtle ways—the living fact that investment values do change bursts or seeps through the dead theory of the law, and finds half-suppressed recognition in the invested capital of at least some taxpayers. And where the attempt is not impractical, it is frequently unjust." (Quarterly Journal of Economics, T. S. Adams, Should the Excess-Profits Tax Be Repealed, 1921, p. 378.)

Mr. Ballantine's hope that the concept of invested capital can be eliminated from an excess-profits tax scheme (see p. 4487, supra) does not, however, seem capable of realization. Even in war time revenue measures which had provisions basing taxes on pre-war income, invested capital played a far greater role than was customarily appreciated. A tax based on pre-war income possesses a certain surface simplicity:

"Tax on income is the simplest method of applying a war tax. Most people are afraid to falsify their income-tax returns. The Government machinery for collection of such taxes already exists. Its method of operation is generally understood. From every standpoint, excess profits should be devised on the basis of income, and not on the basis of invested capital." (Documents by War Policies Commission, House Document No. 271, 72d Cong., 1st sess. (1932), p. 22.)

Nevertheless its place in the British scheme was indicated by Professor Haig to be that of a device used to relieve the taxpayer, in burdensome cases, from the operation of the tax computed on the basis of invested capital.

"In fact, the testing of profits by the standard of earnings in the pre-war period really operates as a relief provision, reducing the tax which would be payable if the percentage standard only was utilized. With the passage of time the percentage standard, based on invested capital, has been assuming a larger and larger role in the procedure." (Taxation of Excess Profits in Great Britain, 1920, p. 174.)

Generally, in foreign countries making use of pre-war income and invested capital as alternative bases for computing the amount of return exempted from the excess-profits tax rate, use of the income method was optional with the taxpayer in the event that it gave him a higher exemption than use of the invested capital method. "Taxation of Incomes, Excess Profits, and Luxuries in Certain Foreign Countries", Legislative Reference Division, U. S. Library of Congress. Corporations with meager pre-war incomes were guaranteed a statutory exemption of a fixed percentage on their invested capital; corporations with high pre-war incomes were at liberty to compute their exemption on their pre-war earning capacity, and pay the excess-profits tax on the difference between their wartime annual income and their average income during the chosen pre-war years.

In certain situations, use of invested capital as a base of exemption may be not merely optional, but necessary. Thus, according to Professor Haig, it was used.

"As the basis for adjustments in the profits of the current year because of increases or decreases in the amount of capital invested since the outbreak of the war. Such admustments (amounting ordinarily to 9 or 11 percent of the new capital introduced and 6 or 8 percent of the old capital withdrawn) are made whether the profits standard or the percentage standard is used. Moreover, not only must the amount of the new capital introduced or the old capital withdrawn be calculated, but in order to make the computation it is necessary to determine the total amount of invested capital both for the current accounting period and for a point in time before the outbreak of the war." (Taxation of Excess Profits in Great Britain, 1920, p. 81.)

That this is a recurrent and important, and not an exceptional, problem is indicated by a study of two hundred leading American corporations indicating, for the period 1916–1921, an increase in net worth from $6,294,000,000 to $11,363,000,000. (House Military Affairs Committee (1924), Hearings on Universal Mobilization, p. 178.

Most of this net increase of more than five billion dollars would have to be handled by the invested capital method.

Invested capital was furthermore used

"As the basis for the establishment of a standard in the case of a concern which was not in existence for at least one year before the war. In such a case no profits standard is available as an option and the pre-war standard is simply taken to be the statutory percentage (ordinarily 9 and 11 percent) applied to the average amount of capital employed during the accounting period.

"It is apparent that there is scarcely an assessment into which invested capital does not enter. It must be calculated, at least roughly, in every case, but because of the practice in cases of increases or decreases of capital of making adjustments in current profits, the pre-war invested capital, once calculated, need not afterward be disturbed." (Haig, Taxation of Excess Profits in Great Britain, American Economic Review, vol. X, no. 4, Supp., Dec. 1920, p. 82.)

Use of average pre-war income as a basis for exemption from the excess profits rate of tax is based on the arbitrary assumption that pre-war income reflects what would be the normal income in war time. Professor Adams' reaction is that "this also is a truth of limited application. The profits for two or three years before the war do not establish such a normal return. Such profits may have been abnormally high or abnormally low." (35 Quarterly Journal of Economics, May 1921, p. 388.)

As a matter of fact, doubt may even exist as to what is a pre-war year. Thus, the Revenue Act of 1918 defined "pre-war period" as "the calendar years 1911, 1912, and 1913 * * *" (sec. 310). However, Mr. Ballantine, in supplying an estimate of the effectiveness of the war profits taxation scheme, selected the years 1914–1916 as the pre-war years.

"A comparison of the tabulated net income of all corporations reporting net income for the three years before the war (the calendar years 1914 to 1916, inclusive) with the net incomes of such corporations for the war years (1917 to 1919, inclusive) shows that the average net income of corporations reporting net incomes was for the pre-war years about $6,000,000,000 before taxes and about $5,900,000,000 after taxes and that the average income of such corporations for the war years was $9,500,000,000 before taxes and about $7,000,000,000 after taxes. Thus, the average net income of corporations reporting net income increased $3,500,000,000 for the war years, while the average net income of such corporations after taxes increased about $1,100,000,000. According to this calculation, based on reported incomes and taxes, the taxes during the war, principally of course war and excess profits taxes, absorbed about 70 percent of the increase of the average profits of the war years over the average profits for the years immediately before the war." (War Policies Commission, House Document No. 163, 72d Cong., 1st sess. (1931), p. 690.)

Had the statutorily defined pre-war period been taken as a standard, the conclusion would be that taxes imposed during the war years absorbed no more than 45% of the war-time profits. (See, for the basic data, Statistics of Income from Returns of Net Income for 1925, 1927, p. 23).

In the complicated state of international relationships at present obtaining, war profits begin to be made as soon as a major outbreak occurs and may precede, as in the case of the United States in the late World War, the entrance of any particular country into armed combat. It is apparent that the use of the pre-war income exemption basis will penalize businesses with fortuitously subnormal profits in the pre-war period, but which have progressed in efficiency during the war years.

"Consider a heavy investment made in the expectation of distant returns. Here the original investment has more significance than the income record of the company in controlling the normal return." (35 Quarterly Journal of Economics, May 1921, p. 388.)

Conversely, corporations with abnormally high pre-war earnings are at a great advantage, regardless of war-time lapses in efficiency or their attaining of truly normal profits.

"Abnormally high profits in the past should constitute no ground for immunity from a future tax on supernormal profits. This is not word play; it is a mere suggestion of the truth that an abnormal state may continue for a considerable time without becoming 'normal.' Consider finally the concern which has had abnormally low profits in the past." (35 Quarterly Journal of Economics, May 1921, pp. 388–9.)

Professor Adams concurs in the dissatisfaction:

"voiced by the Chancellor of the Exchequer in explaining the financial statement of April 19, 1920:

"'I would remind the committee that under the provisions of the excess profits duty prosperous concerns with a large pre-war standard may escape liability for the tax because their present profits, tho high, are not in excess of their standard, and, at any rate, they pay tax on what all of us think an unduly low scale.'

"'It is reflected also in Professor Haig's conclusion that after all the percentage deduction is preferable to a pre-war profits deduction:'

"'If we are to continue profits taxation, the general standard prescribed in our present law for determining the richness of the profits should be retained. The best British opinion supports the view that a percentage of invested capital is a more satisfactory test than the earnings of some previous period, in a tax of this character, and they have shown how that percentage can be cleverly varied to meet the peculiar conditions in each line of business.'" (35 Quarterly Journal of Economics, May 1921, p. 389.)

The effect of such discrimination in cutting down the incentive to efficiency in a situation where increased production is preeminently required is obvious.

In considering the social effects of tax legislation, there should be borne in mind, in addition to the obviously desired objectives of administrative efficiency and substantial monetary yield, factors of individual fairness, and the prevention of discrimination. It was partly out of a desire to be fair that the concept of "invested capital" was introduced into the excess-profits tax legislation of both Great Britain and the United States. Even with a fixed percentage on "invested capital", the operation of the tax may discriminate unfavorably and unjustly against certain individuals. It was for this reason that there was included in the excess-profits taxation scheme a provision that the taxpayer could, under certain circumstances, have his tax computed under special assessement. This meant that, instead of applying the excess-profits tax rate on all income above a fixed percentage of "invested capital", the Government computed the average rate of tax paid by five other companies engaged in the same business and similarly situated. The difficulties of finding comparable businesses comparably situated need not be expanded on.

Some of the reasons for granting special assessments are as follows:

"1. Insufficient salaries paid to officers.

"2. Sale of capital assets within the taxable year.

"3. Substantial intangible value in a business of small capitalization.

"4. A corporation operating with a large amount of borrowed capital.

"5. Where respective values of mixed aggregates of tangible and intangible properties paid in for stocks and bonds cannot be satisfactorily determined.

"6. Foreign corporations." (69th Cong., 1st sess., Sen. Rep. 27, Jan. 7, 1926, p. 215.)

While these may be meritorious grounds for exemption they are subject to abuses. Thus, for example:

"In the J. H. Hillman Co.'s case the three executives of the company drew salaries of $12,000 each, or a total of $36,000. It was claimed that they should have been paid at least $50,000 each, plus 10 percent of the net earnings, or a total of $500,000. The company then claims to have paid $464,000 less in salaries to its officers than it should have done. This is claimed to be an "exceptional hardship" to the corporation.

"Let us see what this hardship amounts to. The company should have paid its officers $464,000 more in salaries. This saves the corporation $464,000 in expense. The company had to pay tax on this $464,000, which could not be deducted from income. Even in the highest bracket of 80 percent, with income tax added, the maximum total rate of tax is 82.4 percent. In this event the additional tax would be $382,336. Then the corporation stands as follows at the end of the year:

Saved on officers salaries	$464, 000
Loss due to additional tax	382, 336
Net saving	81, 664"

(Supra, p. 216).

In fact, the major difficulty of tax evasion is that provisions which originate in an intention to mete out justice in special cases are speedily taken advantage of by those who do not need the relief which the statute affords, but are technically able to take advantage of the remedial provision.

Thus, in the case of the R. J. Reynolds Tobacco Company:

"The above company has been allowed abatements and credits amounting to $1,698,265 for the year 1918. Their statutory tax would have amounted to $10,226,521; this has been reduced under section 328 to $8,528,266. The percentage of final profits tax to net income amounts to 40 percent" (supra. p. 225). This in the face of the fact that the company was in the 80% bracket.

Likewise, in the case of the American Car and Foundry Company:

"This company has been refunded and abated under section 328 of the act of 1918 the amount of $5,209,204 on account of its 1918 tax. The net income of this taxpayer was $37,443,246, the final profits tax under special assessment was $17,244,552, the final percentage of profits tax to net income amount to 46 percent.

"We would call attention to the fact that the United States Steel Corporation, an allied industry, was in the 80 percent bracket in 1918 and was assessed a total tax amounting to about 57 percent of their net income" (supra, p. 222).

Similar illustrations, supplied in the same source, concerning the Youngstown Sheet and Tube Company, the Northwest Steel Company and the Pittsburgh Steel Products Company, indicate to what extent some of the big corporations took advantage of the special assessment procedure to in effect reduce the excess-profits tax rate to much lower than was provided for in the statute.

Name	Amount of regular tax	Amount of refund due to special assessment
Youngstown Sheet & Tube Co., Youngstown, Ohio	$19,469,794	$3,482,610
Northwest Steel Co., Portland, Oreg	1,380,692	923,236
Pittsburgh Steel Products Co., Pittsburgh, Pa	4,698,161	1,830,227

(Information from S. Rpt. 27, pp. 222–3.)

A table of refunds in excess of $250,000 allowed from July 1, 1921, to the end of 1925 is supplied in appendix to part —, p —.

Difficulties such as those encountered in connection with "invested capital" and the special assessment features of the excess profits tax legislation apparently cannot be avoided, inasmuch as the loopholes in a tax statute are never fully realized until its practical administration begins. If one desires to be equitable, or not to be harsh in hard cases, one cannot neglect a feature such as invested capital or fail to allow for special exemptions in special situations. Fairness can only be purchased at the price of introducing complexity into the law, but complexity means more than trouble and expense. "The real evil", says Mr. Adams, "is found in the resulting uncertainty, the accumulation in the Treasury of claims for back taxes and penalties aggregating billions of dollars, the dread with which these claims must inspire the business world, the invitation which this situation offers to political jobbery and the wrongful mixture of big business in tax politics." (Needed Tax Reform in the United States, 2nd Ed. (1920), p. 9.)

Proponents of an excess profits tax scheme acknowledge that some allowance will have to be made for new capital expenditures in the war-time period, particularly those incurred in connection with the production of goods demanded for the effective prosecution of the war. Such allowance has taken in the past, and according to the recommendation of the War Policies Commission, should take in the future, the form of a deduction from net income. Any deduction from net income would of course decrease the amount of tax.

"From net income as now computed deduct:

* * * * * * *

"2. The cost of additional capital facilities required for the war and in due course to be authorized by the proper governmental war agency. * * * At the end of the war, the residual value of the additional facilities to be adjusted." (Doc. by War Policies Comm. H. Doc. No. 271, 72 Cong., 1st sess., pp. 22–23.)

High tax rates may result in a situation where it may be considered economically unwise to engage in new production, or the incentive for required industrial expansion may be restricted for other reasons. Large capital investments generally presuppose a duration in active use much longer than the average war period in order to make them self-paying. Even at the rate of tax prevailing in the World War years, considerably lower than some proposed rates, it was felt that special inducements had to be offered to industry to expand its capital facilities. This was the rationale of the amortization provision, providing that capital equipment constructed after the commencement of the war for the production of articles contributing to its prosecution, which became partially or wholly useless upon the war's termination, was to be allowed as a deduction to the taxpayer.

An idea of the vast amount of amortization allowances can be conveyed by the following table, which includes only amortization allowances in excess of $500,000 made in 168 cases.

"*Totals, group 1*

1. Total amount originally claimed	$459, 844, 015. 14
2. Total amount finally claimed	635, 934, 923. 16
3. Total amount finally allowed	425, 921, 945. 93"

(69th Cong., 1st sess., S. Rep. 27, p. 131.)

The allowance of war-time amortization brought up all the usual difficulties of valuation (see Memorandum in re Valuation), plus new problems of allocation of capital values according to war use, nonwar use, and the post-war use. The disparity between the amount of amortization claimed and the amount finally allowed is further brought out in the following summary of amortization allowances which were considered sound by an investigating committee, as contrasted with the amount of amortization not considered to be justified.

"7. Amortization based on solicitor's ruling and on sound engineering principles	$215, 256, 585. 52
8. Amortization not based on solicitor's ruling	136, 116, 453. 66
9. Amortization not based on sound engineering principles	74, 548, 906. 74
Total	425, 921, 945. 92"

(69th Cong., 1st sess., S. Rep. 27, p. 131.)

Administrative difficulties and the possibilities of disagreement are significantly illustrated by the number of open cases as contrasted with the number of closed cases in this same group of 168 cases.

"10. Closed under 1312 or 1006 agreement	$22, 597, 789. 94
11. Outlawed cases	117, 778, 885. 43
12. Inactive cases	32, 424, 553. 40
13. Open cases	253, 120, 717. 15
Total	425, 921, 945. 92"

(69th Cong., 1st sess., S. Rep. 27, p. 131.)

That the amortization provision on the whole redounded primarily to the advantage of the large manufacturers and miners may be gathered by contrasting the total amount of amortization allowances with the total amount of money involved in the 168 selected cases that were the subject of the above summaries. The total amount of amortization allowed was $597,000,000, whereas allowances in excess of $500,000 totaled $426,000,000, or 71%. (See Couzens Report, p. 132.)

The basic purpose of the amortization provision, to stimulate the production of war articles by encouraging capital investment during the war, is exceedingly difficult to define or to determine adequately, and consequently is subject to possibilities of misuse.

1. The erection of large capital facilities is a process which may extend over a great period of time, and therefore is subject to many changes. Specifications for construction may change. By mutual agreement or otherwise what may have been originally contracted for, may differ widely from what is ultimately erected. Furthermore, it is difficult, as a matter of equity, to determine whether facilities which have been contracted for before the war, are actually required for a war use as distinguished from a peace-time use. Considerations of individual fairness are involved as to the allowance to be made for facilities contracted for prior to the war but erected subsequent to its origin, which raise innumerable administrative obstacles and defy generalized treatment. It is therefore an over-simplification to speak of capital expenditures for facilities erected or acquired within the war period.

"Practically every large claim for amortization includes allowances upon facilities for the construction or acquisition of which the taxpayer was bound by contract prior to April 6, 1917, but which were not fully paid for on that date" (69th Cong., Senate Report No. 27, 1st sess., January 7, 1926, p. 135).

Furthermore, many plants were not completed until after the war was over. Although the original incentive for commencing construction may have been a war-time demand, it cannot be said that the completion of such construction represented a response to war-time needs. Nevertheless, it would be ruinous to interrupt building operations once they have proceeded beyond a certain stage. (See Couzens Report, pp. 136–137.) Industrial development, it must be remembered, possesses a continuity that is to a great measure unaffected by war conditions. It is accordingly very difficult to separate mushroom war-time growth from gradual peace-time development.

2. Considerable difficulty may be experienced with corporate entities set up during the war that take over capital plants which have been erected by other companies prior to the war. Amortization was frequently allowed in such cases.

"This statute has been construed by Income Tax Unit to allow amortization upon the mere legal fiction of acquisition, where there was no increase in productive capacity for war purposes, and where the acquisition and subsequent discarding of plants was for the sole purpose of consolidating an industry and killing competition" (p. 137). (See Couzens Report.)

3. The device of incorporation was subject to another artifice which clearly illustrates the difficulty of defining what are articles contributed for the prosecution of the war, and segregating them from articles not required for the prosecution of the war. For example, railroads were specifically held by the Bureau of Internal Revenue and by the courts not to fall under the scope of the amortization provisions, inasmuch as they did not contribute to the manufacture of articles required for the war. Nevertheless, amortization amounting to $2,789,185.49 was allowed to common-carrier railroad corporations whose stock was owned by the United States Steel Corporation and its subsidiaries, upon facilities owned not by a producer of articles but by a railroad corporation possessing only the attribute of having its stock owned by a war-use producer. As a matter of fact:

"The United States Steel Co. produced nothing, but it is the owner of the stock of other corporations, which did produce articles contributing to the prosecution of the war. Thus, we have railroad companies allowed amortization, because their stock was owned by a corporation, which owns the stock of another corporation, which comes within the class entitled to amortization" (p. 142). (Couzens Report.)

Pipe-line companies were also allowed amortization on the ground that their stock was owned by oil-producing companies. Among the oil companies thus benefited were the Texas Co., the Sun Oil Co., and the Sinclair Oil & Refining Co. Although the practice was condemned by the Solicitor of the Bureau in a ruling, allowances were made to housing corporations which were subsidiaries of various steel corporations, etc., on the ground that the parent company was entitled to amortization; a corporation organized to erect houses in the first place would not have been entitled to amortization. Similarly, amortization was allowed to corporations on tank and refrigerator cars, and even on land on the ground that the corporations were otherwise eligible for amortization. (See Couzens Report, pp. 143–144.)

The War Policies Commission contains an interesting recommendation in connection with facilities which are required for the war. It provides that these facilities are "in due course to be authorized by the proper governmental war agency." (Documents by War Policies Commission, 72d Congress, 1st session, House Document, no. 271, p. 23.) If such authorization be taken to establish the capital facility as one required for war use, there is considerable danger of an undesirable liberality being imported into the definition of war use. A war agency is likely to be more interested in the strenuous prosecution of the war, than in applying a strict measure of what is a facility required for war. It is therefore likely, on an odd chance that the facility may be put to a war purpose, or as an incentive to an organization to engage in war purposes, to endorse a plant as a capital facility required for the war, without careful scrutiny. It may be possible to watch similar developments in future war-tax administration, but the difficult administrative question of how to handle subsidiaries not engaged in the production of war articles themselves, but owned by corporations engaged in such production will always be present. Can a real disjunction be drawn between facilities erected for wartime use, and those erected during wartime but which do not directly produce articles for which the Government has a need?

There were three situations in which amortization allowances were made after the last war: (a) where property was completely discarded or sold; (b) where there was involved reduced replacement cost; (c) where "value in use" had been reduced. The Couzens Committee found very little to question on the first two categories. In connection with the first type of situation there is, however, always present the possibility of collusive sales of wartime equipment in order to write off amortization allowances. Reduced cost of replacement involves considerable difficulties of valuation. Most criticism has been concentrated upon the amortization allowances based upon loss of value in use. The delay before an authoritative ruling on this last-mentioned type of amortization was published is a significant indication of the administrative difficulties surrounding it.

"While the amortization provision was first inserted in the 1918 act, it was not until August 19, 1923, that the first ruling by anyone in authority interpreting this provision of the regulations was made. This ruling was made by Solicitor Hartson in the J. I. Case Threshing Machine Co. case and condemned the basis upon which every large amortization allowance for reduced value in use had been made. This ruling was not published until November 3, 1924, eight months after the expiration of the period within which redetermination of amortization allowances could be made. Although this ruling was made seven months before the expiration of the period within which redetermination could be made, there was not only no attempt to redetermine allowances made upon the condemned basis, but this ruling has not been followed in a single case, not excepting the case in which it was made." (69th Cong., 1st sess., S. Rep. 27, p. 149.)

There is abundant opportunity for discrimination, and incidentally, for administrative confusion, in the case of facilities erected during the war, for a war purpose, but as replacements for facilities which were deteriorating rapidly, becoming obsolete at the time when the new facilities were erected. The problem is to gauge adequately the extent to which a facility is being erected because of a wartime demand, as distinguished from installation in a situation where natural depreciation factors would have rendered such installation essential in a year or two. Probably because of the complexity of the engineering problem, old and new facilities had, when comparative capacity in production in the post-war period was being taken into consideration, to be grouped together in determining the value in use of facilities installed during the war. Although this was demanded by the practical exigencies of the situation, it nevertheless provoked adverse comment at the hands of the Solicitor of the Bureau.

"All of the taxpayers to whom the larger allowances for amortization were made were going concerns before the war. They all had facilities of age and condition varying from practically new to scrap. There was no attempt made in any of the larger cases to determine the actual usefulness of comparative remaining useful life of the facilities amortized for loss of useful value." (69th Cong., 1st sess., S. Rep. 27, p. 153.)

An indication of the advantageous treatment that could be procured by a company in a condition to consider in the aggregate its antiquated and modern plants, is supplied by the following illustration:

"Thus, although this war plant was the only plant owned by the taxpayer which could be economically operated, and *was in full use to 95 percent of its rated capacity*, and although its full rated capacity would be reached in one year, it was considered to be surplus capacity and to represent a loss to the extent of *47.4 percent* of its cost, because the company had on the scrap pile, charged to scrap, a collection of antiquated plants which could not be economically operated." (Investigation of Bureau of Internal Revenue, Couzens Report, p. 154.)

Future usefulness is conditioned upon an estimate of normal average productive capacity, and this raises complex problems involving the application of trained individual discretion. It is quite difficult to define a period which will be symptomatic of average production conditions for a plant, and it seems completely impossible to take a general period, covering all industry, which will be equally fair to the specific industries involved.

As a final evidence of the amount of difficulty caused by the concepts of "invested capital", "amortization", and "special assessment", might be cited the following percentage classification of overassessments in 125 cases. These took place in a period as late as 1930.

Classification of overassessments for the period January 1, 1930, to December 31, 1930

Principal cause	Amount	Percent of total
Estate tax	$19,023,863.08	23.57
Invested capital	12,263,512.08	15.19
Amortization	11,488,524.70	14.23
Depreciation	5,917,707.37	7.33
Special assessment	3,596,501.44	4.45
*****	* *	*
Total overassessments	80,724,098.03	100.00

(Rep. of the Joint Committee on Internal Revenue Taxation, March 3, 1931.)

EXHIBIT NO. 1407

[Telegram]

WASHINGTON, D. C., *December 14, 1934.*

W. S. CARPENTER, Jr.,
E. I. du Pont de Nemours & Co.,
Wilmington, Delaware:

Your files seem to indicate that you purchased three hundred thousand shares General Motors stock in October nineteen thirty one (Stop) Did you buy this for the account of the company (Stop) Did you conclude this or any similar transaction in nineteen thirty two or thirty three.

ALGER HISS.

(Send prepaid. Day letter. Government business for Senate Munitions committee, 408 Senate Office Building.)

EXHIBIT NO. 1408

[Telegram]

RXW5 24 DL-PDU WILMINGTON, DEL., 17 1011A,
1934 Dec 17, AM 1037.

ALGER HISS,
Special Senate Committee on Munitions,
408 Senate Office Building:

Reference your wire December fifteenth (Stop) Shares were purchased October twenty ninth at twenty-four dollars per share through J. P. Morgan and Company.

W. S. CARPENTER, Jr.

"EXHIBITS Nos. 1409 to 1411–L, inclusive," will appear later in the appendix to that part of the hearings in which the Colt Company testimony appears.

The following letter from the Treasury Department is entered into the record in connection with "Exhibit No. 1343."

TREASURY DEPARTMENT,
Washington, January 28, 1935.

MY DEAR MR. CHAIRMAN: Reference is made to the letter of the special committee of the United States Senate Investigating the Munitions Industry dated December 12, 1934, requesting information as to (1) the complexity from an engineering and legal standpoint of the matters involved in the determination of value, (2) the amount of time it would take to make an adequate investigation of an average sized industrial plant, and (3) specific examples of different valuations placed on property by experts appearing for the Government, experts appearing for the taxpayer and the court, and inquiring whether your committee could be supplied with information as to the personnel which would be required to conduct an adequate investigation into the problem of valuation.

The legal difficulty and uncertainty in the determination of value of property not subject to frequent sales, and as to which market quotations are not published daily, arises because it is so largely to be determined from factual and opinion evidence, none of which is legally conclusive. Such evidence is the best available. Upon such evidence the value is determined by a judge or jury, in certain instances inexperienced in valuation procedure and with inadequate knowledge of considerations governing market value. The weight to be given to the evidence is entirely within their discretion and short of the adoption of a fundamentally unsound principle or an erroneous theory by the court in its instructions, it is impossible to secure a reversal of their finding if there is any evidence in support thereof in the record. It is a rare case where some evidence is not admitted which will support a most unsound finding of value.

Market value has been defined as the sum that in all probability will result from fair negotiations of an owner willing to sell and a purchaser willing to buy (*Brooks-Scanlon Corporation* v. *United States* 265 U. S. 106 to 123, 44 Sup. Ct. 471). The fundamental difficulty in establishing the market value of industrial plants arises because as a general rule no two of such plants are alike, and a sale of the property in question rarely occurs at or about the date for which the market value is to be determined. Even in the rare cases where a sale of the property has occurred that is practically contemporaneous with the date for which the value is to be determined, the conclusiveness of such evidence is frequently impaired by the introduction of evidence attacking the fairness of the sale, alleging misrepresentation of fact, duress, or force, as factors in the transaction. As a result, in the case of the valuation of the great majority of industrial plants, evidence of value, other than sales of the property itself, must be resorted to.

"The value of property results from the use to which it is put and varies with the profitableness of that use, present and prospective, actual, and anticipated. There is no pecuniary value outside of that which results from such use. The amount and profitable character of such use determine the value" (*Cleveland, Cincinnati, Chicago & St. Louis Railway Company* v. *Backus*, 154 (U.S. 439, 447).

A determination of value based on estimates of present and future profits and an appraisal of the value of such profits, usually designated as an analytical appraisal, while theoretically sound and in many cases the only available method, opens a wide field for differences of opinion. These differences arise as to interpretation of facts existing at the date of valuation, as to what reasonable prognostications as to the future should be based on the existing facts, and finally as to what the market reasonably indicates as the proper factor to be applied to the prospective earnings to arrive at value, that is, the rate of capitalization at which the earnings are to be valued.

The elements essential to an analytical appraisal of market value are primarily estimates in the light of facts known at the date of valuation. Estimates must be made of future earnings, of the time when such earnings may be realized, and of the risk involved in the purchase of the property. When these elements have been determined, the conclusion as to value is arrived at by the application of a sound judgment based on knowledge of market transactions in measurably comparable property at the nearest available time to the date of valuation. The value sought is the price which general buyers and sellers should reasonably agree upon.

As applied to the appraisal of the going-concern value of an industrial plant, the first investigation ordinarily would be an audit of the books of the operating company to ascertain the operating costs, selling price of the product, operating profit, overhead, general expenses and depreciation, and an analysis of the capital accounts and a descriptive analysis of the asset and liability accounts.

There is considerable room for differences of opinion as to what should be included in operating costs and in capital account, and as to whether or not the past operating costs are not unduly high or low on account of extraordinary circumstances, i. e., frequently claims are made that the plant was in the development stage or that repairs and replacements, although correctly charged will not be representative in determining future costs, or that labor was untrained or inefficient, or that exorbitant or inadequate salaries were charged by interested stockholders or owners. What adjustments should be made under the circumstances are entirely matters of opinion. Similar questions may arise as to many "nonrecurrent" expense items.

Again, questions arise as to whether or not the plant was running at a representative or normal capacity during the period prior to the valuation date, considering a reasonable expectancy of future use at the date of valuation, and as to the effect on costs of use of the plant at "normal" capacity. Also, where the results of operation are erratic, differences of opinion arise as to what operating period should be taken as representative. The foregoing may be taken as illustrative, but not a complete list, of questions in which differences of opinion may arise in regard to operating costs.

As to the future selling price of the product, admittedly to be determined in the light of existing conditions, wide differences of opinion frequently arise. Where there is no established price for the product at the date of valuation, i. e., the product may be disposed of through long-term contracts or on a cost or cost-plus basis, the difficulty and consequently the differences of opinion in the estimate of present and prospective market price may be greatly increased.

Having proceeded to the point where the costs of production and market prices are determined, the operating profit is a matter of subtraction. Ordinarily, the percentage of the selling price that is operating profit under fluctuating costs and selling prices is much closer to a constant than the spread between cost and selling price, and a recognition of this fact permits the fixing of the margin of profit within reasonable limits. The application of this method of determining the margin of operating profit will generally be resisted by proponents of a high value, when, by the taking of costs in years of low prices against a higher expected future price, the estimated margin of operating profit is greater. Consequently, detailed analyses of such figures are necessary to demonstrate that in the particular case under consideration costs bear a necessary relation to selling price, that is, that an increased selling price is accompanied by increased costs and a decreased price is accompanied by decreased costs. On the questions of overhead and general expenses and depreciation, the same differences of opinion as in the case of the direct costs frequently arise, that is, as to whether or not extraordinary circumstances of a nonrecurrent nature have unduly affected such costs during the period preceding the date of valuation. In addition, if the value of one plant among several or of a part of plant is in question, the proper method of allocating all indirect costs further complicates the determination of value. The difficulty of determining depreciation and obsolescence, and the allocation of such charges, give rise to the same differences of opinion already mentioned with respect to direct and indirect costs of production.

The audit and descriptive analysis of the asset and liability accounts are essential in an analytical appraisal for the purposes of checking depreciation and plant accounts and of determining the capital, other than plant investment, necessary to the conduct of the business. When this factor is determined, a portion of the profits is allocated to such capital.

The determination of each of the foregoing factors gives rise to differences of opinion. The amount of capital actually employed in the case of a single plant varies considerably from time to time and the amount that should normally be employed is essentially a matter of opinion. The question of the market rate of return on the capital, other than plant, is again a matter of opinion. There remains after the disposal of the foregoing determinations the ultimate question as to the rate at which earnings attributable to the plant should be capitalized, another matter of opinion based on the judgment of experts.

Estimates of expected profits are not infrequently complicated by the following circumstances; the product manufactured or the machines used in the manufacturing of the product are covered by patents; the plant operates under patent licenses; the product is manufactured or disposed of under terminable life contracts; the manufacturing is carried on in leased premises at rentals other than the present or prospective fair rental value; the plant is operating for others under contract with results which are more favorable or less favorable than might be obtained under terms of a contract which might be negotiated under present or prospective conditions. These factors enhance or depress present earnings and future earnings must be adjusted to allow for the discontinuance of the effect of such factors. The amount of such adjustments is at best a matter of judgment and opinion and on account of the highly technical nature of the subject matter, particularly in circumstances involving the use of patents, is inherently difficult from the standpoint of administrative and judicial determination.

The question of what portion of the hearings are attributable to patent protection and what portion to the business of manufacturing may be cited as one example of these difficulties.

In the case of the valuation of one plant among several operated by a business concern, the number of determinations mentioned above are multiplied due to the necessity of allocation.

By numerous decisions of the Supreme Court of the United States it is firmly established that the cost of reproduction new less depreciation constitutes evidence properly to be considered in the ascertainment of value. (*Standard Oil Company of New Jersey* v. *Southern Pacific Company, et al.*, 268 US. 146, 450 Sup. Ct. 465).

In the same case the court points out, however, that such evidence is not the measure or sole guide and states:

"The ascertainment of vaue is not controlled by artificial rules. It is not a matter of formulas, but there must be a reasonable judgment having its basis in a proper consideration of all relevant facts."

The estimation of cost of reproduction new requires a very detailed and expensive inventory of each and every item comprising the plant. The current costs of all of these items must then be estimated. Such estimates include present costs of the land occupied by the plant, grading, excavation, foundations, building materials of every description, including freight, labor and superintendence during construction, cost of machinery incuding freight and installation, office and general overhead expense during the construction period, engineering and architectural fees, interest on capital during the period required for plant erection, and frequently such things as contractors' profits, overhead and general expenses and/or cost of specialized technical supervision. With such listing of items and with such estimates of current costs and prices, the cost of reproduction new is computed. The depreciation to be deducted must then be estimated.

This type of appraisals are usually made by long-established engineering firms who have maintained files containing price lists and descriptive matter from all available manufacturers of items making up the plant and equipment for all types of industrial concerns. Such estimates of depreciation are usually the personal opinions of the men taking the detailed inventory, usually the minor employees of the appraiser. Such a man looks at a structure or a machine, or at its important parts, and says that is a certain percentage of as good as new insofar as wear and tear and physical decay are concerned. The estimation of obsolescence is almost never attempted. The result frequently is that the appraisal includes estimated costs to reproduce such things as masonry buildings which are obsolete and would be more expensive to reproduce than would a strictly modern substitute structure. The appraisal may include machines which are entirely obsolete because of costs of operation greatly in excess of those of modern machines, yet such machines may exhibit little or no physical deterioration and be included at practically 100% of cost of reproduction new. The cost of reproduction new, less depreciation representing only physical deterioration, is the so-called "sound value" of this type of appraisal. Such appraisals, especially if made at about the time of valuation, are extremely difficult to meet or check retrospectively unless by means of their own inherent weakness or through other evidence of value (*G. C. Thompson Company* v. *Routzahn*, 25 F. (2d) 897). On account of their lack of conclusiveness, the amount of detailed work required, the remoteness of the date of valuation, and the intervening changes in plants involved, it has been found impractical in verifying such appraisals in the Bureau of Internal Revenue, to do more than require that such appraisal show the date of acquisition and original cost, check reproduction costs with the best index factors obtainable to determine the difference between original cost and reproduction cost new, and make such allowance for depreciation and obsolescence as appears to be justified by the circumstances of the particular case.

In the trial of valuation questions the dollar and cents figure shown as reproduction cost new, less depreciation and obsolescence, even under proper instructions because of its simplicity, may be given undue weight as evidence of market value rather than proper consideration with the other evidence in the case.

In the case of plants under corporate ownership, the sale price of shares of stock in the market may be admissible as evidence of the value of the assets. However, the shares of stock and the net assets of a corporation are entirely different things, and the value of one bears no fixed nor necessary relation to the value of the other (*Ray Consolidated Copper Company* v. *United States*, 268 U.S. 373). This type of evidence is therefore never conclusive. Unless the value in issue is the entire going concern value of the corporation, such evidence is not a measure of the value of the property (*Pullman Palace Car Co.* v. *Central Transportation Co.*, 171 U.S. 138), although it may be a part of the foundation for expert opinion on value and a fact to be considered by the judge or jury with other evidence in reaching their finding of value.

Value in the case of industrial plants generally must be a conclusion based on facts and the expert opinions contributed from four distinct technical fields, that is, accounting, engineering (construction and operating), legal, and financial. The conclusion requires a correlation of these contributions since the factors contributed from each source are interdependent and modify the effects of contributions from the others.

The professions or avocations from which the contributions are made are technical and have developed experience, language, and methods of procedure peculiar to themselves. As a result, the presentation of evidence in valuation cases in such a manner that technical complexities are minimized and the technical conclusions appeal to the common sense of parties having to deal with the determination of value, is a difficult matter and requires intensive preparation. Technicians are generally prideful or unconscious of the technical manner in which their contributions are made, and reluctant or unable to reduce their contributions of fact or reason to simple fundamentals, intelligible to technicians in other fields and to the nontechnical man.

A further difficulty in the administration and judicial determination of market value is due to a loose popular conception or definition of value. This difficulty attends the whole process of determining value. It particularly affects expert opinion. Some fallacy, or a combination of fallacies, may be interwoven in or form the basis of the opinion. In many cases the incompetency of such opinion is not or cannot be shown on direct or cross-examination with the result that such opinions may support a most unsound finding of value.

A few examples of persistent fallacies of this nature which have arisen in such a manner as to permit their rejection by the courts are:

(1) The theory that more or less uncertain estimates involved in the determination of value at the date of valuation may be corrected by the later ascertained facts (*Ithaca Trust Company* v. *United States*, 279 U.S. 151).

(2) That the value of property is measured by the subsequently ascertained ultimate return therefrom, or that latent occult intrinsic value controls rather than the considerations that affect market value and have their influence upon men of affairs (*Stratton's Independence, Limited*, v. *F. W. Howbert, Collector*, 231 U.S. 399; *Reinecke* v. *Spalding*, 280 U.S. 227).

(3) That value is to be determined under an assumption of nonexistent conditions, or on some speculative assumption as to what the value would have been if something which did not occur had occurred (*National Bank of Commerce* v. *City of New Bedford*, 29 N. E. 532; *Bingham's Administrator et al.*, v. *Commonwealth*, 244 S. W. 781; *Rice* v. *Eisner* (C.C.A. 2), 16 F. (2d) 358).

(4) That value is to be determined by some morally just or normal standard divorced from the conditions existing at the date of valuation and the standard established by the market which is the gauge of the considerations which influence general buyers or sellers, and of the intensity of the social desire for the property at the time (*Ithaca Trust Company* v. *United States*, 279 U.S. 151; *Boyd* v. *Wiley*, 124 U.S. 105; *United States* v. *New River Collieries Co.*, 262 U.S. 341–345; *719 Fifth Avenue* v. *United States*, 5 F. Supp. 909; *United States* v. *Cole et al.*, T.D. 4165, C. B. VII–1268, C.C.H. 1927, p. 7720).

(5) Misconceptions of the nature and character of the property to be valued (*Reinecke* v. *Spalding*, 280 U.S. 227; *Kaufmann & Bauer Co.* v. *Heiner*, 34 F. (2d) 698).

(6) A failure to properly weigh the reasonably assured and the remote or more or less speculative elements which contribure to value (*Johnson* v. *United States*, 44 F. (2d) 244, 70 Ct. Cl. 534; *719 Fifth Avenue* v. *United States*, 5 F. Supp. 909; *Driscoll et al.*, v. *Inhabitants of Northbridge*, 210 Mass. 151, 96 N.E. 59; *United States* v. *Cole et al.*, T.D. 4165, C.B. VII–1268, C.C.H. 1927, p. 7720; *Commissioner* v. *Swenson* (C.C.A. 5), 45 F. (2d) 61).

(7) Attributing value to a particular property based on earnings derived in great part from amny other elements or properties contributing to the production of such earnings (*Perfect Window Regulator Co.* v. *United States*, 66 Ct. Cl. 147; *Keystone Wood Products Co.* v. *Commissioner*, 19 B.T.A. 1116).

Another further weakness from a governmental standpoint in establishing market value is due not infrequently to the unwillingness of experts in specialized lines to accept employment as opinion witnesses for the Government. This is largely due to the fact that in many cases there is a common interest extending throughout all industries under a given set of circumstances to secure the advantage of high or low values. Competent witnesses are either directly connected with or dependent on the industry for their regular income. Witnesses of the highest qualifications are, therefore, frequently unable or unwilling to accept governmental employment.

The Bureau of Internal Revenue has had to determine the value of physical plants as distinguished from going-concern value at March 1, 1913, in the cases of taxpayers owning plants on and operating them after that date. Such determinations were made for the purpose of establishing a base for depreciation allowances. In the great majority of such cases the taxpayers and the Bureau have been able to agreed upon a value equal to cost less sustained depreciation. Difficulty in these cases was confined generally to questions of correct accounting. The stable nature of such property and the relatively stable price level for a considerable period prior to and at March 1, 1913, eliminated, to a large extent, questions of appreciation in value and were in a large measure responsible for the comparative ease with which such questions were settled.

On account of the instability of the market standards, valuation of physical property in periods of depression or unusual prosperity furnishes the opportunity to present opinion evidence out of line with the general market conditions existing at the time, and in line with the exigencies of the case and the idiosyncracies of the witnesses. The uncertainty of litigation involving value questions to be determined in such periods is thereby increased.

On account of their peculiar and individual characteristics in every case and the confusion of their qualitative characteristics as distinguished from their quantitative contribution to value, intangible elements which may contribute to the value of industrial property generally, such as goodwill, trade marks, trade brands, etc., are the frequent sources of irreconcilable differences of opinion and litigation.

However, in determining going-concern value as a whole, available market records of prices of securities of comparable corporations furnish a yardstick or market standard which permits, but does not insure, some check on the reasonableness of opinions as to value.

When patents are to be valued separate and apart from goodwill, trade marks, trade bands or other intangible elements contributing to the value of property operated or to be operated as a whole, the values of each are inherently matters of opinions. The motive of interest results in the production of unreasonable opinions in such cases. Opinions of this nature are of frequent occurrence in which earnings in excess of a fair return of the tangible property are attributed almost entirely to patents, although it is patent that extensive advertising and good management have built up a large element of goodwill. Such opinions are the source of increased uncertainity as to outcome in litigated cases of this nature.

The foregoing recital of the complexities and uncertainties in the determination of fair-market value from commercial and legal standpoints, since it attempts to cover the entire field in a general way, probably overemphasizes the difficulties that may be encountered in the great majority of cases. If the foundational facts are fully developed, the field for reasonable differences of opinion is greatly narrowed. Given competent representation on both sides, assurance that the valuation will be competently litigated if necessary and applying the standard of a common-sense reaction by a court or jury to the evidence which may be adduced by both sides rather than the standard of decisions in exceptional and extreme cases, the great bulk of valuation issues should be satisfactorily disposed of administratively.

Your question as to the amount of time it would take to make an adequate investigation of an average-sized industrial plant is difficult to answer on account of the varying circumstances under which such an investigation may have to be conducted. A few of the circumstances which may greatly vary the time required in such an investigation are: The elapsed time between the date of the investigation and the date of valuation; the condition of the books of account, plant records, and operating records of the plant under investigation, and the question as to what portion of the work of the investigation may be thrown upon the owners of plants.

The answer to your question which follows is not based on the statistical analysis and should be taken as subject to wide variation in individual cases even under the assumed conditions which are suggested. The assumptions made are as follows: (1) That the original records, minute books, stock registers, stock transfer books, books of account, operating records and plant accounts are well kept and available; (2) that the burden of appraising the plant to be valued is placed upon the owner of the plant, the appraisal to show as to each item making up the inventory of plant, the date of purchase, the cost, the facts relied on to support present reconstruction cost equal to cost or departures from cost either up or down, and the facts relied upon to demonstrate the amount of depreciation and obsolescence accrued; (3) that all evidence of value either supporting a high or a low value within the knowledge of the owner of the plant is submitted by the owner of the property; (4) that the owner of the plant is restricted on any appeal from the original determination of value to the foundational facts, as distinguished from conclusions or opinions, submitted before the original determination of value, and (5) that an average sized industrial plant is one having a value of about $3,000,000.

Under the conditions assumed, it is estimated that a competent auditor, with one assistant, and a competent engineer, with one assistant, would require about three months to check the history of the plant, factual evidence as to transactions in interests in the plant or in the securities of corporate owners, operating records, capital accounts, and assemble the foundational facts upon which an analytical appraisal valuation must be based, including reasonable conclusions as to reconstruction costs new less depreciation and obsolescence, and as to the earnings and capital accounts. A competent valuation expert either having commercial experience or a knowledge of commercial transactions and of market conditions, and with some legal advice, should be able to arrive at a defensible value based on the standard of the market within one month. In cases which are litigated, there should be added to the above time to prepare for trial, the time of one lawyer for a thirty-day period, one auditor for an additional thirty days, one engineer and one valuation expert for at least the same period, and probably ten days for three expert witnesses. If the principal foundational facts are stipulated, the trial time may be a week or less. If agreement on the foundational facts cannot be reached, the trial time is impossible to estimate, as is demonstrated by the widely varying length of the proceedings in hearings of public utility commissions with which you are no doubt familiar.

Your additional inquiry as to whether information could be furnished as to the personnel which would be required to conduct an adequate investigtion of the problems of valuation must be answered in the negative on account of inadequacy of the information as to the scope of the inquiry contemplated.

The table attached hereto shows specific examples of different valuations placed on property by experts appearing for the Government, by experts appearing for the taxpayer and the courts, as well as a few cases in which the Government relied on sales of the property in question and/or the sale price of the owner corporation's securities.

The Bureau of Internal Revenue has settled administratively, or through litigation, the cost or fair market value as of March 1, 1913, whichever is greater, of practically all property operated in the United States which is subject to depreciation, exhaustion, or depletion allowances under the income-tax statutes.

The remaining costs (or Mar. 1, 1913) are kept up to date in connection with the preparation and audit of each year's income-tax returns. It therefore suggests itself, that adopting the value remaining after deducting allowances recognized as sustained under the income-tax statutes as a basis for contractual compensation for the use of such property, may be worthy of your consideration. Such a basis has the merit of avoiding the burden of a large volume of revaluations. It has the further merit that a large percentage of the original value determined on other than a cash cost basis has been eliminated through the allowances for exhaustion, depletion and depreciation. The necessity for valuing land and possibly other nonwasting assets, as well as natural resource deposits discovered and patent developed after March 1, 1913, if such a basis were adopted, would still remain.

Very truly yours,

——— ———,
Acting Secretary.

Hon. Gerald P. Nye,
Chairman Special Committee Investigating the Munitions Industry,
United States Senate.

Title of case	Kind of property valued	Evidence of value		Value found by Court, Jury or the Board of Tax Appeals
		Government	Taxpayer	
Syracuse Food Products Corporation (21 B. T. A. 864).	Patents at March 1, 1913	Opinion evidence $200,000 to $260,000	Opinion evidence, $3,500,000 to $4,000,000.	$1,750,000.
U. S. v. *Cole et al.* (T. D. 4165, C. B. VII–268, C. C. H. 1927, p. 7720).	Undeveloped mining property at March 1, 1913.	Opinion evidence, $1,500,000	Opinion evidence, $2,500,000 to $9,000,000.	$1,875,000.
Newaygo Portland Cement Co. (27 B. T. A. 1097).	Hydroelectric power plant	Opinion evidence, $206,000	Opinion evidence, $650,000	$375,000.
American Metal Co. (30 B. T. A.)	Value developed mine, December 4, 1925.	Opinion evidence, $1,428,570	Opinion evidence, $4,250,000	$1,500,000.
719 Fifth Ave. v. *U. S.* (5F. Supp. 909)	Value leasehold March 1, 1913	Opinion evidence, 0	Opinion evidence, $300,000 to $370,000.	0.
Wise v. *Heiner* (unreported)	Value undeveloped coal land	Opinion evidence, $400 per acre	Opinion evidence $1,200 per acre.	$600 per acre.
Tex-Penn Oil Co. (28 B. T. A. 917)	Value of 1,007,834 shares of stock in newly organized oil company.	Opinion evidence, value $10,078,340	Opinion evidence value, 0	$7,054,838.
J. G. Robertson (28 B. T. A. 53)	Value shares common stock Firestone Tire & Rubber Co. at March 1, 1913.	Opinion evidence, $300 per share. Sale price in the market $300.	Opinion evidence $670–$800 per share. Cross examination one witness: "Anyone would be a sucker to pay more than $300.00."	$550.
J. G. Robertson Routzahn (1 F. Supp. 355)	The issue was the same and the evidence substantially the same as in case above			Not in excess of $431.85 per share
Guckenheimer & Bros. Co. v. *Heimer* (unreported).	Good will distillery business	Opinion evidence, 0	Opinion evidence, $1,500,000	$750,000.
Atlantic Steel Co. v. *Rose* (unreported)	Assets of steel company	Evidence of a contemporaneous sale for cost at $1,415,632; subsequent sale price of petitioner's stock evidencing value less than $2,000,000.	Opinion evidence, $2,941,030.89 to $3,441,030.89.	$2,673,548.06
Spahr Brick Co. (2 B. T. A. 946)	Entire assets of a brick company	Sales of 63 percent of the stock of predecessor corporation supporting value less than $30,000.	Opinion evidence, $141,617.23.	$63,967.23.

The following information on comparative prices of powder was requested of the War Department and supplied under date of April 4, 1935 (see text, p. 4173):

> It is impracticable to furnish complete information respecting comparative prices paid for powder as requested, because in many of the contracts the Government furnished one or more of the ingredients with a corresponding reduction in price. However, in the following contracts it appears that the conditions were the same and the prices are accordingly submitted for the information of the committee.
>
> The following is a partial list of contracts placed during the World War for powder:

Cannon powder

Order no.	Company	Quantity	Unit price
		Pounds	
471.5/145/26	Etna Explosives Co	1,220,000	$0.52
471.5/145/12	Du Pont	2,220,000	.52
G. E. 150	Du Pont	5,380,000	.50
G. E. 151	Du Pont	10,382,500	.47½
G. E. 152	Du Pont	13,500,000	.47½
G610–311E	Du Pont	14,000,000	.49½
G628–312E	Du Pont	40,500,000	.49½
G674–314E	Du Pont	100,440,000	.49½
471.5/145/35	Hercules Powder Co	778,000	.52

Small-arms powder

Order no.	Company	Quantity	Unit price
		Pounds	
15467	Du Pont	4,819,000	$0.60
17357	Du Pont	5,000,000	.60
R-1148-C	Du Pont	9,000,000	.60
P-12462-1242E	Hercules Powder Co	50,000	.60
P-17067-2812-S. A	Hercules Powder Co	50,000	.62
P-3988-662-E	Hercules Powder Co	6,000,000	.62

The following information was requested of the du Pont Company by the committee (see text, p. 4227):

E. I. du Pont de Nemours & Company, Incorporated,
Legal Department,
Wilmington, Del., April 18, 1935.

Alger Hiss, Esq.,
Special Committee Investigating the Munitions Industry,
408 Senate Office Building, Washington, D. C.

Dear Mr. Hiss: In the course of our examination at the December hearings (p. 6138 of the typewritten record), you asked whether the "100-acre factory site of parcel A" and the improvements thereon included in the du Pont Fibersilk Company's purchase (broad gauge tracks, poles, light and power wires, etc., water lines, sewers, hydrants, Percy House, etc., police headquarters, and soda storehouse no. 5) as described near the end of the matter headed "Rights of Way" in "Appendix A" of the contract of purchase shown as your exhibit no. 1372, are a part of or in addition to the village, as described in the middle of the matter headed "Parcel A" in "Appendix A." I undertook to supply this information. The answer, I find, is that the items in question are a part of the village, and not additional thereto. This, I believe, will be apparent to you from the internal evidence of the contract itself, upon closer examination of that document, since you will note that the two separate descriptions both include the items of "Percy House" and "Soda Storehouse No. 5."

To clear up an apparent misconception in the record, it occurs to me to add that the property acquired by the du Pont Fibersilk Company included only a portion of the original Old Hickory Village as constructed in 1918 by Mason & Hanger Company under the supervision of the du Pont Engineering Company.[1]

Very truly yours,

NPW/amp/v W. F. GREGG, *Of Counsel.*

The following letter is in response to a request of the committee regarding persons involved in legislative work for the du Ponts (see text, p. 4228):

E. I. DU PONT DE NEMOURS & COMPANY, INCORPORATED,
LEGAL DEPARTMENT,
Wilmington, Del., May 22, 1935.

Hon. GERALD P. NYE,
United States Senate, Washington, D. C.

DEAR SENATOR NYE: Serious thought has been given to the request for certain data referred to in your letter of May 10. While desirous of being cooperative with your committee, I should like to give you some idea of the difficulties of compliance with the committee's request.

Our company produces and sells over 4,000 products throughout this country and it is of the utmost importance that we should keep abreast at all times of all laws and regulations (Federal, State, and municipal) affecting our varied lines of activity as much in advance of the actual passage of such laws as possible. Our company depends upon its membership in trade associations, chambers of commerce, and commercial service companies to obtain copies of pending bills and proposed regulations. These cover a wide range of subjects, such as the storage of paint, the labeling of products, regulations for the manufacture, transportation, storage, sale and use of commercial explosives, workmen's compensation laws, and the infinite variety of other matters which from time to time arise in the ordinary routine of everyday business. As such bills are received, the matter of presenting the views of the departments affected usually is left to the many trade associations of which we are members.

The point I wish to emphasize is that such work on the part of employees of our company is quite incidental to their other company work. We have no officers, employees, publicity agents, or lawyers who are engaged more than incidentally in legislative work. Our records for the period referred to do not indicate the time occupied by any of our employees who were engaged in legislative work. The term "legislative work" is so comprehensive that if taken literally in this connection to include those who have in any way considered and made suggestions with respect to pending bills and/or regulations (Federal, State, or municipal), it would hardly warrant the exclusion of a single employee holding a position of any responsibility whatsoever. Certainly a report of the total compensation paid to and other income from the company of such employees for such an extended period, merely because they had rendered service of such a character quite incidental to their ordinary work, and regardless of the extent or character of such work, would present such a distorted picture as to be of no value to your committee.

As to the last paragraph of your letter: We do not have in our files a list of the names of officers, officials, representatives, publicity agents, or lawyers of the organizations to which we have subscribed during the period referred to, nor of the salaries or incomes of such individuals. We probably could secure such information as to salaries paid (at least with respect to most of such period) with the acquiescence of such organizations, but it is quite improbable that information as to their incomes would be made available to us. It should be borne in mind, however, that such salaries paid would come exclusively from membership fees received from members of all the companies comprising such organizations, a list of which for the year 1933 was mailed to Mr. Raushenbush under date of November 23, 1934. This is substantially an up-to-date list.

Very truly yours,

THOMAS R. HANLEY.

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[1] Under date of April 30, 1935, the committee asked the du Pont Company exactly how much of the Old Hickory Village was acquired by the du Pont Fibersilk Co. Under date of May 7, 1935, the du Pont Co. replied that they had no information as to the portion of the Old Hickory Village acquired by the du Pont Fibersilk Co. other than that contained in the contract executed by the United States of America and the Du Pont Fibersilk Co. This contract was entered as "Exhibit No. 1372" and appears in the ppendix on p. 4413.

The following information regarding contributions to the National Economy League was requested of the du Pont Company by the committee (see text, p. 4228):

E. I. du Pont de Nemours & Company, Incorporated,
Executive Offices,
Wilmington, Del., April 18, 1935.

Hon. Gerald P. Nye,
United States Senate, Washington, D. C.

Dear Senator Nye: During the course of the hearings of your committee Senator Clark asked the question whether E. I. du Pont de Nemours & Company, or any of its officers or directors, had made any contribution to the National Economy League; and if so, how much?

This question was asked of Mr. Irénée du Pont, but he did not have the information and agreed to give it later.

In his absence, I am advising you that in 1934, E. I. du Pont de Nemours & Company contributed $2,500 to the National Economy League, and made no other contribution to it either before or later.

As to whether any of the officers or directors of the du Pont Company made any contribution to this organization, I cannot say. I did not make any such contribution and, as far as I know, no other officer or director made any such contribution. If such contributions were made by any of the individuals, it was purely a personal matter of their own and in no way connected with the du Pont Company.

Trusting that the foregoing will meet Senator Clark's purpose, I am

Yours very truly,

L. du Pont, *President.*

LduP/MD.

The following list of stockholdings of officers and directors of the E. I. du Pont de Nemours & Company and subsidiary companies in excess of $10,000 was requested by the committee (see text, p. 4253):

E. I. du Pont de Nemours & Company, Incorporated,
Executive Offices,
Wilimington, Del., December 28, 1934.

The Hon. Gerald P. Nye,
Chairman Senate Committee Investigating the Munitions Industry,
Washington, D. C.

Dear Senator Nye: At the recent hearings you referred to your secretary's previous request that we secure for your committee information from certain individuals regarding their holdings of securities during the years 1925 to 1934.

At that time I advised you that we did not feel we had any authority to require these individuals to give you the information requested, but that your secretary's request had been passed on to the individuals in question.

Although in passing this request on, it was our intention to have those individuals, who desired, send your committee direct the information requested, for some reason a number of the individuals forwarded me the information. I am enclosing herewith the original letters in such cases, as follows: December 17, 1934, W. A. Twelkemeier; November 30, 1934, L. P. Mahony; December 5, 1934, A. R. Chantler; December 5, 1934, A. D. Chambers; December 3, 1934, Cesare Protto; December 3, 1934, V. C. Gouert; December 3, 1934, I. J. Cox; December 13, 1934, William du Pont, Jr.; memorandum undated, E. W. Furst; December 12, 1934, T. S. Grasselli; December 17, 1934, T. J. Ross; December 17, 1934, F. K. Gatch; December 17, 1934, O. M. Hook; December 17, 1934, G. A. Gahles.

Yours very truly,

L. du Pont, *President.*

LduP/MD

[Personal]

NATIONAL AMMONIA COMPANY, INC.,
St. Louis, Mo., December 17, 1934.

Mr. M. D. FISHER,
Secretary National Ammonia Company, Inc.,
Wilmington, Del.

DEAR MR. FISHER: Returning to the office from an absence on vacation, I acknowledge receipt of Mr. du Pont's November 26 letter with respect to the information requested of officers of wholly owned subsidiary companies, in connection with the United States Senate investigation of the munitions industry.

During the years 1925 to 1934 I did not personally hold stock in any other company in amounts of $10,000 or over.

I personally made no campaign contributions during the years 1919 to 1934, inclusive.

Very truly yours,

W. A. TWELKEMEIER,
Assistant Treasurer.

WAT:hs

(Stamped: Received, December 21, 1934, Lammot du Pont.)

AMERICAN GLYCERIN CO. (INC.)
November 30, 1934.

Mr. LAMMOT DU PONT,
President, Building.

Your letter November 26 with enclosures.

I have not been the owner of stocks in other companies than the du Pont Company in the amounts of $10,000 or over at any time during the years 1925 to 1934, inclusive.

I have made no campaign contributions during the years 1919 to 1934, inclusive.

L. P. MAHONY, *Director.*

ARC/gps

(Copy to Mr. I. J. Cox, president American Glycerin Co., Building.)

E. I. DU PONT DE NEMOURS & CO. (INC.),
ORGANIC CHEMICALS DEPARTMENT,
Wilmington, Del., December 5, 1934.

Mr. LAMMOT DU PONT,
President, Wilmington, Del.

MY DEAR MR. DU PONT: I acknowledge your letter of November 26th requesting a statement of stockholdings in companies other than the du Pont Co.

For the period 1925–34 I did not hold stock in any company other than the du Pont Co. in an amount of $10,000 or over.

Yours very truly,

DYESTUFFS DIVISION,
A. R. CHANTLER, *Director of Sales.*

LPMS

(Stamped: Received Dec. 6, 1934, Lammot du Pont.)

E. I. DU PONT DE NEMOURS & COMPANY, INCORPORATED,
ORGANIC CHEMICALS DEPARTMENT, DYESTUFFS DIVISION,
Wilmington, Del., December 5, 1934.

Mr. L. DU PONT,
President, E. I. du Pont de Nemours & Company,
Wilmington, Del.

DEAR MR. DU PONT: In answer to your letter of November 26, regarding stockholdings in other companies, please be advised that the writer did not own any stocks other than Du Pont in amounts to $10,000 or over, during the years 1925 to 1934, inclusive.

Sincerely yours,

A. D. CHAMBERS,
Manager, Dyestuffs Division.

ADC:W

(Stamped: Received, December 6, 1934, Lammot Du Pont.)

E. I. du Pont de Nemours & Company, Incorporated,
Organic Chemicals Department, Dyestuffs Division,
Wilmington, Del., December 3, 1934.

Mr. Lammot du Pont,
President.

My Dear Mr. du Pont: Referring to your letter of November 26th regarding stocks in the amount of $10,000 or over, owned by the writer during the years 1925–1934; would advise as follows:

100 G. M. 5% Pref., 12/2/25, sold 10/8/31.
100 G. M. 5% Pref., 3/30/25, sold 10/8/31.
50 International Cellucotton Products Co., 3/26/28.
50 International Cellucotton Products Co., 10/1/28.

Yours very truly,

Cesare Protto,
Assistant General Manager.

gps

(Stamped: Received December 4, 1934, Lammot du Pont.)

American Glycerin Company, Incorporated,
Wilmington, Del., December 3, 1934.

To: L. du Pont, president E. I. duPont de Nemours & Company.
From: V. C. Gouert, treasurer American Glycerin Company.

In compliance with your letter November 26, enclosing copy of communication under date of November 20, 1934, received from the secretary of the Special Committee of the United States Senate Investigating the Munitions Industry, advise that I do not have now and did not have during the years 1925 to 1934, inclusive, any stockholdings in any corporation in amounts of $10,000 or over, nor did I make any campaign contributions during the years 1919 to 1934, inclusive.

VCG/F V. C. Gouert, *Treasurer.*

(Stamped: Received, Dec. 4, 1934, Lammot du Pont.)

American Glycerin Company, Incorporated,
Wilmington, Del., December 3, 1934.

Mr. Lammot du Pont, *President,*
Room 9044 Building.

(Your letter November 26th.)

Dear Sir: As I recall it, I more or less regularly made some small campaign contributions in the years 1919 to 1929 inclusive. The amounts of these contributions probably averaged about fifteen or twenty dollars annually for these years. After 1929 I have made no campaign contributions until this year when I contributed $40 to the Republican National Committee.

As to ownership of stock in corporations other than du Pont during the years 1925 to 1934 in amounts of more than $10,000, I will list them as follows: 1,200 shares General Motors Corporation, common stock, and 57 shares General Motors Corporation, preferred stock.

In order to make the information complete I am including a list of securities held in the name of my wife, Alice C. Cox: 308 shares Chesapeake & Ohio, common stock; 269 shares U. G. I., common stock; 50 shares U. G. I., preferred stock; 59 shares American T. & T. Company common stock.

The items in the foregoing list have from time to time amounted to more than $10,000 in value during the last five years.

Mr. F. A. Herpel, vice president of American Glycerin Company is ill and on leave of absence but he has informed me that he has made no campaign contributions during the years 1919 to 1934, inclusive, and that he has no stock holdings in any company other than du Pont in amounts of more than $10,000.

Yours very truly,

IJC/F I. J. Cox.

(Stamped: Received, Dec. 4, 1934, Lammot du Pont.)

928 DELAWARE TRUST BUILDING,
Wilmington, Del., December 13, 1934.

Mr. LAMMOT DU PONT,
du Pont Building, Wilmington, Del.

DEAR LAMMOT: As requested in your form letter of November 26th, 1934, to the officers and directors of the company, I have submitted this date to the United States Senate Special Committee Investigating the Munitions Industry the list of my stock holdings.

Sincerely yours,

WM. DU PONT, JR.

Stock holdings in various companies in amounts of $10,000 and over by E. W. Furst since the acquisition of The Grasselli Chemical Company by du Pont in 1928:

Central United National Bank, Cleveland, O	250
Perfection Stove Company, Cleveland, O	200
Chase Brass & Copper Co., Cleveland, O	200
Proctor & Gamble Company, Cincinnati, O	200
Sherwin-Williams Co., Cleveland, O	240
Standard Oil Co. of New Jersey	400
Youngstown Sheet & Tube Co., Youngstown, O	150

THE GRASSELLI CHEMICAL CO., INCORPORATED,
Cleveland, O., December 12, 1934.

Mr. LAMMOT DU PONT,
President E. I. du Pont de Nemours & Co.,
Wilmington, Del.:

Acknowledging your letter of November 26th which accompanied a request from Mr. Stephen Raushenbush, Secretary of the Special Committee Investigating the Munitions Industry, requesting from Directors of du Pont a list of the stockholdings in other companies in amounts of $10,000.00 and over, held during the years 1925 to 1934. I submit for your information and passing on to the Secretary of the Special Committee, the information requested.

T. S. GRASSELLI.

TSG/C

CLEVELAND, O., *December 10, 1934.*

To: Mr. S. Raushenbush, secretary Special Committee Investigating the Munitions Industry.
From: T. S. Grasselli.

Names of companies in which I had $10,000 or more invested, between 1928 when I became a member of du Pont and 1934: American Rolling Mills Co., Ohio Brass B common, F. E. Myers & Bros. Co., McKinney Steel Holding 6% pfd., Ohio Oil Co., Procter & Gamble, Cleveland Tractor Co., the Union Trust Co., Youngstown Sheet & Tube Co., the Sherwin Williams Co., Houdaille Hershey B, Procter & Gamble pfd., Youngstown Sheet & Tube Co., cum. 5½% pfd., Anaconda Copper Mining Co., the Cleveland Railway Co., Cerro de Pasco Copper Co., City Ice & Fuel Co. cum. 6½% pfd., Drug, Inc., Texas Gulf Sulphur, Alleghany Corp. cum. 5½% ser. A, Mohawk Carpet Co., Studebaker Corp., Silica Gel Corp.

THE GRASSELLI CHEMICAL CO., INCORPORATED,
Cleveland, O., December 17th, 1934.

Mr. L. DU PONT,
President E. I. du Pont de Nemours & Co.,
Wilmington, Del.

Referring to your letter of November 26th, 1934, with copy of letter November 20th, 1934, attached from the Secretary of the Special Committee of the United States Senate Investigating the Muntions Industry, requesting information regarding stock holdings in other companies, in accordance therewith I am attaching statement covering the information requested.

T. J. R. T. J. ROSS, *Ass't Sec'y, Ass't Treas.*

(Stamped: Received Dec. 18, 1934, Lammot du Pont.)

THE GRASSELLI CHEMICAL CO., INCORPORATED,
Cleveland, Ohio.

Stock holdings in other various companies, in amounts of ten thousand ($10,000) dollars and over, held at any time, by T. J. Ross, since the acquisition of The Grasselli Chemical Company by E. I. du Pont de Nemours & Company, Inc., in 1928: None.

T. J. ROSS.

CLEVELAND, OHIO,
December 17, 1934.

THE GRASSELLI CHEMICAL CO., INCORPORATED,
Cleveland, O., December 17th, 1934.

MR. L. DU PONT,
President E. I. du Pont de Nemours & Co.,
Wilmington, Del.:

Referring to your letter of November 26th, 1934, with copy of letter November 20th, 1934, attached from the Secretary of the Special Committee of the United States Senate Investigating the Munitions Industry, requesting information regarding stock holdings in other companies, in accordance therewith I am attaching statement covering the information requested.

F. K. G. F. K. GATCH, *Ass't Treasurer.*

THE GRASSELLI CHEMICAL CO., INCORPORATED,
Cleveland, Ohio.

Stockholdings in other various companies, in amounts of ten thousand ($10,000) dollars and over, held at any time, by F. K. Gatch, since the acquisition of The Grasselli Chemical Company by E. I. du Pont de Nemours & Company, Inc., in 1928: None.

F. K. GATCH.

CLEVELAND, OHIO,
December 17, 1934.

THE GRASSELLI CHEMICAL CO., INCORPORATED,
Cleveland, Ohio, December 17, 1934.

MR. L. DU PONT,
President E. I. du Pont de Nemours & Co.,
Wilmington, Del.:

Referring to your letter of November 26th, 1934, with copy of letter November 20th, 1934, attached from the Secretary of the Special Committee of the United States Senate Investigating the Munitions Industry, requesting information regarding stockholdings in other companies, in accordance therewith I am attaching statement covering the information requested.

O. M. HOOK, *Sec'y & Treasurer.*

O. M. H.

THE GRASSELLI CHEMICAL CO., INCORPORATED,
Cleveland, Ohio.

Stockholdings in other various companies, in amounts of ten thousand ($10,000) dollars and over, held at any time, by O. M. Hook, since the acquisition of The Grasselli Chemical Company by E. I. du Pont de Nemours & Company, Inc. in 1928:

	Shares
City Ice & Fuel Co., Cleveland, Ohio, preferred stock	100
Goodyear Tire & Rubber Co., Akron, Ohio, preferred stock	100
Midland Steel Products Co., Cleveland, Ohio, preferred stock	150
Sherwin Williams Co., Cleveland, Ohio, common stock	250
Sherwin Williams Co., Cleveland, Ohio, preferred stock	50
Mid-Continetal Petroleum Co., N. Y., common stock	260

O. M. HOOK.

CLEVELAND, OHIO,
December 17, 1934.

THE GRASSELLI CHEMICAL CO., INCORPORATED,
Cleveland, Ohio., December 17, 1934.

Mr. L. DU PONT
President, E. I. du Pont de Nemours & Co.,
Wilmington, Del.:

Referring to your letter of November 26th, 1934, with copy of letter November 20th, 1934 attached from the Secretary of the Special Committee of the United States Senate Investigating the Munitions Industry, requesting information regarding stock holdings in other companies, in accordance therewith I am attaching statement covering the information requested.

G. A. G.

G. A. GAHLES,
Assistant Secretary.

THE GRASSELLI CHEMICAL CO., INCORPORATED,
Cleveland, Ohio.

Stock holdings in other various companies, in amounts of ten thousand ($10,000.00) dollars and over, held at any time, by G. A. Gahles, since the acquisition of The Grasselli Chemical Company by E. I. du Pont de Nemours & Company, Inc., in 1928: None.

G. A. GAHLES.

CLEVELAND, OHIO,
December 17, 1934.

E. I. DU PONT DE NEMOURS & COMPANY, INCORPORATED,
TREASURER'S OFFICE,
Wilmington, Del., November 30, 1934.

STEPHEN RAUSHENBUSH,
Secretary Special Committee Investigating the Munitions Industry,
United States Senate, Washington, D. C.

DEAR SIR: This is to advise you that during the years 1925 to 1934, inclusive, I did not hold stock in any other companies in amounts of $10,000 and over.

I also wish to advise you that during the years 1919 to 1934, inclusive, I did not make any campaign contributions.

Yours very truly,

W. ARTHUR MURPHY,
Assistant Treasurer

WAM:svp.

E. I. DU PONT DE NEMOURS & COMPANY, INCORPORATED,
LEGAL DEPARTMENT,
Wilmington, Del., November 30, 1934.

Hon. STEPHEN RAUSHENBUSH,
Secretary Special Committee Investigating the Munitions Industry,
408 Senate Office Building, Washington, D.C.

DEAR SIR: In response to your request of November 20, I am submitting below a record of all stocks in the amount of $10,000 and over which I have held in companies other than E. I. du Pont de Nemours & Company, at any time since my election as a director of said corporation on March 14, 1932:

New Bedford Rayon Company, 500 shares (sold July 23, 1934)	$17, 500

Very truly yours,

C. R. MUDGE.

CRM:M.

CHARLES LEE REESE,
Wilmington, Del., December 18th, 1934.

Mr. STEPHEN RAUSHENBUSH,
Secretary Nye Committee, United States Senate,
Washington, D.C.

DEAR SIR: In reply to your request of November 20th, 1934, to the E. I. du Pont de Nemours & Company, second paragraph, and as a director of the company, I beg to state that my holdings in other companies, other than the du Pont

Company, in amounts of ten thousand dollars ($10,000) or over, are as follows (years 1925–1934):

Atlas Powder Company, common;
Atlas Powder Company, preferred;
General Motors Company, preferred;
Hercules Powder Company, common;
Equitable Office Bldg., common;
Jos. Bancroft & Sons Co., common;
General Electric Company, common;
Texas Gulf & Sulphur, common;
General Motors Company, common;
Gillette Safety Razor Company, common; and
Electric Bond & Share, common.

Of these—

Atlas Powder Company, common;
Equitable Office Bldg., common;
Jos. Bancroft & Son Co., preferred;
General Electric Company, common;
Texas Gulf Sulphur Company, common;
Gillette Safety Razor, common; and
Electric Bond & Share

are all worth much less than ten thousand dollars ($10,000).

Very truly yours,

Chas. L. Reese.

CLR/mr.

E. I. du Pont de Nemours & Company, Incorporated,
Vice President's Office,
Wilmington, Del., December 18, 1934.

Hon. Stephen Raushenbush,
Secretary of Special Committee Investigating the Munitions Industry,
Washington, D. C.

Sir: The undersigned was elected a director and vice president of this company on May 12, 1930 (effective following June first). During the period in which I have served as an officer and director of du Pont Company, aside from du Pont stock, the only shares which I have owned, the market value of which at any time was above $10,000, were the following:

Noranda Mines of Canada
American Telephone and Telegraph
American Gas and Electric

For a year or more I have owned no American Telephone and Telegraph and only 2 or 3 shares of American Gas & Electric.

Yours very truly,

Charles M. A. Stine,
Vice President.

CMAS/G.

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928 Delaware Trust Building,
Wilmington, Del., December 13, 1934.

Hon. Stephen Raushenbush,
Secretary United States Senate Special Committee
Investigating the Munitions Industry, Room 308,
Senate Office Building, Washington, D. C.

Gentlemen: In reply to your letter of November 20th, 1934, to the E. I. du Pont de Nemours & Co., and as a director of said company, there is attached hereto a list of the stock holdings in other companies held by me at any time during the years 1925 to 1934, inclusive, in amounts of $10,000 and over.

Very truly yours,

Wm. du Pont, Jr.

LIST OF STOCKS HELD BY WILLIAM DU PONT, JR., YEARS 1925 TO 1934, INCLUSIVE

	Shares
1925:	
Atlas Powder Co., preferred	545
Delaware Trust Co	150
Howe Scale Co., preferred	300
1926:	
Atlas Powder Co., preferred	545
Delaware Trust Co	150
Howe Scale Co., preferred	300
1927:	
Atlas Powder Co., preferred	545
Delaware Trust Co	170
Howe Scale Co., preferred	300
Foxcatcher Farms, Inc	1, 000
1928:	
Atlas Powder Co., preferred	545
Delaware Trust Co	837
Howe Scale Co., preferred	300
Shapdale, Inc	580
Foxcatcher Farms, Inc	1, 435
1929:	
Atlas Powder Co., preferred	545
Delaware Trust Co	1, 216
Shapdale, Inc	1, 865
Del. Trust Bldg. Corp	18, 185
Foxcatcher Farms, Inc	2, 489
1930:	
Atlas Powder Co., preferred	545
Delaware Trust Co	900
Shapdale, Inc.[a]	1, 943
Del. Trust Bldg. Corp.[b]	18, 185
Foxcatcher Farms, Inc.[c]	2, 846
Ruler & Co.[d]	5, 000
American Can	400
Consolidated Gas	600
New York Central	300
Public Service of N. J	600
U. S. Steel	400
Westinghouse	400
American Telephone & Telegraph	400
Eastman Kodak	300
United Corporation	1, 900
United Gas Improvement	1, 000
1931:	
Delaware Trust Co	910
Shapdale, Inc	2, 115
Del. Title Insurance Co.[e]	1, 000
American Telephone & Telegraph	400
Eastman Kodak Co	300
United Corporation	1, 900
United Gas Improvement Co	1, 000
1932:	
Delaware Trust Co	910
Shapdale, Inc	2, 115
Delaware Title Insurance Co	1, 000
Foxcatcher Farms, Inc	2, 735
1933:	
Delaware Trust Co	910
Shapdale, Inc	2, 115
Delaware Title Insurance Co	1, 000
1934:	
Delaware Trust Co	910
Shapdale, Inc	2, 115
Delaware Title Insurance Co	518

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[a] Real Estate Holding Company.
[b] Real Estate Holding Company.
[c] Racing Stable Incorporated.
[d] Employees Investment Trust.
[e] Real Estate Holding Corporation.

IRÉNÉE DU PONT,
Wilmington, Del., December 14, 1934.

Mr. STEPHEN RAUSHENBUSH,
Secretary Special Committee Investigating Munitions Industry,
United States Senate, Washington, D. C.

DEAR SIR: In the absence of Mr. Irénée du Pont, I am complying with the request contained in your letter of November 20, 1934, addressed to E. I. du Pont de Nemours & Company, Wilmington, Del. I have prepared, and am attaching hereto, a list showing the maximum number of shares of stock which Mr. du Pont held in any one corporation during the period January 1, 1925, to December 14, 1934.

Please be advised, however, that owing to changes in investments, etc., this list in no wise represents Mr. du Pont's personal holdings at any one time.

Yours very truly,

H. E. HUMNENEYS, Jr., *Secretary.*

List showing the maximum number of shares of stock held by Irénée du Pont in any one corporation during the period January 1, 1925, to December 14, 1934. Due to changes in investments, etc., this list in no wise represents Mr. du Pont's personal holdings at any one time (for enclosure with letter of H. E. Humphreys, Jr., to Stephen Raushenbush, dated December 14, 1934):

Corporation:	*Shares*
Air Lock Double Brick Corporation capital stock	36
American Sugar Refining Company common	7, 000
American Sugar Refining Company 7% preferred	250
American Telephone & Telegraph Company common	1, 000
American Tobacco Company "B" common	6, 000
Anaconda Copper Mining Company capital stock	12, 000
Armstrong Seadrome Airways capital stock	10
Associated Oil Company common (received in exchange for Pacific Oil Company common and later exchanged for Tidewater Associated Oil preferred; see below)	800
Atlas Powder Company common (received under decree of Federal Court)	1, 245
Automatic Signal Corporation common	4, 000
Bellanca Aircraft Corporation 7% preferred	190
Bowlus-du Pont Sailplane, Inc., common	100
Chatham Phenix National Bank & Trust Company capital stock (later exchanged for Manufacturers Trust Co., Huron Holding Corp., and Chatham Phenix Corp. capital stocks; see below)	5, 000
Christiana Securities Company common	21, 586
Christiana Securities Company 7% preferred	11, 866
Claude-Boucherot Process Syndicate ($48,944.18)	
Colgate-Palmolive-Peet Company common	3, 000
Concord Realty Company capital stock	35
Cuban Cane Products Company common	128, 000
General Motors Corporation common	17, 100
General Motors Corporation 7% preferred	2, 300
Goodyear Tire & Rubber Company common	8, 750
Granogue Investment Company capital stock	13, 500
Hercules Power Company common (received under decree of Federal Court)	12, 264
Industrial Salvage Company (in process of liquidation 1922 through to final settlement Sept. 23, 1926)	29, 371
Industrial Trust Company capital stock	1, 333
International Cement Corporation common	8, 000
International Mercantile Marine common	1, 000
International Nickel Corporation, Ltd. common	2, 000
International Paper & Power Corporation:	
"A" common	250
"B" common	250
"C" common	250

Corporation—Continued.	Shares
Kennecott Copper Corporation capital stock	12, 000
Manufacturers Trust Company (received in exchange for Chatham Phenix National Bank & Trust Company stock shown above)	3, 375
National Distillers Products Corporation common	3, 300
Norfolk & Western Railway Company common	1, 000
Philadelphia National Bank capital stock	5, 000
Phillips Petroleum Company common	33, 275
Pacific Oil Company common (later exchanged for Associated Oil Company common and Standard Oil of California common; see above and below)	2, 000
Penas de Hicacos, S. A. capital stock	54
Philadelphia & Reading Coal & Iron Company common	2, 000
Rubber Securities Company common	22, 230
Southern Railway Company common	1, 000
Standard Oil of California common (received in exchange for Pacific Oil Company common; see above)	2, 080
Standard Oil Co. of New York	500
Tidewater Associated Oil 6% preferred (received in exchange for Associated Oil Company common; see above)	266
Tidewater Associated Oil Company common	3, 000
United Fruit Company common	8, 000
United States Rubber Company common	67, 244
United States Rubber Company preferred	16, 800
United States Steel Corporation common	14, 600
United States Steel Corporation 7% preferred	6, 000
Warner Brothers Pictures common	4, 583
Wilmington Trust Company capital stock	120

A. Felix Du Pont,
Wilmington, Del., November 30, 1934.

Hon. Stephen Raushenbush,
Secretary Special Committee Investigating the Munitions Industry,
Washington, D. C.

Dear Mr. Raushenbush: In compliance with request in your letter of November 20, I enclose herewith copy of my stockholdings in other companies, in amounts of $10,000 and over that I now own or have owned.

Very truly yours,

A. Felix du Pont.

AFduP:d

	Shares
Niagara Hudson Power common stock	12, 761
U. S. Rubber common stock	26, 218
U. S. Rubber preferred stock	17, 506
Christiana Securities preferred stock	12, 588
Christiana Securities common stock	12, 588
General Motors common stock	22, 455

F. B. Davis, Jr.,
1790 Broadway,
New York, December 14, 1934.

Hon. Stephen Raushenbush,
Secretary Special Committee Investigating the Munitions Industry,
Washington, D. C.

Dear Sir: As a director of E. I. du Pont de Nemours & Co., I attach list of my stockholdings in accordance with your letter of November 20 to E. I. du Pont de Nemours & Co. requesting that officers and directors of this company submit a list of their stockholdings in other companies in amount of $10,000 and over held at any time during the years 1925 to 1934, inclusive.

Yours very truly,

F. B. Davis, Jr.

F. B. Davis, Jr., Director of E. I. du Pont de Nemours & Company

List of stockholdings in other companies for years 1925 to 1934 as requested by Special Committee Investigating the Munitions Industry

Year	Shares	Company	Stock
1925	3,880	General Motors	Common.
	100	U. S. Steel	Common.
	200	Childs Co	Common.
	1,000	Pan American	B.
1926	1,000	Simms Petroleum	Common.
	1,600	General Motors	Common.
1927	300	National Distillers	Common.
	100	St. Louis & San Francisco R. R	Common.
	2,000	General Motors	Common.
1928	500	U. S. Steel	Common.
	600	Chrysler Corporation	Common.
	200	U. S. Rubber	Common.
	3,106	General Motors	Common.
1929	11,750	U. S. Rubber	Common.
	91,408	General Motors	Common.
	2,000	Prudential Investors	
	500	Wilmington Securities	
	200	International Nickel	Common.
	200	International Combustion	Common.
	100	Libby Owens	Common.
	100	Kroger Stores	
	250	Gold Dust	Common.
	450	Continental Can Co	Common.
	300	Texas Corporation	Common.
	200	U. S. Rubber	Preferred.
	100	American Telephone & Telegraph	Common.
	250	Atlas Powder	Common.
	250	Allegheny Corporation	Common.
	250	Bendix Corporation	Common.
	100	U. S. Steel	Common.
	500	Union Carbide	Common.
	500	Childs Co	Common.
	112	Westinghouse Electric	Common.
1930	3,000	U. S. Rubber	Preferred.
	100	U. S. Steel	Common.
	6,033	General Motors	Common.
	50	New York Trust Co	
	2,500	U. S. Rubber	Common.
1931	6,033	General Motors	Common.
	10,600	U. S. Rubber	Common.
	2,100	U. S. Rubber	Preferred.
	100	U. S. Steel	Common.
	40	New York Trust	
1932	9,051	General Motors	Common.
	40	New York Trust Co	
	2,908	U. S. Rubber	Preferred.
	3,400	U. S. Rubber	Common.
1933	83	General Motors	Common.
	40	New York Trust Co	
	10	U. S. Rubber	Common.
1934	83	General Motors	Common.
	40	New York Trust Co	
	10	U. S. Rubber	Common.

Charles Copeland,
Wilmington, Del., December 19, 1934.

Mr. Stephen Raushenbush,
Secretary Special Committee of the United States Senate
Investigating the Munitions Industry,
Washington, D. C.

Dear Sir: I enclose a list of my stock holdings as requested by you in your letter of November 20, 1934.

Yours very truly,

Charles Copeland.

	Maximum number of shares held at any time during period January 1, 1925 to December 19, 1934	Shares held on December 19, 1934
American Can Co	500	500
American Equities Co	1,000	0
American Gas & Elec. Co	2,394	2,394
American Tel & Tel Co	200	200
Anaconda Copper Co	500	500
Associated Gas & Electric Co	615	0
Atlas Powder Co. (received under order of Federal Court)	1,393	1,080
Sidney Blumenthal & Co	100	100
Chatham Phenix Bank & Tr. Co	3,000	0
Chatham & Phenix Allied Corpn	2,000	0
Childs Company	557	0
Christiana Sec. Co	1,000	1,000
Christiana Sec. Co. pfd	1,207	1,207
Cities Service	223	0
Corporation Sec. of Chicago	546	0
Cuban Cane Products Co	234	0
Curtiss-Wright Corpn	200	0
Delaware Realty & Inv. Co	500	167
Electric Shareholdings Corpn	165	165
Equitable Office Bldg. pfd	100	0
Equitable Office Bldg. Com	800	0
General Elec. Co	2,996	2,496
General Foods Corpn	500	500
General Motors Corpn	26,040	26,040
General Motors 7% pfd	1,067	0
Hercules Powder Co. (received under order of Federal Court)	3,588	3,588
Hercules Powder Co. pfd	338	272
International Harvester	444	444
International Tel. & Tel	669	669
Kennecott Copper	500	500
Lehigh Coal & Nav. Co	330	0
Mack Truck	400	0
Manufacturers T. Co	2,025	0
National Biscuit Co	500	500
Proctor & Gamble	1,000	1,000
Prudential Investors	2,000	2,000
Reynolds Tobacco B	200	200
Rubber Securities Co	4,351	4,351
Standards Brands	1,000	1,000
Standard Oil N. J	500	500
United Gas Impt. Co	1,580	1,580
U. S. Rubber Com	14,748	0
U. S. Steel pfd	387	0
U. S. Steel Com	2,400	2,120
U. S. Stores 7% pfd	300	300
Westinghouse Air Brake	400	400
Wilmington Trust Co	100	100
Wright Aeronautical	200	0

E. I. du Pont de Nemours & Company, Incorporated,
Treasurer's Office,
Wilmington, Del., December 18, 1934.

Mr. A. C. Nielsen,
Shoreham Hotel, Washington, D. C.

Dear Sir: This is to advise that according to our records, there were no shares of the common and debenture stocks of E. I. du Pont de Nemours & Company registered in the name of T. Coleman du Pont, at any time during the period July 7, 1921, to December 3, 1928, inclusive.

Yours very truly,

H. B. Robertson, *Transfer Agent.*

W. C. Spruance,
Du Pont Building,
Wilmington, Del., December 21, 1934.

Hon. Stephen Raushenbush,
Secretary Special Committee Investigating the Munitions Industry,
408 Senate Office Building, Washington, D. C.

Dear Sir: Referring to your letter of the 18th inst. and in accordance with the request of the committee addressed to E. I. du Pont de Neumours & Company, Inc., the following is submitted as a list of securities owned by me during the period 1925 to 1934, inclusive:

Security	Shares
American Power & Light Company common stock	1, 327
American Tobacco Company 6% pfd. stock	200
Christiana Securities Company 7% pfd. stock	800
Christiana Securities Company common stock	800
E. I. du Pont de Nemours & Company common stock	6, 844
E. I. du Pont de Nemours & Company debenture stock	576
Electric Storage Battery Company common stock	440
National Biscuit Company 7% pfd. stock	100
United States Steel Company common stock	*200
United States Steel Company 7% pfd. stock	100
R. J. Reynolds Tobacco Co. pfd. stock	*100
United States Rubber Company 8% pfd. stock	*100
Phillips Petroleum Company common stock	*300
American Telegraph & Telephone Company capital stock	194
Cutler-Hammer Mfg. Company common stock	*240
Independence Fire Insurance Company capital stock	*500
Prudential Investors Company common stock	*500
United States Rubber Company common stock	*200
Anaconda Copper Company common stock	*300
Diamond Match Company capital stock, later exchanged for	100
Diamond Match 6% pref. stock and	500
Diamond Match Common stock, value under $10,000	400

Very truly yours,

W. C. Spruance.

---

* Securities sold.

Henry B. du Pont,
Wilmington, Del., December 20, 1934.

Mr. Stephen Raushenbush,
Secretary Special Committee Investigating the Munitions Industry,
408 Senate Office Building, Washington, D. C.

Dear Sir: I am enclosing herewith a list which shows the maximum number of shares which Mr. Henry B. du Pont has held at one time of the stock of the various corporations during the years 1925 to 1934. This list is not to be construed as a list of his total holdings at anyone time, or as a list of his present holdings. In this list I have shown all stocks costing $10,000 or more.

I am also enclosing a list of his political contributions for the years 1919 to 1934.

Yours very truly,

Stewart E. Poole, *Secretary.*

SEP/LB

List showing greatest number of shares held of anyone stock at anyone time between 1925 and 1934

[This is not a list of present holdings]

Adolph Gobel, Incorporated	1, 000
Aircraft Products Corporation:	
2nd Preferred	1, 500
Class "A"	890
Alaska Juneau	500
American Gas & Electric, common	1, 531
American International	1, 000
American Linseed Corporation	900

List showing greatest number of shares held of anyone stock at anyone time between 1925 and 1934—Continued

American Locomotive Works	100
American Telephone & Telegraph	100
Anaconda Copper Company	1, 000
Armour & Company "A"	1, 000
Atlas Powder Company:	
Common	400
Preferred	300
Baltimore & Ohio R. R. Company, common	200
Joseph Bancroft & Sons, preferred	200
Bellanca Aircraft Corporation	200
Bendix Aviation Corporation	700
Brown & Company, preferred	200
Canada Dry Corporation	200
Case Threshing Machine Company	200
Central Airport of Camden	4, 000
Cerro de Pasco	400
Childs, common	2, 000
Chesapeake Corporation	400
Chesapeake & Ohio R. R. Company	200
Checker Cab Corporation	500
Christiana Securities Company, preferred	215
Chrysler Motor Corporation	500
Continental Diamond Fiber	3, 500
Delaware Realty & Investment Company	1, 000
Du Pont de Nemours Company:	
Common	17, 222
Debenture	1, 729
Du Pont Rayon Company, preferred	300
Electric Bond & Share	500
Equitable Office Building, common	8, 100
Eureka Vacuum Company	441
Federal Water Service "A"	594
Fisher Body Corporation of Ohio, preferred	250
General Asphalt Corporation	500
General Electric Company	500
General Motors Corporation:	
Common	18, 500
Preferred	1, 371
Gold Dust Corporation	2, 000
Goodyear Tire & Rubber, preferred	100
Hercules Powder Company:	
Common	1, 640
Preferred	315
Illinois Central Railroad Company	100
International Nickle Company	700
Jackson, George, Corporation	250
Kelvinator Corporation	1, 500
Kennecott Copper Company	2, 700
Lehigh Coal & Navigation Company	330
Lima Locomotive Company	300
Lumbermen's Insurance Company	200
McKeesport Tin Plate Company	9, 500
Missouri Pacific R. R. Company:	
Preferred	200
Clommon	500
Murray Body Corporation	300
Nash Motor Corporation	500
National Dairy Products	100
New York Central R. R. Company	100
New York Water Service, preferred	200
Newmont Mining Corporation	500
Niles Bement, Pond	700
Noranda Mines Corporation	500
North American Aviation	3, 700
Ohio Oil Corporation	600

List showing greatest number of shares held of anyone stock at anyone time between 1925 and 1934—Continued

Pennsylvania R. R. Company	300
Petroleum Corporation	4, 000
Philips Petroleum Company	2, 500
Radio Corporation	200
Rubber Securities Company	4, 351
Sauzedde Corporation	220
Seaboard Airlines R. R. Company	300
Simms Petroleum Company	500
Sloss-Sheffield, Inc	100
Southern Gas & Oil Company	3, 513
Southern Pacific R. R. Company	100
St. Louis-San Francisco R. R. Company:	
Common	455
Preferred	300
Standard Gas & Electric, preferred	100
Tennessee Copper Company	1, 000
Texas Corporation	900
Union Pacific R. R. Company	100
Union Oil Company	1, 500
United Aircraft & Transport	1, 637
United Corporation	1, 500
United Gas Improvement Company	1, 125
U. S. Rubber Corporation:	
Common	18, 000
Preferred	700
U. S. Steel Corporation:	
Preferred	210
Common	100
Verville Aircraft Company:	
Common	11, 440
Preferred	2, 680
Warner Brothers Pictures	13, 773
White Motors Company	100
Wilmington Securities Company	1, 000
Wilmington Trust Company	554
Wright Aeronautical Corporation	1, 000
Westinghouse Airbrake Company	100
Yellow Coach & Truck Company, preferred	1, 000
Youngstown Sheet & Tube Company	250

E. I. du Pont de Nemours & Company, Incorporated,
Development Department,
Wilmington, Del., January 7, 1935.

Mr. Stephen Raushenbush,
Secretary United States Senate Special Committee
Investigating the Munitions Industry,
408 Senate Office Building, Washington, D. C.

My Dear Mr. Raushenbush: I understand that the Senate committee has requested that all directors of the du Pont Company advise in regard to their stock holdings in other companies in excess of $10,000. I can advise you that I owned no shares of stock in other companies in excess of $10,000 at the time of my election as director or subsequently. I understand there has been no request for information in regard to stock holdings in the du Pont Company.

I hope this gives the desired information insofar as I am concerned.

With the compliments of the season, I am,

Very truly yours,

F. Sparre, *Director.*

FS:N.

W. S. Carpenter, Jr.,
9020 du Pont Building, Wilmington, Del., December 20, 1934.

Mr. Stephen Raushenbush,
Sec'y Special Senate Committee Investigating the Munitions Industry,
Room 408, Senate Office Building, Washington, D. C.

Dear Sir: In response to your letter of November 20th, addressed to the du Pont Company, I am attaching information with respect to my stock holdings in other companies during the years 1925 to 1934.

Sincerely yours,

W. S. Carpenter, Jr.

WSC:r.

W. S. Carpenter, Jr.

Securities held by above in companies other than E. I. du Pont de Nemours & Co. in amounts of $10,000 or over held during years 1925 to 1934, inclusive

	Common stock	Preferred stock
Christiana Securities Company	X	X
General Motors Corporation	X	X
Wilmington Trust Co	X	
International Cement Co	X	
Mackay Companies	X	
Youngstown Sheet & Tube Corp	X	
Chase National Bank of New York	X	
Munsingwear Co	X	
U. S. Rubber Co		X
Continental Can Co	X	
Standard Oil Co. of New Jersey	X	
Standard Oil Co. of New York	X	
Montgomery-Ward Co	X	
Sears, Roebuck Co	X	
The Texas Corp	X	
Irving Trust Co. of New York	X	
Corn Products Corp	X	
Industrial Trust Co. of Wilmington, Del	X	
Pennsylvania Railroad Co	X	
Kennecott Copper Co	X	
Bankers Trust Co. of New York	X	

A. B. Echols,
Du Pont Building, Wilmington, Del., December 20, 1934.

United States Senate,
Special Committee Investigating the Munitions Industry,
408 Senate Office Building, Washington, D. C.

Gentlemen: Mr. Stephen Raushenbush, secretary of your committee, addressed a letter under date of November 20, to E. I. du Pont de Nemours & Company, wherein he requested "list of the stockholdings in other companies, in amounts of $10,000 and over, held at any time during the years 1925 to 1934, inclusive, by the officers and/or directors of your (du Pont) company and its wholly owned subsidiaries."

As an officer and director of E. I. du Pont de Nemours & Company, I submit the following information regarding that portion of my stockholdings for the period 1925 to 1934, inclusive, which in my mind might be considered pertinent to your investigation:

1925 to 1928: No securities of a munition nature.

1929: United Aircraft & Transport Corporation common stock.

1930: United Aircraft & Transport Corporation common stock; Curtis Wright Corporation common stock.

1931: No securities of a munition nature.

1932: Bendix Aviation Corporation common stock.

1933: Bendix Aviation Corporation common stock.

1934: Bendix Aviation Corporation common stock.

I have not included any information with respect to my other stockholdings which were of such a nature that they cannot possibly have any bearing on your investigation, such as oil, motors, gold mining, food products, and miscellaneous industrial securities.

Yours very truly,

A. B. Echols.

ABE:r.

E. I. du Pont de Nemours & Company, Incorporated,
Vice President's Office,
Wilmington, Del., December 17, 1934.

Hon. Stephen Raushenbush,
Secretary of Committee Investigating Munitions Industry,
Washington, D. C.

Sir: Referring to your letter of November 20th addressed to the du Pont Company requesting information as to stock holdings of the officers and directors of said company, please be advised that during the period from 1925 to 1934 I have owned no stock in any munitions company other than stock of E. I. du Pont de Nemours & Company and the General Motors Corporation, if the latter might be considered to be a munitions manufacturer.

Yours very truly,

M. F. Harrington.

Wilmington, Del., December 20, 1934.

Mr. Stephen Raushenbush,
Secretary Special Committee Investigating the Munitions Industry,
Room 408 Senate Office Building, Washington, D. C.

Dear Sir: Copy of your letter of November 20th, 1934, to E. I. du Pont de Nemours & Company, requesting list of stockholdings and campaign contributions of the officers and/or directors of E. I. du Pont de Nemours & Company and its wholly owned subsidiaries has been furnished me as an assistant treasurer of E. I. du Pont de Nemours & Company.

In reply you are advised that I, at no time during the years 1925 to 1934, inclusive, held stock holdings in other companies in the amount of $10,000 and over; nor did I make any campaign contributions for the years 1919 to 1934, inclusive.

Yours very truly,

GLN:r

G. L. Naylor.

The following list of stocks in munitions companies or in companies having a possible munitions interest has been deleted from the holdings of John J. Raskob: [1]

Studebaker Corp., common.
E. I. du Pont de Nemours & Co., common.
Christiana Securities Co., common.
General Motors Corp., common.
Kennecott Copper Company, common.
General Motors Corp., 5% preferred.
American Smelting & Refining Co., common.
Anaconda Copper Company, common.
Aero Supply Mfg. Co., class A and class B.
Caterpillar Tractor Co., common.
General Electric Company, common.
United States Steel Corp.

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[1] Complete list of stockholdings of John J. Raskob is on file with the committee.

The following list of stocks in munitions companies or in companies having a possible munitions interest has been deleted from the holdings of Pierre S. du Pont: [1]

Atlas Powder Company, common	1, 500
Anaconda Copper Company, common (1929)	26, 700
Atlantic Refining Company, common	5, 000
Aero Supply Mfg. Company, "B"	20, 085
Bethlehem Steel Company, common (1930)	1, 000
Christiana Securities:	
Common	7, 320
Preferred	8, 331
E. I. du Pont de Nemours & Co.:	
Common	33, 352
Debenture	16, 610
General Motors Corp.:	
Common	604, 495
5% preferred	10, 025
General Electric Company, common (1932)	1, 000
Hercules Powder Company, common	2, 000
Kennecott Copper Company, common (1929)	25, 500
U. S. Steel Corp., common (1930)	1, 000

Stocks in which Pierre S. du Pont has a reversionary interest:

Anaconda Copper Mining Company	10, 000
Atlantic Refining Company	5, 000
Atlas Powder Company, preferred	100
Atlas Powder Company, common	6
E. I. du Pont de Nemours & Co., debentures	3, 679
E. I. du Pont de Nemours & Co., common	315
General Motors Corp., common	132, 350
General Morors Corp., preferred	7, 572
Hercules Powder Company, common	16
Hercules Powder Company, preferred	1, 625
Kennecott Copper Company	25, 000
United States Steel Co., preferred	20

The following list of military strength in the United States was supplied by the War Department at the request of the committee (see text, p. 4349):

Army of the United States, strength June 30, 1934

BY COMPONENT

	Commissioned	Enlisted	Others [b]	Total
Regular Army [a]	12, 278	123, 823	2, 346	138, 447
National Guard	13, 309	[d] 171, 482		184, 791
Total	25, 587	295, 305	2, 346	323, 238
Organized Reserves (including Officers Reserve Corps and Enlisted Reserve Corps) [c]	111, 356	4, 646		116, 002

[a] Includes 66 commissioned and 6,306 enlisted Philippine Scouts.
[b] Includes 869 warrant officers, 877 cadets U. S. M. A., and 600 Army Nurse Corps.
[c] Excludes O. R. C., also members of National Guard or Regular Army.
[d] Includes 198 warrant officers.

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[1] Complete list of stockholdings of Pierre S. du Pont is on file with the committee.

Army of the United States, strength June 30, 1934—Continued

RESERVE OFFICERS TRAINING CORPS, ENROLLMENT CLOSE OF SCHOOL YEAR 1933-34

	Number of units	Basic course	Advanced course	Total
Senior units	217	52,089	13,330	65,419
Junior units	102	38,728		38,728
Total	319	90,817	13,330	104,147

CITIZENS MILITARY TRAINING CAMPS

Attendance, 1934				14,853
Grand total				558,240

CIVILIAN PERSONNEL, WAR DEPARTMENT, JUNE 30, 1934

Field service employees:	
In District of Columbia	1,448
Outside District of Columbia	57,471
Departmental employees	2,674
Total	61,593

Data hereon taken from Special Report No. 231, Statistics Branch, War Department General Staff, fiscal sear 1934.

War Department,
Office of the Assistant Secretary,
Washington, D. C., May 14, 1935.

The Secretary, Special Committee Investigating the Munitions Industry,
Senate Office Building, Washington, D. C.
(Attention: Miss Lydia Lee.)

Dear Sir: In compliance with telephone request of May 13, 1935, the following information is submitted:

The Auxiliary Reserve is composed of members of the Officers Reserve Corps who by reason of age or for other causes are not considered available for general assignment. On June 30, 1934, the total strength of the Auxiliary Reserve was 2,789. With my letter of March 29, 1935, there was enclosed a table showing the strength of the various components of the Army. The third item showed the total commissioned strength of the Organized Reserves as 111,356. This total included the Auxiliary Reserve.

The total personnel of the Civilian Rifle Clubs is as follows:

Civilian Rifle Club membership	85,670
School membership	1,793
Total	87,463

Very truly yours,

C. T. Harris, Jr.,
Lieut. Colonel, Ord. Dept.,
Director, Planning Branch.

The following letter and certificates of award[1] are included in the record at the request of the du Pont Company:

E. I. du Pont de Nemours & Company, Incorporated,
Legal Department,
Wilmington, Del., January 10, 1935.

Special Committee of the United States Senate
Investigating the Munitions Industry,
U. S. Senate Office Building, Washington, D. C.
(Attention Hon. Gerald P. Nye, Chairman.)

Dear Sirs: With reference to the hearings before your committee, I attach hereto four photostat copies of a certificate of award issued by the War Department of the United States, signed by Newton D. Baker, then Secretary of War, and B. Crowell, then Assistant Secretary of War and Director of Munitions, which recognizes the "distinguished service the loyalty, energy, and efficiency in the performance of the war work by which du Pont engineering companied aided materially in obtaining victory for the arms of the United States" in the World War.

I also attach hereto four photostat copies of a similar Certificate of Award of the War Department of the United States, issued in behalf of E. I. du Pont de Nemours and Company.

We respectfully request that a copy of each of the attached certificates of award be included in and made a part of the record of the hearings before your committee.

Very truly yours,

W. S. Gregg, *of Counsel.*

WSG/V

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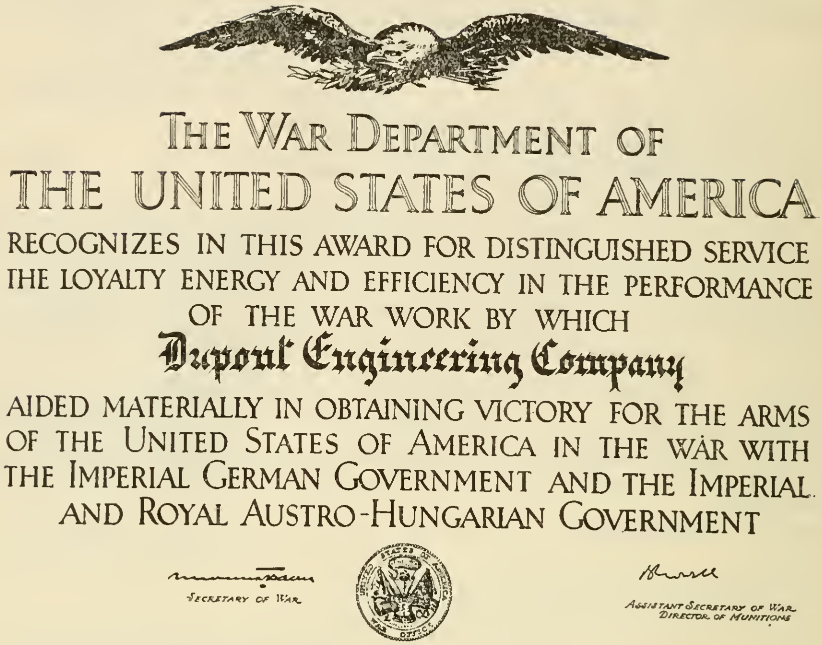
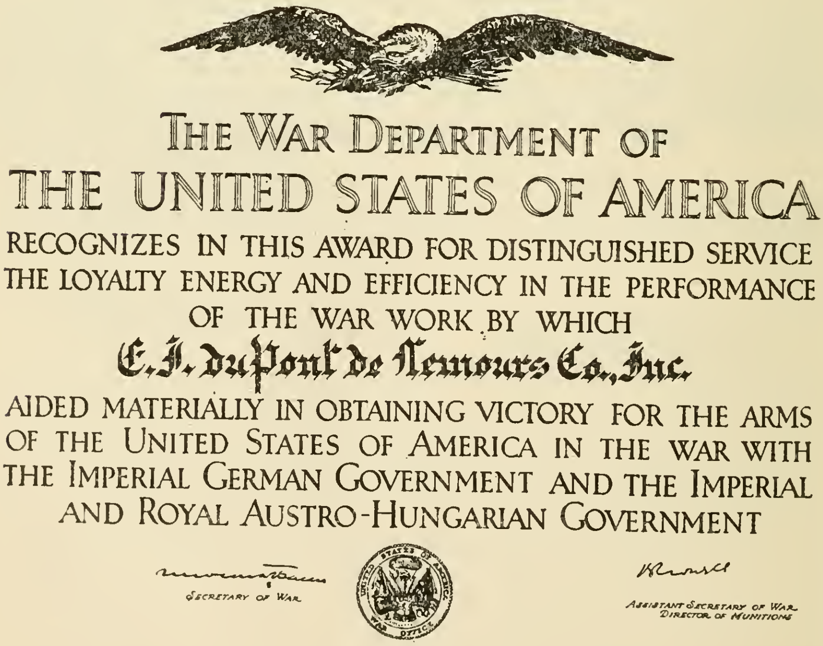
[1] See p. 4518.



THE WAR DEPARTMENT OF
THE UNITED STATES OF AMERICA
RECOGNIZES IN THIS AWARD FOR DISTINGUISHED SERVICE
THE LOYALTY ENERGY AND EFFICIENCY IN THE PERFORMANCE
OF THE WAR WORK BY WHICH
Dupont Engineering Company
AIDED MATERIALLY IN OBTAINING VICTORY FOR THE ARMS
OF THE UNITED STATES OF AMERICA IN THE WAR WITH
THE IMPERIAL GERMAN GOVERNMENT AND THE IMPERIAL
AND ROYAL AUSTRO-HUNGARIAN GOVERNMENT

SECRETARY OF WAR

ASSISTANT SECRETARY OF WAR
DIRECTOR OF MUNITIONS



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THE IMPERIAL GERMAN GOVERNMENT AND THE IMPERIAL
AND ROYAL AUSTRO-HUNGARIAN GOVERNMENT

SECRETARY OF WAR

ASSISTANT SECRETARY OF WAR
DIRECTOR OF MUNITIONS

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MUNITIONS INDUSTRY

HEARINGS

BEFORE THE

SPECIAL COMMITTEE
INVESTIGATING THE MUNITIONS INDUSTRY
UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS

FIRST SESSION

PURSUANT TO

S. Res. 206

(73d Congress)

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS
CONCERNING THE MANUFACTURE AND SALE
OF ARMS AND OTHER WAR MUNITIONS

PART 18

JANUARY 21, 22, 23, 24, 25, 29, 30, AND 31, 1935

NAVAL SHIPBUILDING

NEW YORK SHIPBUILDING CORPORATION

Printed for the use of the
Special Committee Investigating the Munitions Industry

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1935

MUNITIONS INDUSTRY

U.S. Congress. Senate.

HEARINGS

BEFORE THE

SPECIAL COMMITTEE
INVESTIGATING THE MUNITIONS INDUSTRY
UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS

FIRST SESSION

PURSUANT TO

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GOVERNMENT PRINTING OFFICE
WASHINGTON : 1935

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SPECIAL COMMITTEE INVESTIGATING THE MUNITIONS INDUSTRY

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BENNETT CHAMP CLARK, Missouri
HOMER T. BONE, Washington
JAMES P. POPE, Idaho
ARTHUR H. VANDENBERG, Michigan
W. WARREN BARBOUR, New Jersey

STEPHEN RAUSHENBUSH, *Secretary*
ALGER HISS, *Legal Assistant*

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INVESTIGATION OF MUNITIONS INDUSTRY

MONDAY, JANUARY 21, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m. in room 357, Senate Office Building, pursuant to call of the chairman, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Bone, Pope, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee.

The Chairman. The committee will be in order. Senator Vandenberg, have you something that you wish to insert in the record?

Senator Vandenberg. Mr. Chairman, before we recessed, when Mr. White of the United States Internal Revenue Bureau, was on the stand presenting information regarding million-dollar incomes during the war period, and preceding and following, I suggested that he prepare a chart, without name but by number of the tax paid upon each one of these incomes for the period.

The Bureau has furnished that information and I ask that the report be identified as an exhibit and printed in the record.

The Chairman. Such will be ordered.

(The document referred to was marked "Exhibit No. 1412.")[1]

The Chairman. The committee will want this morning to swear and have available for testimony Mr. John F. Mettin, Mr. N. R. Parker, and Mr. Charles J. Langell, if they will come forward at this time.

TESTIMONY OF JOHN F. METTEN, N. R. PARKER, AND CHARLES J. LANGELL

NEW YORK SHIPBUILDING REPLIES TO COMMITTEE REQUESTS

(The witnesses were duly sworn by the chairman.)

The Chairman. Mr. Metten, under date of January 2, 1935, request was made for certain information to be supplied the committee. Has that all been complied with?

Mr. Metten. All that we could get together. Of course, we only had a short time, and those files run into a great many; I think they brought about 90 packages, did they not? I believe there is a letter written that we got together all we could in the time.

---

[1] See Hearings, Part XIII, appendix p. 3154.

The CHAIRMAN. What you have ready, you have brought with you?

Mr. METTEN. Yes.

The CHAIRMAN. And when might we expect the balance of them?

Mr. LANGELL. Mr. Parker better answer that.

Mr. METTEN. Mr. Parker, the treasurer, better answer that, as he has that in charge.

The CHAIRMAN. Mr. Parker, the question has been asked as to when the information not yet ready will be available to the committee. Can you say as to that?

Mr. PARKER. Senator, in the request, the period covered is from 1916 to 1934, a period of 18 years. The details asked for would require an analysis of 18 years of operation. That would take months of accounting work to accumulate all of the detail of the questions. So far as it was possible to reply to the questions and give the information desired, it is here, in as full detail, as it was possible to accumulate.

The CHAIRMAN. Mr. Raushenbush, do you want that this morning?

Mr. RAUSHENBUSH. I would like to have that this morning.

The CHAIRMAN. Let it be offered then, not for the record at the moment, but for the information of the committee.

You speak of some of this information occasioning months of work, of research work, to supply it. Just what might be included in our request that would take so long, Mr. Parker?

Mr. PARKER. You asked for expenses of various employees, or representatives, covering that period. Those expenses, of course, were disbursed during the 18 years covered and there is no segregation of them, so far as our accounts are concerned, and it would mean going through all the details of expenditures for the whole period.

Senator BARBOUR. I can understand, that, Mr. Chairman, the witnesses would be glad to give us any individual items and information that we should ask for today which would be of assistance to us.

Mr. PARKER. The secretary will. We have tried to cooperate in every way possible, and we will continue.

The CHAIRMAN. The committee was sure you would, so far as you could, cooperate thoroughly with the committee.

You may proceed, Mr. Raushenbush.

Mr. RAUSHENBUSH. Before leaving that, Mr. Chairman, would it be possible to just note, through Mr. Parker, when we can expect to receive certain items. There are only a few, probably, which have not been furnished. We would like to get them, certainly before the hearings are over.

The CHAIRMAN. Do you mean, Mr. Raushenbush, to take our letter of January 2, 1935, and indicate therefrom just what information is not yet available?

Mr. RAUSHENBUSH. Perhaps the simplest thing would be for Mr. Parker to indicate on his copy of the letter which of the items are involved.

The CHAIRMAN. Mr. Parker, if you would take your copy of our letter of January 2, 1935, and indicate thereon the paragraphs on which you have not been able yet to supply the information requested, we would appreciate it.

The Chair is going to suggest the printing in the record at this time the letter of January 2, 1935.

(The letter referred to follows:)

UNITED STATES SENATE,
SPECIAL COMMITTEE INVESTIGATING THE MUNITIONS INDUSTRY,
January 2, 1935.

NEW YORK SHIPBUILDING CORPORATION,
Camden, N. J.

GENTLEMEN: The committee wishes to examine into certain phases of the shipbuilding industry and requests the company to be represented through its several responsible officers at hearings beginning at 10 a. m., January 21, 1935, in the Senate Office Building, room 357.

It believes that among the officers necessary for the purposes of the committee will be the following:

Mr. John Metten, president; Mr. N. R. Parker, treasurer; Mr. Charles Langell, estimator.

The following will be requested at a later date:

Mr. Carl Kaltwasser, vice president; Mr. E. L. Cord, chairman board of directors; Mr. Addison Foster; and Mr. L. B. Manning.

The committee requests you to bring with you the following:

1. Information concerning the income and taxes of the company during the period 1915 to 1920, inclusive.

2. The committee requests you to bring with you also all estimating data on naval vessels for the years 1926, 1927, 1928, 1933, and 1934, including all inquiries to suppliers and replies to those inquiries.

3. The committee requests also a summary of information on naval ships for which you secured awards divided as follows:

Name of ship	Estimates made by company for material and labor	Actual cost of material and labor	Estimated overhead (divided into major items)	Actual overhead charged (divided into same major items)	Sales price and final settlement for the ship

4. The same summary for merchant marine ships for the years 1928 to 1934, inclusive, divided into the six columns, as described on the previous page. The information desired on the merchant marine ships includes only the summaries of the estimating data as described, whereas the information required on naval ships included the actual files in your company's possession.

5. All campaign contributions made by the company to any political party during the years 1920 to 1934, inclusive, also all campaign contributions made by any officers and directors of the company during those years. The company is asked to secure signed statements from its officers and directors concerning these contributions and duly present them to the committee.

6. Any bonus payments of the company to officers and directors for the years 1933 and 1934.

7. Individual statements by officers and directors receiving such bonus payments as to expenditure of these bonus payments for company purposes for the years 1926 to 1934, inclusive, including entertainment, gifts, loans, etc., involving company interests, directly or indirectly.

8. The names of all representatives or agents of the company in the United States or abroad, together with their salaries, the expense itemized by individuals for the years 1920 to 1934, inclusive.

9. A statement of ownership of stock of the company by individuals, together with the addresses of these individuals, in blocks of 1 percent or over of each classification of stock as of January 1, 1932, January 1, 1933, January 1, 1934, and January 1, 1935, or company dates within close range of these dates.

10. Ownership of bonds of the company held by individuals in blocks of 5 percent or over as of the same dates.

11. Ownership of stock in other companies by directors and officers of the New York Shipbuilding Corporation for the years 1926 to 1934, inclusive, in amounts of over $10,000, including the number of shares of stock in each of the other companies. This information is to be secured by the company for presentation to the committee.

12. All information in the possession of the company or its officers concerning any options taken on any blocks of stock in any classification amounting

to over 5 percent of that stock, together with the dates of the options, the amounts, the names and addresses of the individuals, and all further information pertaining to these options.

13. A list of foreign sales agents by name, including the rate of commission, salaries, and expenses and commissions actually paid them for the years 1920 to 1934, inclusive.

14. The amount of foreign business in dollars for the years 1920 to 1934, inclusive, divided by companies.

15. The amount of United States business done by the company in dollars, divided by years, 1920 to 1934, inclusive, subdivided as between United States Government and private business, and under the head of Private Business, subdivided between those private companies receiving governmental subsidies for ships and those not receiving them.

16. All company contributions, dues, entrance fees, loans, etc., to all national or State associations or individuals.

17. A summary of all publicity and/or propaganda expenses disbursed by the company and/or its officials for magazines, press, radio, or for publicity consultation and assistance, 1920 to 1934, inclusive.

18. The fees or commissions paid on United States governmental business for the years 1920 to 1934, inclusive, listed by individuals and by names of ships.

19. All fees for legal services, including retainers and other expenses, 1920 to 1934, inclusive, itemized by individuals or companies.

20. Dates of the original and supplemental contracts on naval ships ordered by the Government during the years 1917, 1918, and 1919, until the completion of those ships, including a statement of the financial effect of those changes with regard to the company and the amounts involved in those changes.

21. Summarize pay-roll data for the years 1927 and 1932, and 1933 and 1934, inclusive, including:

(*a*) Total number of men employed each week in those years.

(*b*) Total man-hours each week in those years.

(*c*) Total pay roll in dollars each week in those years.

(*d*) Average labor cost per hour.

22. A statement covering the cost of steel plates and shapes for the years 1916 to 1934, inclusive, averaged by years.

23. Copies of any side agreement or agreements made by the company with Cramps, with bonding firms, or with others, in connection with taking over contracts for U. S. S. *Salt Lake City* and machinery for U. S. S. *Pensacola*.

24. Copies of all data, memoranda, correspondence dealing with the enactment and enforcement of the Vinson Act.

25. Copies of the minutes of the board of directors and/or any executive committee of such board from 1915 to 1934, inclusive.

26. The committee also requests the company officials to bring with them copies of all agreements with foreign companies on sales or on patents, including payments made under such agreements, either by the foreign companies or to the foreign companies, 1916 to 1934, inclusive.

27. The committee requests each and all of the officers of the company to bring with them all records, diaries, and other memoranda in their original form indicating or describing the meeting or communication with officials of other shipbuilding companies regarding bids and awards for naval vessels and records of similar communications, conferences, or meetings on this subject with naval or other governmental officials during the period 1926 to 1934, inclusive.

Sincerely yours,

GERALD P. NYE, *Chairman.*

The CHAIRMAN. Now, if you will indicate, starting with paragraph 1, Mr. Parker, just what is not now supplied, we would appreciate it very much.

Mr. PARKER. In paragraph 1 we have furnished a copy of the published annual report, income and profit-and-loss statement, and a statement of income taxes paid.[1] That is complete, as we understand the question.

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[1] Entered later as "Committee Exhibit No. 2" and on file with the committee. See Hearings, Part XIX, p. 5110.

Paragraph 2 covers the periods 1933 and 1934 and has to do with current contracts. The inquiries and the correspondence in connection therewith are necessary for our day-to-day operations. To bring them before the committee would really stop work at the plant for the period that they were here.

For the period 1926 to 1932 there have been furnished the committee, and I believe are in the supply room downstairs, 92 boxes of correspondence of that period, which may be kept by the committee.

For the period 1933 and 1934 there are available—and we would be glad to cooperate with the committee in every possible way to give the information contained—but to bring those from our files would stop the progress of the work, stop placing orders, and stop employment to some extent, and I am sure the committee does not desire us to do that.

Mr. Raushenbush. You say that furnishing of that information——

Mr. Parker. "Inquiries to suppliers."

Mr. Raushenbush. I understand that the inquiries to suppliers are those in the 92 boxes to which you referred?

Mr. Parker. Not the inquiries for 1933 and 1934. They are in constant use.

Mr. Raushenbush. Did you bring along the estimates for 1933 and 1934?

Mr. Parker. Yes, sir.

Mr. Raushenbush. All right.

Mr. Parker. On paragraph 3 I believe we are complete.[1]

Paragraph 4 is complete as far as we understand it.[1]

Paragraph 5, campaign contributions, requires that we secure signed statements from officers and directors concerning contributions between 1920 and 1934. We have written to all the former officers and directors, officers and directors during that period, and in part we have received replies. Some of the officers and directors are not available, some are out of the country, and some are away on vacations. Such replies as we have received are in the folders furnished the committee.[2]

Mr. Raushenbush. Can you add to that the list of officers who have not replied to that?

Mr. Parker. I gave a list in a letter making the response.

Mr. Raushenbush. Including the names of officers who have not replied?

Mr. Parker. Yes, sir.

Bonus payments of the company is replied to in full for the period requested.

Individual statements by officers, under paragraph 7 necessarily follows the replies which we must receive.

Men as representatives or agents, with their salaries and expenses, we just did not have time to accumulate and compile the data.[3] The expenses are turned in from time to time, and their salaries are available, and we would be very glad to continue that and try to furnish the committee with the full detail. I am giving the names of the representatives and agents.

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[1] Summaries of estimates on Merchant Marine and Naval vessels were entered as "Exhibit No. 1540." See Hearings, Part XIX, p. 5113.

[2] Campaign contributions were entered later as "Committee Exhibit No. 4" and are on file with the committee. See Hearings, Part XIX, p. 5111.

[3] Lists of agents and representatives were entered later as "Exhibits Nos. 1529 and 1539." See Hearings, Part XIX, pp. 5083 and 5111.

Mr. Raushenbush. Did you supply the names of the Washington representatives and their expenses?

Mr. Parker. Only their names. I have not a detail of their expenses.

Mr. Raushenbush. Were there so many Washington agents that it was impossible to compile their expenses, Mr. Parker? What reason would there be for any difficulty in compiling that?

Mr. Parker. Purely a matter of time.

Mr. Raushenbush. When will that be available?

Mr. Parker. I really cannot say. But I will cooperate in every way possible. I could not give a definite time when it might be done.

Mr. Raushenbush. May we expect it within the next 3 weeks?

Mr. Parker. I doubt it very much. I do not believe it can be done.

Mr. Raushenbush. How many Washington representatives did you have at any time?

Mr. Parker. I do not recall more than one at any time.

Mr. Raushenbush. And you find it impossible to give the salaries, commissions, and expenses of that representative for that period of years?

Mr. Parker. It is 14 years asked for, Mr. Raushenbush.

Mr. Raushenbush. One man for 14 years.

Senator Clark. Does the record show your Washington representative?

Mr. Parker. I have replied to that; yes, sir.

Senator Clark. It ought to be a very simple matter to add up the salaries and expenses of those men. It is necessarily a limited list, is it not?

Mr. Parker. Each week, or maybe semimonthly or monthly, he turns in an expense account for his expenses, which goes into the monthly disbursements for that month, and there are 14 years covered, which means an examination of those accounts. We do not segregate individuals and carry their accounts by individuals.

Senator Clark. You do not have the disbursements to individuals?

Mr. Parker. We have them all but it takes time.

Senator Clark. It seems to me it would be very simple to run through and select the names of a very limited list and find out the disbursements for the various individuals.

Senator Barbour. The fact is that there are a great many items of expense which are difficult to segregate, are there not?

Mr. Parker. Exactly so.

Senator Barbour. It is not the individual involved, I do not think, is it?

Senator Bone. Do those items show Washington expenditures?

Mr. Parker. They show expenditures made by these representatives.

Senator Bone. In that city or in connection with your work here?

Mr. Parker. I doubt if they would show the purpose of the expenditure; just merely the amount of the expenditure.

Senator Bone. Do you not endeavor to keep a set of books that you will know what your money is being spent for?

Mr. PARKER. We know what our money is being spent for.

Senator BONE. Then it must be itemized in some fashion.

Mr. PARKER. Very few of those accounts are ever itemized.

Senator BONE. Do you permit a man a blanket expense account and permit him to spend money without designating what it is for?

Mr. PARKER. Any expenditure authorized by the president of the company is disbursed by me as treasurer.

Senator BONE. That authorization would indicate the nature of the expenditure, would it not?

Mr. PARKER. Not necessarily; very seldom as a matter of fact.

Mr. RAUSHENBUSH. In computing the overhead of the company chargeable to naval vessels and the like, you must be going over those figures constantly, must you not, to determine whether they go into the overhead or do not?

Mr. PARKER. We have a total of traveling expenses for periods. We have 4,000 men. Many of those men travel. Some of the operating men travel for the completion of ships, trial trips, and so forth, and work in the shipyards.

Senator CLARK. Do you pursue that same policy with regard to all your employees as you do your Washington representative, not having the expenditures itemized?

Mr. PARKER. They are always identical in every case. We treat expenses for everybody just the same.

Senator CLARK. You mean to say none of your employees traveling on company business, whatever it may be, makes no itemized report of his expense?

Mr. PARKER. Yes, he does. So does the Washington representative.

Senator BARBOUR. From time to time?

Mr. PARKER. From time to time. We do not compile it and keep it so that we can tell what happened 14 years ago.

Mr. RAUSHENBUSH. Or 2 years ago?

Mr. PARKER. Or 2 years ago, or 2 months ago.

Mr. RAUSHENBUSH. I think Mr. Parker has treated the company's accounting here quite accurately, but I do want to say, Mr. Chairman, that we attach some importance to having those figures.

Mr. PARKER. It is purely a matter of time. We can compile a good part of it, or maybe all of it, if given time, but there are 14 years in the request.

The CHAIRMAN. Will you undertake to furnish that information to the committee in part as it is compiled?

Mr. PARKER. If I might say so, Senator, after the committee has had an opportunity to go over these replies which we have made, then any additional information that might be required, not found sufficient in the replies made, could be made as a separate request, and we would be very glad to cooperate.

Mr. RAUSHENBUSH. Is that a reply to the Senator's question as to when the information can be available on that one point?

Mr. PARKER. I really could not answer when that would be available. I have had no opportunity to go through the expenses, and the files are in a rather incomplete state. Realizing that we have been investigated by the internal revenue agents, by accountants, and engineers of prospective purchasers, and by accountants and engineers of purchasers during the period 1920 to 1934, and we have been investigated by a Senate committee investigating certain activities back in 1928 and 1929, and we have been investigated in the last 2 years by another Senate committee on mail contracts; each of these investigators has been through our files, Mr. Senator.

The CHAIRMAN. Have any of these investigations developed the answer to the question under debate at the moment?

Mr. PARKER. No, sir; they have not.

Senator BONE. Did any of those investigations require you to produce that sort of evidence?

Mr. PARKER. No, sir.

Senator BONE. None of them ever asked for that sort of information?

Mr. PARKER. Yes, sir.

Senator BONE. Did you produce it for them?

Mr. PARKER. No, sir.

Senator BONE. Did they insist on its production?

Mr. PARKER. No, sir.

Senator BONE. They abandoned the thing after they made that first request?

Mr. PARKER. Their investigators ascertained the fact that it was too difficult a task, and would be incomplete and probably inaccurate.

The CHAIRMAN. What of the following request?

Mr. PARKER. No. 9 is answered complete.[1] No. 10 is answered complete.[2]

The CHAIRMAN. What did you say of no. 9?

Mr. PARKER. No. 9 is answered complete.

The CHAIRMAN. No. 10?

Mr. PARKER. Complete.

The CHAIRMAN. No. 11. Ownership of stock in other companies?

Mr. PARKER. That is contained in the request of all officers and directors for the period 1926 to 1934, and the replies so far received are contained in the folders turned over to the committee.

The CHAIRMAN. No. 12?

Mr. PARKER. Is answered complete.

The CHAIRMAN. No. 13?

Mr. PARKER. Is answered as complete as it was possible to list foreign sales agents. Nos. 13 and 8 are almost identical, Representatives or agents of the company in the United States or abroad. and no. 13, a list of foreign sales agents by name, and as to their salaries and commissions, the same applies to no. 13 as applies to no. 8.[3]

The CHAIRMAN. No. 14?

Mr. PARKER. No. 14 is answered complete as regards the shipbuilding business, which is all that is available.

No. 15 is complete as regards the shipbuilding business.

No. 16, All company contributors, and so forth, is answered as complete as it was possible.[4] There is no statement given of company contributions. We have given it for 1 year, 1934.

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[1] Statement of ownership of stock of the company in blocks of 1 percent or over was entered as "Exhibit No. 1547." See Hearings, Part XIX, p. 5136.

[2] Statement of ownership of bonds of the company in blocks of 5 percent or over was entered as "Exhibit No. 1536." See Hearings, Part XIX, p. 5109.

[3] Lists of agents and representatives were entered as "Exhibits Nos. 1529 and 1539." See Hearings, Part XIX, pp. 5083 and 5111.

[4] Lists of company contributions were entered as "Exhibit No. 1538." See Hearings, Part XIX, p. 5110.

Senator BONE. Mr. Parker, may I intrude at this point and ask, how long it will take you to compile the figures covering the information shown in this questionnaire to which we have made reference?

Mr. PARKER. I believe it would take at least 2 months for an accounting group of propably three persons to analyze the expenses of the 18 years; it would take 2 months for every year.

Senator BONE. In view of the fact that this committee will be in session for probably 5 or 6 months, will you produce those figures. agree to produce those figures for our records? They have never been produced in any of these investigations and it is probably time that we have them and incorporate them in a permanent record.

Mr. PARKER. Did you understand my answer?

Senator BONE. I did sir. I understood you to say 2 months.

Mr. PARKER. Two months for each year; 36 months for 18 years.

Senator BONE. I did, sir. I understood you to say 2 months.

Mr. PARKER. Yes, sir.

Senator BONE. Have you more men available?

Mr. PARKER. No, sir.

Senator BARBOUR. How much do you suppose it would cost your company, Mr. Parker, if you were put to that expense; to the expense of doing that?

Mr. PARKER. At the per diem for accountants, to do this work, that would probably cost $60,000, or $20,000 a year.

Senator CLARK. Do I understand you to say, Mr. Parker, that you do not preserve the record of disbursements to your Washington representatives at all?

Mr. PARKER. You misunderstood me if you understood it that way.

Senator CLARK. What is the situation about that? Why does it take 2 months for each year to find out what the disbursements were to a man who was your representative here in Washington?

Mr. PARKER. Because we do not keep it by the man's name in Washington, Timbuctoo, or wherever it is, but keep it in a general file, and every expense is there, so far as I know, except if it be upset by the various investigations we have had. I am not sure that the record is complete, and when I see an incomplete record, I have to trace out all other expenses.

Senator CLARK. You mean to say as to John Jones, representing you in Washington, you have no record as to what you paid John Jones in the year 1921, I will say?

Mr. PARKER. No, sir; we have not.

Senator CLARK. I will say that is a most remarkable way of keeping records.

Senator BONE. In view of the large amounts which this Government is paying for battleships, cruisers, and so forth, do you not think it would be wise for you to be in position to show that to your client?

Senator CLARK. It might be wise not to be able to show it.

Senator BONE. You can hang it on one horn or the other of the dilemma, but, do you not think, as a contracting party with the Government, that it would be wise? Putting it the other way, do you think it is an improvident request and not justified by the facts that the Government should have this information available to them?

Mr. PARKER. Senator, you are asking me what I think. My job is the bookkeeper of the company.

Senator BONE. We are spending about one-half billion dollars on the Navy—and that is a lot of money—and the Government ought to be fully advised, do you not think, concerning where this money is going, and how it is to be spent, and every angle of the expenditures should be examined?

Mr. PARKER. It is a matter for the Government to fix.

Senator BONE. That is the point. The Senate is representing the Government, or I believe we think it is. It may be laboring under a delusion or hallucination, but I thought we were speaking for the Government.

Senator VANDENBERG. Mr. Parker, for the years 1933 and 1934, would it be an equally difficult task to get this rather limited information?

Mr. PARKER. That would be fairly easy, and I think could be gotten in a fairly reasonable length of time.

Senator VANDENBERG. I suggest we start out having that.

The CHAIRMAN. Without waiting for the balance?

Senator VANDENBERG. Yes, sir.

Senator CLARK. The late period instead of the earlier period. I think that is a very sensible suggestion.

Mr. PARKER. I would be very glad to cooperate on that basis, and I think that I could accomplish something and give it to you in a reasonable time.

The CHAIRMAN. What about no. 17?

Mr. PARKER. No. 17, the only publicity and/or propaganda expenses which are disclosed by such records as we have, have to do with three matters, the disbursements of William B. Shearer in connection with the passage of the Jones-White bill in 1927 and 1928; and for publicity expenses on the pay rolls of the Trans-Oceanic Steamship Corporation.[1]

Senator CLARK. Do you have them segregated?

Mr. PARKER. Those items have been segregated and given to the committee investigating the activity of William B. Shearer at Geneva, have been given to the committee investigating the ocean-mail contracts, and copies of the full details have been given your investigators.

Mr. RAUSHENBUSH. Is that up to date?

Mr. PARKER. That is all there is.

Mr. RAUSHENBUSH. One of these committees you mention met in 1929. Have all those accounts been brought up to date?

Mr. PARKER. They were all concluded in 1928.

Mr. RAUSHENBUSH. Do you so testify?

Mr. PARKER. As far as I know they are.

Mr. RAUSHENBUSH. That the company paid out no more expenses upon any of these accounts after 1929?

Mr. PARKER. No; that is not true.

Mr. RAUSHENBUSH. That is what I was offering you the opportunity of saying.

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[1] Entered as "Exhibit No. 1538." See Hearings, Part XIX, p. 5111.

Mr. PARKER. The record shows the disbursement made in addition to that to which you referred, as legal expenses, which has been itemized and given to your investigators.

Mr. RAUSHENBUSH. That is what I was trying to get at.

Mr. PARKER. But the matter is complete on what you have.

Mr. RAUSHENBUSH. All right.

Mr. PARKER. There are no fees or commissions paid on governmental business for any years, so far as I know, and I have so answered.

Fees for legal services, including retainers and other expenses, I have given them for the year 1934, from 1926 to 1932, and for the year 1934, which is all I had an opportunity to accumulate in the limited time.[1]

Senator VANDENBERG. Does that mean that you skip 1933?

Mr. PARKER. I think I skipped 1933; yes, sir, but I have 1934.

Senator VANDENBERG. Was there any reason for skipping 1933?

Mr. PARKER. I just did not have it available and did not submit it yet.

Senator VANDENBERG. I would be particularly interested in 1933, Mr. Parker, if it can be made available.

Mr. PARKER. It is not very difficult to get it. It is just a matter of time.

Senator VANDENBERG. All right.

Mr. PARKER. Dates of the original and supplemental contracts under no. 20, I have given a list of contracts but the statement of the financial effect of the change in contracts is utterly impossible to obtain.[2]

The CHAIRMAN. That perhaps would be a matter which we would have to develop here.

Mr. PARKER. It is a matter which would have to be developed because it is a matter of opinion more than anything else.

The CHAIRMAN. No. 21?

Mr. PARKER. No. 21 has been furnished complete as far as the records are available. Total man-hours each week were not available on a weekly basis up until 1934. We have given the number of men employed and the total pay roll as requested.

Average cost of steel plates under no. 22 is as requested.

Copies of all the agreements in connection with the Cramps contract are in the folders.

All data under no. 24 are furnished.[3]

No. 25 is complete.[4]

No. 26 is complete except for the payments to and from foreign companies, which is not compiled.[5]

The CHAIRMAN. Except for what?

Mr. PARKER. Payments to and by, the latter sentence of no. 26.

The CHAIRMAN. How long will that be?

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[1] List of fees entered as "Exhibit No. 1537." See Hearings, Part XIX, p. 5110.

[2] List of contracts on naval ships during 1917, 1918, and 1919 was entered as "Exhibit No. 1530." See Hearings, Part XIX, p. 5085.

[3] Data concerning the Vinson Act was marked "Committee Exhibit No. 6" and is on file with the committee. See Hearings, Part XIX, p. 5113.

[4] Copies of the minutes of the board of directors were marked "Committee Exhibit No. 3" and are on file with the committee. See Hearings, Part XIX, p. 5111.

[5] Copies of agreements on sales and patents were marked "Committee Exhibit No. 5" and are on file with the committee. See Hearings, Part XIX, p. 5112.

Mr. Parker. I do not believe it will be possible to obtain that. That has to do, of course, with the electrical business. That would have to be developed, too, Mr. Chairman, I think, because, if you want to limit that to shipbuilding entirely, which I assume you do, it would have to be segregated in good part from a combined electrical and shipbuilding activity that went on for the period 1925 to 1929 and 1930.

The Chairman. What agreements not connected with shipbuilding might there be?

Mr. Parker. Agreements for patents and other matters having to do with the electrical business, which we were in during that period. However, copies of the agreements are here, as far as we have them.

The Chairman. Now, as to the last question?

Mr. Parker. The company asked its officers to bring with them all records and diaries as requested in paragraph 27.

The Chairman. Mr. Raushenbush, you will, of course, at your earliest convenience ascertain how complete is the response that has already been made, and then advise the committee if there is further information which should be had.

Mr. Raushenbush. Yes, sir.

The Chairman. All right, Mr. Raushenbush; you may proceed.

Mr. Raushenbush. Mr. Metten, you are president of the company?

Mr. Metten. Yes, sir.

Mr. Raushenbush. Will you very briefly outline for the committee, the function of the company, what its business is?

Mr. Metten. It is engaged in shipbuilding—merchant and naval shipbuilding.

Mr. Raushenbush. Merchant and naval shipbuilding. It has really no other interest of importance at the present time?

Mr. Metten. No, sir; not at the moment.

TAXATION OF WAR PROFITS

Mr. Raushenbush. We should like to go into some of the history of the company to find out what information there is of value to the committee in certain matters it is interested in, notably taxation of war profits. We propose—and I want to say this openly—to start right at the beginning during the war years, and come up into the more recent years later.

Is there any one of your gentlemen who is particularly conversant with the earlier history of the company during those war years? Were you with the company, Mr. Metten?

Mr. Metten. No; I have only been president of the company since the first of November 1934.

Mr. Raushenbush. Were you with the company then, Mr. Parker?

Mr. Parker. Yes, sir.

Mr. Raushenbush. Were you with the company, Mr. Langell?

Mr. Langell. Yes, sir.

Mr. Raushenbush. And you, Mr. Pruitt?

Mr. Pruitt. I am the general counsel for the corporation.

Mr. Raushenbush. Mr. Parker, you were with the company at the time, and in what capacity?

Mr. Parker. What time, Mr. Raushenbush?

Mr. Raushenbush. Beginning with 1916, let us say.

Mr. Parker. In 1916 I was in charge of all costs and accounts.

Mr. Raushenbush. And later you became assistant treasurer?

Mr. Parker. In 1918 I became assistant treasurer.

Mr. Raushenbush. And then treasurer?

Mr. Parker. I became comptroller in 1927, and treasurer in 1929.

Mr. Raushenbush. We find from the Treasury Department records, that the company as it existed in 1916, was sold to the American International Corporation. We find in the Treasury file a list of the stockholders at that time, and I wonder if you could look at them, which I offer for proper number, and develop from your own information whether any of those larger stockholders are present stockholders in the company.

(The document referred to was marked "Exhibit No. 1413" and is included in the appendix on p. 4831.)

Mr. Parker. I recognize from this that it is a list of stockholders of the New York Shipbuilding Co., a company which was sold November 30, 1916, and as far as the present stockholders of the New York Shipbuilding Corporation are concerned, the transfer records are not in my possession, and in reply to the paragraph of the letter, a list of stockholders has been submitted to the committee.

Mr. Raushenbush. Then, I take it, your answer means that you do not recognize any of these larger stockholders as present stockholders of the company?

Mr. Parker. I do not know the present stockholders of the corporation.

Mr. Raushenbush. As to the interest of Mr. Walters, for instance, you do not know whether there is any stockholding at present on his part in the present corporation?

Mr. Parker. That's right. I do not know. Mr. Walters is dead.

Mr. Raushenbush. Or his estate? How about Mr. Henry C. Frick?

Mr. Parker. Dead too, as I understand.

Mr. Raushenbush. His estate?

Mr. Parker. Not so far as I know.

Mr. Raushenbush. Or Mr. Andrew W. Mellon and Mr. R. B. Mellon?

Mr. Parker. Not to my knowledge. They have never been stockholders since they disposed of their interest in 1916.

Mr. Raushenbush. Mr. Baruch?

Mr. Parker. Not so far as I know.

Mr. Raushenbush. The New York Shipbuilding Co., then, in 1916 was sold to the American International Corporation? You were with the company at that time?

Mr. Parker. Yes, sir.

Mr. Raushenbush. The directors of the American International Corporation at that time included a certain number of names, and I want to ask you whether, so far as your knowledge goes, the men at that time directors are still interested in the present corporation. Mr. Vanderlip?

Mr. Parker. I do not know.

Mr. Raushenbush. Mr. Armour?

Mr. Parker. I do not know.

Mr. RAUSHENBUSH. Newcomb Carlton or Charles Coffin?

Mr. PARKER. Neither of them.

Mr. RAUSHENBUSH. W. F. Corey?

Mr. PARKER. Not so far as I know.

Mr. RAUSHENBUSH. Robert Dollar?

Mr. PARKER. He is dead.

Mr. RAUSHENBUSH. P. S. du Pont?

Mr. PARKER. Not so far as I know.

Mr. RAUSHENBUSH. J. P. Grace?

Mr. PARKER. I do not believe so.

Mr. RAUSHENBUSH. You do not believe so?

Mr. PARKER. That is right.

Mr. RAUSHENBUSH. J. J. Hill?

Mr. PARKER. Not so far as I know.

Mr. RAUSHENBUSH. Otto H. Kahn?

Mr. PARKER. Not so far as I know.

Mr. RAUSHENBUSH. P. A. Rockefeller?

Mr. PARKER. Same answer.

Mr. RAUSHENBUSH. John D. Ryan?

Mr. PARKER. Same answer.

Mr. RAUSHENBUSH. Charles A. Stone?

Mr. PARKER. Same answer.

Mr. RAUSHENBUSH. Guy E. Tripp?

Mr. PARKER. Same answer.

Mr. RAUSHENBUSH. P. A. S. Franklin?

Mr. PARKER. Same answer.

Mr. RAUSHENBUSH. I would like to offer this list of the directors of the American International Corporation with corporate connection, for the record, as "Exhibit No. 1414."

The CHAIRMAN. It is so ordered.

(The document referred to was marked "Exhibit No. 1414" and is included in the appendix on p. 4832.)

Mr. RAUSHENBUSH. At the time of sale to the American International Corporation, Mr. Parker, is it correct, as far as your information goes, that Mr. Mellon, who sold the corporation kept $7,500,000 in bonds, took that in part payment?

Mr. PARKER. The sale of the New York Shipbuilding Co. to the American International was for a cash consideration and bonds, which cash and bonds were distributed to the stockholders of the old company, in the old company's liquidation. Mr. Andrew W. Mellon and R. B. Mellon were the two largest stockholders in the New York Shipbuilding Co., and had received the greatest amount of cash and the greatest amount of bonds, approximately one-half of the bonds issued.

Mr. RAUSHENBUSH. The bond issue was how large?

Mr. PARKER. Seven and a half million.

Mr. RAUSHENBUSH. We have here a letter, Mr. Parker, from Mr. George J. Baldwin, the senior vice president of the American International, in which he describes to the Emergency Fleet Corporation the sale by Mr. Mellon to him and his corporation, and there is a paragraph in here which states [reading from "Exhibit No. 1415"]:

> In the negotiations which were so resumed at the conference of October 18, I presented very few arguments toward securing a reduction. My figure

$10,000,000 was based on $1,500,000 annual earnings and was eventually met by Mr Mellon's suggestion that "we split the difference $11,500,000" which I promptly agreed to, provided he would take $7,500,000 in bonds.

Mr. PARKER. He was acting not for himself in that case, Mr. Raushenbush, but acting for the liquidating committee representing all the stockholders.

Mr. RAUSHENBUSH. Is it your understanding that he and his brother and his corporation took the larger share of those bonds, and, according to their larger stockholdings, and have kept them since?

Mr. PARKER. Most of the bonds, I believe, have been kept by the original holders.

Mr. RAUSHENBUSH. That means, then, that the Mellon group still has the bonds of the New York Shipbuilding Corporation at present?

Mr. PARKER. We have no means of saying accurately or definitely. We know to whom the bonds were issued from the bond numbers and in our reply to the committee's letter I have given as far as possible a list of the bondholders.

Mr. RAUSHENBUSH. There are two further statements in this letter which I want to put into the record for a purpose, describing the basis on which the company was bought. I simply want to read two paragraphs from this letter of Mr. Baldwin which I want to enter as "Exhibit No. 1415."

(The letter referred to was marked "Exhibit No. 1415" and is included in the appendix on p. 4847.)

Mr. RAUSHENBUSH. That letter reads in part as follows:

> We also had in mind the possibility of further profits from New Government work and new merchant construction. The latter possibility was particularly attractive by reason of the unusual profits then current in new merchant construction.

The letter later states:

> The trade was made, so far as we were concerned, with earnings, on the basis of profits in hand and to be earned, and we have not since learned of anything then existing which would have changed our estimates of profits.

I would like also to put in a reply from Mr. Mellon to Mr. Cuthrell of the Emergency Fleet Corporation, describing the same arrangement. I read:

> Later at a conference following the letter Mr. Baldwin stated that his people were desirous of acquiring the property but that it appeared to them from their examination, taking into consideration the nature of the contracts on hand, the available space for future contracts, that the prospective earnings would not be sufficient to justify the option price.

I would like to offer that as "Exhibit No. 1416."

(The letter referred to was marked "Exhibit No. 1416" and is included in the appendix on p. 4849.)

Mr. RAUSHENBUSH. It is fairly clear, is it not, Mr. Parker, that the purchasing group, the American International Corporation, was basing supposedly entirely on the earning capacity of the plant, according to Mr. Baldwin's letter to the Emergency Fleet Corporation?

Mr. PARKER. The letter speaks for itself. I was not one of the purchasers. I do not know the purpose of purchase.

Mr. Raushenbush. You do know that profits of $2,929,573 accrued to the vending company as a result of the transaction, do you not?

Mr. Parker. I do not recall the amount. There was a surplus to the liquidating committee.

Mr. Raushenbush. We find in the various Treasury files, and also in the company's protest, later on, the sum of $2,929,573. Did you not in fact receive from the Treasury, notices running through the years 1916 to 1929 that they were attempting to check the vendee company or new company on the profits made by the sellers?

Mr. Parker. It was asserted against the new corporation. The profit, if there was a profit, made by the owners of the old company in the sale of that company.

Mr. Raushenbush. Yet, the Treasury was attempting, as you understand it, to assess some $58,000 plus against the purchaser?

Mr. Parker. Yes, sir.

Mr. Raushenbush. And the corporation properly protested that?

Mr. Parker. Right.

Mr. Raushenbush. And finally it was barred by the statute of limitations. Is not that a correct statement of what happened?

Mr. Parker. That is correct.

Mr. Raushenbush. Why do you suppose during those years in the twenties, when these transactions were going on, the Treasury did not try to tax the vending corporation, the Mellon corporation, which had sold the corporation to you?

Mr. Parker. That is a matter that the Treasury Department will have to answer. I do not know why they did it, or did not.

Mr. Raushenbush. This profit of $2,929,000, which you had paid in excess of the value of the plant, the purchasing company had paid, that was immediately written onto the books, was it not; I mean distributed among the property? You tried to allocate that to ways and yards and the like, and did so allocate it almost immediately.

Mr. Parker. The new corporation paid a certain price for the assets, plant, land, buildings, and all the price they paid for it was the price at which the new corporation set it up on its books.

Mr. Raushenbush. That price was $2,929,573 above the old price, and you then distributed it among various assets, assigned so much to this and so much to that, did you not?

Mr. Parker. The corporation set it up on its books, and it did not make any difference at what it was held on the books of the previous company.

Mr. Raushenbush. But my point is, it did not set it up as goodwill?

Mr. Parker. Not at all. It was an actual purchase of tangible property, a tangible asset.

Senator Clark. Two and a quarter million dollars above what the old company carried it on its books?

Mr. Parker. Exactly, sir.

Mr. Raushenbush. Almost $3,000,000, Senator.

All through the following years, when you were doing work for the Navy and the Emergency Fleet Corporation, you tried to depreciate that $2,929,000, did you not?

Mr. Parker. I believe properly so.

Mr. RAUSHENBUSH. And to have that depreciated against the naval vessels and the Emergency Fleet Corporation vessels. You believe they did so?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. And you remember quite accurately, do you not, that both the Navy and the Emergency Fleet Corporation constantly insisted that was a nondepreciable item, a goodwill item that you had paid for?

Mr. PARKER. That is correct.

Mr. RAUSHENBUSH. So that for a period all through the war and later years, when the tax matters became important, there was a constant fight, let us say, between the company and the Navy and the Emergency Fleet Corporation and the Internal Revenue Department, on the question of whether or not the Government would really pay for that depreciation on the goodwill you had paid for?

Mr. PARKER. Not quite a fight, but, say, a conference.

Senator CLARK. A controversy, was it not?

The CHAIRMAN. Mr. Parker, you were connected, of course, with the corporation during the war?

Mr. PARKER. Yes, sir.

The CHAIRMAN. What was the attitude of the corporation when the war came? What was the attitude of the corporation in respect to cooperation with the Government? Was there a large will to cooperate fully?

Mr. PARKER. I believe so.

The CHAIRMAN. What was the thing that moved the corporation primarily in those days? Was it the matter of profit, or was it a matter of patriotic cooperation with the Government?

Mr. PARKER. Senator, if I may say so, for those old employees who have been in shipbuilding for many years, every one of them were moved more or less patriotically. There is not a man who has been in this game for any length of time who does not feel he is just as much a part of any division of Government operation as if he were commissioned or a civilian in the ranks of the Government.

New owners came in and the new owners may have been actuated by profit. The owners were not the operators. The operators of the yard, the management of the yard, were all old-time shipbuilders, and I know very well for them that they were actuated by truly patriotic motives.

The CHAIRMAN. You are not prepared to say that the new owners were actuated by patriotic purposes, are you?

Mr. PARKER. Not at all.

The CHAIRMAN. What is your inclination with respect to that? What was their attitude?

Mr. PARKER. I really do not know, sir.

The CHAIRMAN. Did you see any evidence that their motive was not a patriotic one?

Mr. PARKER. I believe that they were as patriotic as anyone could have been during that period.

The CHAIRMAN. And during the war you felt the corporation was lending patriotic cooperation to the Government?

Mr. PARKER. Yes, sir.

The CHAIRMAN. Do you see now where there might have been a more patriotic response than there was during those years?

Mr. PARKER. In hindsight you might find some things, Senator, that we could have done better, but the motivating influence and idea of everybody was to do all they could. That was our job, and we tried to do it.

The CHAIRMAN. Let us assume, now, that we were to enter war again. Do you feel that your company could be more patriotic than it was during the war?

Mr. PARKER. For the management and the personnel, I do not believe so.

The CHAIRMAN. You do not believe it could?

Mr. PARKER. No, sir.

The CHAIRMAN. All right, Mr. Raushenbush.

Mr. RAUSHENBUSH. You did not include the owners there, Mr. Parker?

Mr. PARKER. It was not in the question, Mr. Raushenbush.

Senator VANDENBERG. Who won this argument on depreciation between the Government and the company?

Mr. PARKER. There is always one winner in any controversy with the Government, and that is the Government.

Senator VANDENBERG. Did the Government win?

Mr. PARKER. Yes, sir.

Senator VANDENBERG. That is a novelty with respect to many of these contracts with respect to munitions.

Mr. RAUSHENBUSH. Let me ask you this question again, Mr. Parker:

Up to December 1926 the Government managed to keep you from capitalizing those items, did it not?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH. What happened after that?

Mr. PARKER. The company was sold again.

Mr. RAUSHENBUSH. Then what happened to those items?

Mr. PARKER. We went into a new business.

Mr. RAUSHENBUSH. Yes; and then?

Mr. PARKER. The items were capitalized.

Mr. RAUSHENBUSH. The items were capitalized in 1926.

Senator VANDENBERG. In other words, the Government did not win?

Mr. PARKER. Yes; the Government did win.

Mr. RAUSHENBUSH. For a while.

Senator CLARK. You mean in 1926 the items represented by this $3,000,000 were capitalized? Is that what I understand? It was the $3,000,000 which was capitalized in 1926?

Mr. RAUSHENBUSH. Yes, sir.

Mr. PARKER. They were not the same items. They were different items, but equivalent in amount.

Senator CLARK. It was a balance which you were not able to take care of during that period?

Mr. PARKER. That is right.

Senator CLARK. You allocated it sometimes to one thing and sometimes to another, and finally got them capitalized in 1926?

Mr. PARKER. That did not affect the situation so far as the Government is concerned, the Government or Treasury Department never allowed depreciation up to this minute.

Senator CLARK. But if we were going into another war, on the basis of the allowance on plant capacity, the items representing nothing but goodwill would be in there?

Mr. PARKER. Senator, if you will let Mr. Raushenbush finish it, then along in 1931, we not only wrote off that $3,000,000 but wrote off $7,000,000 besides, so that our present situation is, instead of having $17,000,000 on the books, we have only $6,000,000.

Senator CLARK. What was the basis of that write-off?

Mr. PARKER. Putting the company in the proper set-up to carry on its function as a part of the national-defense system of this country. It was written off against surplus.

Senator CLARK. Do I understand up to that time you had approximately 50 percent of your capital which was not a proper rate base? Is that correct?

Mr. PARKER. Fifty percent or approximately.

Senator CLARK. You wrote off $7,000,000 out of $17,000,000. Is that correct?

Mr. PARKER. We wrote off nearly $10,000,000 out of $17,000,000.

Senator CLARK. You wrote off nearly $10,000,000, but in all these years back, including the war years, that had been in the base on which you figured your prices? Is that correct?

Mr. PARKER. No, sir.

Senator CLARK. Where did the $10,000,000 come from?

Mr. PARKER. The $10,000,000 represented the value on the books of the property placed in the plant for war work during that period, appraised, at various times, by engineers at reproductive cost. It was a good part obsolete property, not in operation, and it was not a good value to have on a clean balance sheet.

Senator CLARK. It had been in there during all these years, had it not?

Mr. PARKER. It was in use during the war.

Senator CLARK. It was in there as a part of your capitalization?

Mr. PARKER. It was in there as a part of our capitalization, during that period.

Senator CLARK. As the base?

Mr. PARKER. But the Treasury Department never allowed depreciation on it, because they allowed amortization in the first instance against war contracts.

Senator CLARK. I am not personally concerned with what you paid in income taxes, Mr. Parker, as much as I am your present financial set-up, which would go into the prices which you would charge the Government in the event of war, or, as a matter of fact, what you would charge the Government in time of peace on construction of ships.

Mr. PARKER. At the present time the capitalization is nominal, and these items have all been written off, and many others besides.

Mr. RAUSHENBUSH. You mean you had $10,000,000 of the property there on which the Government was not allowing any depreciation at all, if I gather your statement correctly.

Mr. PARKER. Approximately that; yes, sir.

Mr. Raushenbush. How much of that was property contributed by the Government during the war?

Mr. Parker. Realize that that was property which had been amortized, and amortization had been allowed against the war-profits tax, 80 percent on our contracts.

Mr. Raushenbush. That still does not quite answer my question. You did get from the Emergency Fleet Corporation about $14,000,000 worth of property for about $500,000, did you not, and that was the exchange price there?

Mr. Parker. I won't say $14,000,000 worth of property. We got property which may have cost the Shipping Board $14,000,000, but its worth was less than we paid for it.

Mr. Raushenbush. What I am trying to get at at the moment is, How much of that was in the $10,000,000 which you wrote off?

Mr. Parker. Some part of it. I do not recall.

Senator Bone. What was the nature of that property which you acquired in that way? Ships?

Mr. Parker. Oh, no. We owned land adjacent to the main plant, and, during the height of the war and the shipping program, the Shipping Board desired to use a part of that land in the construction of a new shipbuilding plant. The record will clearly show that we were adverse to that, and did not desire to do it, and we did not want it, and we did not think it was the economical thing to do, and we did not think it was a good thing from the management point of view. It gave us too much to do, to build a plant at the same time we were building ships. However, the Shipping Board insisted that it be done, and it was done.

The Chairman. Was there any delay in your complying with that request?

Mr. Parker. I think the record will show in a number of letters where we did everything that was possible to avoid going into this program of plant construction along with ship construction.

The Chairman. How long from the time that the Government urged you to supervise the construction of that plant—how long was it before you complied?

Mr. Parker. It was a very short while, Senator, because they said, "If you do not do it, we will commandeer your land and do it ourselves." So that it did not take very long for us to go along with them.

The Chairman. What time during the war was this?

Mr. Parker. 1918.

Senator Bone. Was that to be a Government plant?

Mr. Parker. That was to be a plant operated by the New York Shipbuilding Corporation management.

The Chairman. But the Government was to build it?

Mr. Parker. The Government was to build it.

The Chairman. You were to supervise the building and you were to supervise the operations after it was completed?

Mr. Parker. Yes, sir.

The Chairman. And yet the Government was forced to threaten commandeering?

Mr. Parker. That is correct.

The Chairman. Before you would respond at that time?

Mr. Parker. Because we felt, and which later proved to be the case, that the diversion of our activities to the construction of the plant would materially affect the completion of ships then under construction, and it did.

Senator Bone. What was the character of the ships then under construction?

Mr. Parker. Destroyers for the Navy Department, which the Navy Department wanted at the earliest possible moment, and which delayed carrying through the destroyers and involved us in quite a controversy with the Navy Department because of the delay.

Mr. Raushenbush. Before you went into the construction of that $14,000,000 south yard did you and your company make an arrangement with Director General Schwab, of the Emergency Fleet Corporation, determining on what terms that would be given back or be sold to the company?

Mr. Parker. There was an agreement made by which we would be permitted to repurchase the property on the basis of an appraisal or on the basis of earnings.

Mr. Raushenbush. So that before you acceded to this threat of the Government commandeering, an arrangement was made with Schwab, who was head of the Emergency Fleet Corporation, determining pretty definitely the terms on which you would get that at the end of the war. Is that not correct?

Mr. Parker. That is right.

Mr. Raushenbush. In that connection, Mr. Chairman, I would like to read a letter from Charles J. Fay, of the firm of White & Case—White & Case have been your attorneys on these matters, have they not?

Mr. Parker. Up to 1933.

Mr. Raushenbush. The letter is dated May 25, 1923, and is addressed to James W. Talbert, of the Emergency Fleet Corporation. [Reading from "Exhibit No. 1417":]

> Dear Mr. Talbert: This is to confirm the appointment you gave Mr. Neeland and myself for Thursday morning, the 31st inst. Mr. Neeland and I will endeavor to be on hand promptly, and my thought is to be there at 9:45 a. m. (standard time). If you cannot see us at that time, we will wait until you are free.
>
> I enclose a memorandum regarding this plant-acquisition matter by the New York Ship of the improvements made at the cost of the Fleet.
>
> As the situation now stands, the acquisition arrangements (which was formulated in 1918 to avoid a possible war tax cash liability for the ways and shop improvements which Director General Schwab intended, and proposed, should be acquired by New York Ship without specific payment therefor but in the nature of a gift or added fee or compensation) was, and is, based on the improvements themselves, providing their valuation through earnings.

Does not that indicate fairly clearly that this whole arrangement by which you got the property, and in which the Emergency Fleet Corporation had sunk $14,000,000, for one-half million dollars, was determined before you went into that supervision of the construction of the yard?

Mr. Parker. It was recognized at the time the work was undertaken that the land belonged to the New York Shipbuilding Corporation. The facilities placed on that land and attached to that land by the Shipping Board became a part of the realty.

Nevertheless, there was an agreement executed by which the Government would be paid for that on basis of the earnings, which earnings developed from the operation of that unit.

Mr. RAUSHENBUSH. So that there was not only the threat of commandeering, but there was a promise obtained from Mr. Schwab, as quoted, "in the nature of a gift or added fee or compensation" before you went into this?

Mr. PARKER. That was not a motive to agree. That was rather a motive to make us avoid, because, if, by any chance, it was a fee on the construction, or if, by any chance, it was a gift, it would have been subject to tax, and we would be in position of having an obsolete, nonoperating plant, which would be subject to a high rate of income tax. It would be having a bear by the tail.

Mr. RAUSHENBUSH. The arrangement was to get around the tax there, by having that sort of an arrangement, and it should not be exactly a gift. but in the nature of a gift or added fee or compensation.

I would like to offer the letter for the record, as "Exhibit No. 1417."

(The letter referred to was marked "Exhibit No. 1417" and is included in the appendix on p. 4850.)

Mr. RAUSHENBUSH. I would also like to offer for the record 2 letters, 1 being a letter from a Treasury Department official, dated December 2, 1929, telling the story of the 1916 income taxes, 13 years before, as "Exhibit No. 1418"; and also, as "Exhibit No. 1419", excerpt from company's protest against 1917–21 taxes, filed November 1927, dealing with the profit of $2,929,000, and the question of its depreciation.

(The letters referred to were marked, respectively, "Exhibit No. 1418" and "Exhibit No. 1419", and are included in the appendix on pp. 4851 and 4852.)

Senator VANDENBERG. Mr. Parker, from your information will you tell me when you made this purchase for $500,000 from the Shipping Board, at what price you carried the purchase on the books?

Mr. PARKER. At the time we made the purchase we put it on the books at the actual cost, the cash we paid plus the amounts that we allowed the Shipping Board in the settlement with the Shipping Board, somewhere in the neighborhood of about $750,000.

Senator VANDENBERG. All right.

Mr. RAUSHENBUSH. Then how could you later depreciate a large part of the $10,000,000 out of that? When was the rest of it put on the books?

Mr. PARKER. After the revamping of the New York Shipbuilding Corporation in 1925, when it became the American-Brown-Boveri Electric Corporation.

Senator VANDENBERG. You mean these values were restored to the books at some time on the larger basis?

Mr. PARKER. On the basis of the appraisal made at that time?

Senator VANDENBERG. What was that figure?

Mr. PARKER. I do not recall the figure.

Senator VANDENBERG. About what value?

Mr. PARKER. Approximately $2,000,000, between 2 and 3 million dollars.

Senator VANDENBERG. When was this appraisal?

Mr. PARKER. 1925.

Senator VANDENBERG. When was it purchased from the Shipping Board?

Mr. PARKER. About 1922.

Mr. RAUSHENBUSH. It was 1922 or 1923?

Mr. PARKER. About 1922.

Senator VANDENBERG. You bought for one-half million dollars in 1922 that which was subsequently appraised at 2-million-and-odd dollars, 3 years later?

Mr. PARKER. It is only fair to realize that that appraisal was based on the use of these facilities, for another kind of business. The New York Shipbuilding Corporation in 1925 had not received any naval work for several years. There was no naval work received from the war period, which terminated with the Limitation of Arms Conference in 1922, until we took over the first of the cruisers from Cramps, after the Cramps Co. had defaulted on their cruiser contract. The only thing in process in the yard was the completion of the airplane carrier *Saratoga*.

So that the plan of the purchasers in 1925 was to abandon shipbuilding entirely and go into the electrical business, and the facilities, the buildings, and so forth, were appraised on basis of use in the electrical business, which accounts for the write-up.

Mr. RAUSHENBUSH. By whom was the appraisal made?

Mr. PARKER. In 1925?

Mr. RAUSHENBUSH. Yes.

Senator BONE. Mr. Parker, assuming that those facilities would be available in an expanded shipbuilding program, what would that property legitimately be worth?

Mr. PARKER. I have not the slightest idea, Senator. It would have to be appraised.

Senator BONE. Can you not express an opinion as to its possible value? This Government is going into a very elaborate program of building naval vessels now. The plant assumes more value in the face of that, if you secure new contracts.

Mr. PARKER. If the facilities which we have could be put into active and continuous operation, it would certainly enhance their values. How much, I do not know. It would depend entirely on the use and the length of the use.

Mr. RAUSHENBUSH. In case there were another war-time emergency, you could put the South Yard into use, after some repairs, could you not?

Mr. PARKER. It would be major repairs.

Mr. RAUSHENBUSH. I noticed in your various descriptions of the company you treat the South Yard as an asset very definitely.

Mr. PARKER. That is true.

Mr. RAUSHENBUSH. If there are no further questions on that matter, I would like to get into the questions of war profits now, and I want to offer as " Exhibit No. 1420 " a letter received from the Treasury Department by one of our investigators, giving the invested capital for the years 1917 to 1921, the taxable net income, and the tax liability. That, I take it, agrees with your own figures. Do you want to look them over? I mean before final settlement.

Mr. PARKER. I have no way of checking them now, Mr. Raushenbush.

Mr. RAUSHENBUSH. If you find any discrepancies, will you please call them to our attention, because that is the Treasury's statement of the tax actually paid and the invested capital actually agreed upon.

We have here also copies of your corporation income-tax returns, showing the amount of these various items, taxes and profits and invested capital, which you reported, and, if you want to use those to check the figures as we go along, they are there for your use.

(The letter from the Treasury Department referred to was marked "Exhibit No. 1420" and is included in the appendix on p. 4852.)

Mr. RAUSHENBUSH. The company's returns are shown here on these income-tax returns which you filed, of which these are photostats, and the final settlements agreed on by the Treasury and yourselves are shown in the letter just put in evidence as "Exhibit No. 1420", and our search of the files of the Bureau of Internal Revenue in the matter indicates that in 1926 there was a further set of figures compiled by the revenue agents there.

Mr. Chairman, I would like to call for just a moment the accountant who had to do with those files in the Treasury Department, to testify as to these 1926 findings of the Treasury. May I do so?

The CHAIRMAN. Yes, sir.

TESTIMONY OF WALTER G. MITCHELL

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Will you give us your full name for the record?

Mr. MITCHELL. Walter G. Mitchell.

Mr. RAUSHENBUSH. Mr. Mitchell, you are an accountant for the committee?

Mr. MITCHELL. Yes, sir.

Mr. RAUSHENBUSH. You examined, under orders, the files of the Treasury dealing with the New York Shipbuilding Corporation?

Mr. MITCHELL. Yes, sir.

Mr. RAUSHENBUSH. How big are those files?

Mr. MITCHELL. At present the accumulated papers fill two drawers, and I would say the papers altogether weigh about 100 pounds.

Mr. RAUSHENBUSH. You went through that 100 pounds of papers?

Mr. MITCHELL. Yes, sir.

Mr. RAUSHENBUSH. Will you tell us what you found?

Senator VANDENBERG. How long did it take you?

Mr. MITCHELL. I made a brief summary at the finish, and probably spent 8 or 10 days on it in all.

Mr. RAUSHENBUSH. Senator, we do not want to give the impression that we have made an adequate summary of all the history back and forth between the Treasury and the New York Shipbuilding Co.

Mr. Mitchell, you found that in 1926, did you not, the revenue agents made certain reports or findings as to the invested capital of the company and the income and taxes?

Mr. MITCHELL. They started their work in the latter part of 1926 and the report was probably not rendered until the middle of 1927.

Mr. RAUSHENBUSH. Will you please state what those findings were for the years 1918, 1919, 1920, and 1921?

Mr. MITCHELL. Yes, sir; their examination really covered the years 1917 to 1921. They made very large adjustments of the net income shown on the books and also on the invested capital. Do you want those detailed by years, Mr. Raushenbush?

Mr. RAUSHENBUSH. Please.

Mr. MITCHELL. In 1917 the net income was shown by the books to be $1,791,449.42. They decreased that in the sum of $970,504.88, showing a corrected net income of $820,944.54.

In 1918 the net income per the books was $378,358.29. They increased that $4,185,485.90, showing a corrected net income for that year of $4,563,844.19.

For the year 1919 the net income, per the books, was $1,401,792.40. They increased that $5,094,120.91, showing a corrected figure of $6,495,913.31.

In the year 1920 the books showed $2,826,698.25, and they made an increase in that of $5,882,000——

The CHAIRMAN. When you say "they", Mr. Mitchell, whom do you mean?

Mr. MITCHELL. The two revenue agents, Messrs. Cavanaugh and Elliott.

The increase for 1920 was $5,882,196.26. The correct showing was $8,708,894.51.

Senator BONE. Is that the net income?

Mr. MITCHELL. Yes, sir; the corrected net income.

In 1921 the books showed $2,046,559.92, and their increase there was $1,660,800.67, and the corrected showing was $3,707,360.59.

The totals for those years, 1917 to 1921, show as follows:

The book net income for the 5 years was $8,444,858.28. The total net additions by the revenue agents were $15,852,098.86, showing a corrected net income for the period of $24,296,957.14.

Do you want the invested capital adjustments?

Senator VANDENBERG. Are those the figures on which tax was finally collected?

Mr. MITCHELL. No, sir; they were not. After numerous conferences, there was a settlement and compromise.

Senator VANDENBERG. Are we going to have those figures, Mr. Raushenbush?

Mr. RAUSHENBUSH. We have already put those into the record, Senator, under the heading of "Exhibit No. 1420", I believe it is, in which the Treasury informed us of the final settlement.

Senator BONE. Mr. Mitchell, I note here that in taxes for the year 1918 there was a final settlement in 1928. Did it take 10 years to make that adjustment?

Mr. MITCHELL. Yes, sir.

Senator BONE. Ten years?

Mr. MITCHELL. Yes, sir.

Senator VANDENBERG. Is the entire argument one respecting invested capital all the time?

Mr. MITCHELL. What is that, Senator?

Senator VANDENBERG. Is the entire argument the one involving the figure of invested capital?

Mr. Mitchell. No; that is a minor matter. The large one was the net income, the figures for which I just read. Their invested capital was comparatively small as compared with net-income adjustment.

Mr. Raushenbush. Before you proceed, Mr. Mitchell, I would like to offer a compilation as an exhibit, because I want to offer this for observation while the discussion continues on it. This will be "Exhibit No. 1421."

(The statement referred to was marked "Exhibit No. 1421" and is included in the appendix on p. 4854.)

Mr. Raushenbush. Mr. Mitchell, in arriving at these very great changes in income, with the subsequent great changes in taxes in the various years, the revenue agents disallowed a great many items which the company had charged up to expenses, did they not?

Mr. Mitchell. They did.

Mr. Raushenbush. Would you please pick out some of the larger ones of those disallowances during those years, and describe what it is about? That is very important in the committee's attempt to limit war profits or profits after war, whatever it is in this case, and if you can give us what sort of things the company tried to get in as expenses, and that the revenue agents, who are qualified and competent, think should be thrown out, that would be appreciated.

Senator Vandenberg. Before he answers that, may I ask whether they are operating on cost-plus contracts or on negotiated contracts?

Mr. Raushenbush. Mr. Parker can answer that.

Senator Vandenberg. Mr. Parker?

Mr. Parker. We are operating on flat-price contracts now.

Senator Vandenberg. At the time of the 5-year period, were you on a cost-plus basis or were you on a bid contract basis?

Mr. Parker. Cost-plus basis for the period 1917 to 1922. Is that the period you had in mind?

Senator Vandenberg. Yes. Then this controversy involves an interpretation of cost-plus contracts, as I understand it. Go ahead, Mr. Mitchell.

Mr. Mitchell. One of the items consisted of amounts charged to expense, representing wages unclaimed by workmen, and the revenue agents found there was no supporting data, $201,064.29. These are figures for the whole 5 years, of course.

Depreciation deducted on the appreciation of the plant for the years previously mentioned, also on amortized property, $1,910,651.24.

Capital assets charged to expenses, which were disallowed by the United States Navy and the Emergency Fleet Corporation, $1,558,762.35.

Senator Vandenberg. Do you know anything about what type of items those were?

Mr. Mitchell. No; I do not. There are numerous schedules over in the Treasury Department, possibly 100 pages in all.

Mr. Raushenbush. What item is that, Mr. Mitchell?

Mr. Mitchell. That is the capital assets charged to expenses and disallowed by the Navy and the Emergency Fleet Corporation.

Senator Vandenberg. Do you know that, Mr. Parker?

Mr. Parker. There were repair items, which they claimed extended the useful life of the buildings or apparatus, our contention being that with the completion of the war program, there was certain to be a 5- or 10-year lapse of shipbuilding, and that the repairs were only necessary for the program then in hand, and they were so charged for the items of expense, and subsequent events proved our point, and they were expense items and not capital items.

Senator VANDENBERG. Were your cost-plus contracts specific in defining how you should arrive at the basic cost figures?

Mr. PARKER. The actual cost was to be subjected to audit by the Navy Department or the Shipping Board, for whom the ships were being built, and their findings were final, so far as we were concerned, subject to where we could get them to agree on the proper items of cost.

Senator VANDENBERG. There was nothing in the cost-plus contract which tied the cost into your previous cost experience in any way?

Mr. PARKER. No.

Senator VANDENBERG. In other words, your peace-time operation had no bearing whatever—your peace-time operations costs had no bearing whatever upon the costs which were to be allowed in your war-time operation?

Mr. PARKER. The costs were to be as determined by the Navy Department or the Shipping Board.

Senator VANDENBERG. Go ahead, Mr. Mitchell.

Mr. MITCHELL. The company set aside a reserve for disallowances, and the amounts set up in that reserve were charged to expense. Those items covered items disallowed by the Navy and Emergency Fleet Corporation. The total of those for the years 1917 to 1921 was $3,597,844.09.

Mr. RAUSHENBUSH. Mr. Mitchell, let me interrupt there a minute.

Mr. Chairman, I have here an exhibit,[1] a report of redetermination of amortization claim, compiled by the Emergency Fleet Corporation, showing in a little detail some of the items which the company apparently attempted to charge into expense and which the Emergency Fleet Corporation auditors threw out under the heading Mr. Mitchell is just reading. Is not this the one?

Mr. MITCHELL. Yes, sir.

Mr. RAUSHENBUSH. For instance, income taxes, $377,000, is put in there and thrown out. The hire of special services—Pinkerton, and so forth—$52,918.30, was put in by the company and thrown out.

Senator CLARK. You mean they tried to put in expenses as a part of the rate base.

Mr. RAUSHENBUSH. No, as a part of the expenses the Emergency Fleet Corporation should pay $377,004.56 for income tax; donations. $32,457.67; athletic expenses, welfare expenses; Chinese representative, $2,000; cigars, wines, and liquors, $17,651.06.

This was a charge not against the Navy but the Emergency Fleet Corporation.

Senator VANDENBERG. You mean these are charges against the cost basis or cost-plus contract?

Mr. RAUSHENBUSH. Yes, sir.

Senator CLARK. In other words, their remuneration was to be figured on basis of a percentage of cost, and these are some of the items—cigars, wines, and liquors, Chinese representative, and the income taxes—which were shown to be put in as part of the cost of operation, on which they were to figure their percentage of return.

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[1] Introduced later as "Exhibit No. 1422", see p. 4555.

Mr. RAUSHENBUSH. As we understand it. By the way, in that connection, Mr. Parker, that $15,651.06 for wines, cigars, and liquors, did that cover a launching? I mean, a trial trip? Were those expenses in connection with a trial trip?

Mr. PARKER. They may have been. They may have been for launching or trial trips or wines and liquors, during the period of construction.

Mr. RAUSHENBUSH. Do you still follow this procedure of having the expenses of trial trips charged up against the purchasers of a ship?

Mr. PARKER. It is charged to the cost of the ship; yes, sir.

Mr. RAUSHENBUSH. In other words, you do have, on all these trial trips, a large group of friends and well-wishers from all over the country, going along on those trips, and even today, for instance, when the Manhattan went out, did you have a similar bill for wines, liquors, and cigars?

Mr. PARKER. Undoubtedly; yes, sir.

Mr. RAUSHENBUSH. And was that charged up against the cost of the ship?

Mr. PARKER. Yes, sir.

Senator BARBOUR. As I understand it, Mr. Secretary, these items were not allowed.

Mr. RAUSHENBUSH. No, sir. This was an attempt by the company to get them allowed.

Senator BARBOUR. They were not allowed finally, and there was no attempt made to conceal them. In other words, they are listed under these different things, and the Government could throw out any they liked, and they did.

Mr. RAUSHENBUSH. As to the attempts to conceal, we are going to get into that a little later.

Senator BARBOUR. As far as this list is concerned, it is all there?

Mr. RAUSHENBUSH. It was found after some difficulty by the Emergency Fleet Corporation auditors. They have also Christmas presents in there for $5,300, Japanese representative, $3,000, and other items, totaling, altogether, I do not know how much, but over one-half million dollars, which I think was disallowed.

Senator VANDENBERG. What is the date of the settlement on this?

Mr. RAUSHENBUSH. The revenue agents in 1926 went over, as we get the story, the returns from 1918 on through 1921, and at that point disallowed for revenue purposes these various items. Now, we will bring out that in some cases the Navy, and in some cases the Emergency Fleet Corporation, had paid some such improper items. and it was only after check——

Senator CLARK. Do you mean Christmas presents, wines, cigars, and liquors?

Mr. RAUSHENBUSH. These different items. It was only after check on the part of the Revenue Department agents, after quite a while. that these items were disallowed. That is the story as we get it. is it not, Mr. Mitchell?

Mr. MITCHELL. Yes, sir.

Senator Bone. This item of $900,000-plus, allowed for depreciation was deducted from the total amount of income tax which they paid. Is that correct?

Mr. Mitchell. That is charged in as one of the items of expense from the gross income to arrive at the net income subject to tax.

Senator Bone. In other words, it is deducted from the gross income?

Mr. Mitchell. Yes, sir.

The Chairman. Mr. Parker, what is the reference to the engagement of Chinese and Japanese representatives? How would any such engagement enter into costs?

Mr. Parker. Administrative expense which is pro rated to the cost. The salary of them——

The Chairman. What would they have to do with shipbuilding?

Senator Barbour. What were their duties?

Mr. Parker. As a matter of fact, they had a lot to do with shipbuilding and a lot to do with cost-plus contracts, because the Japanese representative managed to pull out of the fire a Japanese tanker job for construction up in that yard, with a cost-plus contract, under which we might reduce the cost of that ship by absorbing a part of the overhead, and a sizable part of the overhead, which otherwise would have been charged directly to the cost-plus contract, since it was the only one left.

The Chairman. You were building, of course, for the Japanese, as well as for the United States Government at that time?

Mr. Parker. Yes, sir.

Mr. Raushenbush. What did they have to do with the expenses of the Emergency Fleet Corporation?

Mr. Parker. The salary of the Chinese representative or Japanese representative was a part of the administrative expense, the same as the president's salary, or the vice president's salary, all of which is pro rated on the basis of the actual production of the plant, that is, the actual construction in the plant.

Mr. Raushenbush. Could you not charge that up to that company instead of having the Emergency Fleet Corporation pay for part of it?

Mr. Parker. The Emergency Fleet Corporation paid part of it because it was part of the general salaries that were paid during the period of the emergency fleet construction.

Senator Bone. Do you consider cost of doing business with Japan a proper charge against the cost of a ship made for this Government?

Mr. Parker. Since it is offset by this one, by the benefits of the Japanese contract.

Senator Bone. I am curious about this aspect of it: Were the wines and liquors bought and served during prohibition?

Mr. Parker. No, sir; that was before prohibition.

Senator Vandenberg. Mr. Parker, when you went into a cost-plus Government contract, did you maintain the same overheads as you did on your regular contracts preceding or was there an increase in compensation to officers, and so forth?

Mr. Parker. That was an increase in all rates of pay, beginning in 1917, and covered the labor, the mechanics, the skilled and un-skilled white-collar men, and all the way up the line, because everybody's wages and salaries increased during the war period.

Senator VANDENBERG. For instance, the general officers of the company charged higher salaries against the cost-plus contracts than had previously existed?

Mr. PARKER. True.

Senator CLARK. It was a sort of "adjusted compensation"?

Mr. PARKER. That is a part of the disallowance, incidentally. You will find the president's salary was disallowed, the increase.

Senator VANDENBERG. For instance, what was the president's salary increase?

Mr. PARKER. I do not recall that.

Senator VANDENBERG. Do you not remember in a general way?

Mr. PARKER. All salaries were increased anywhere from 50 to 75 or maybe 100 percent. The president's salary increased, but how much I do not recall.

Senator VANDENBERG. They were increased all the way up to 100 percent the moment you had a cost-plus contract with the Government. Is that correct?

Mr. PARKER. That is correct. But, Senator, in fairness——

Senator VANDENBERG. I want to be fair about it.

Mr. PARKER. Just who made the increase and who ordered the increase?

Senator VANDENBERG. Who did?

Mr. PARKER. There was a Ship Labor Adjustment Board, which was made up of the representatives of the Navy Department, the Shipping Board, and the builders.

Senator BONE. Can you give the names of the gentlemen composing that board?

The CHAIRMAN. Just a minute.

Mr. PARKER. It was called the "Macy Board." They fixed the rate of pay, and we paid them, on instructions from the customers, the Shipping Board, or the Navy Department.

Senator VANDENBERG. You mean the Macy Board told you to increase the president's salary 100 percent?

Mr. PARKER. No; it was all the wages; all the white-collared people and draftsmen, and the officers and administrative staff were increased correspondingly.

Senator VANDENBERG. That was done on your own volition?

Mr. PARKER. Yes, sir.

Senator CLARK. Do you know about what the president's salary was before this increase came along?

Mr. PARKER. I do not know, Senator.

Senator CLARK. Was it as much as $50,000?

Mr. PARKER. I really do not remember.

Senator CLARK. You must know, as treasurer of the company.

Mr. PARKER. I was not at that time, sir.

Senator CLARK. You were in the treasurer's office at that time, were you not?

Mr. PARKER. Yes, sir.

Senator CLARK. You must have had some intimation within, say, 15 or 20 thousand dollars of what the salary was that the president was getting.

Mr. PARKER. I probably did at that time, but the president's salary is a matter of record, kept by the treasurer, and it is not passed down beyond him, and I was not the treasurer at that time.

Senator CLARK. You have no vestige of recollection which would enable you to give within 15 or 20 thousand dollars of what the president's salary was before it was doubled in that way?

Mr. PARKER. I would not say it was doubled.

Senator CLARK. Before it was enormously increased, in any event.

Senator VANDENBERG. Mr. Parker, if you were to have one of these engagements to build one of these ships for the Government, on a private-contract basis, instead of a cost-plus basis, would not many of these increases have been obviated? In other words, were they not the inevitable result of the invitation of the cost-plus contract?

Mr. PARKER. No, sir. What would have happened—there were new shipyards being built all around the country. After all, a shipyard is only as good as its management. We had the old skilled merchant shipbuilders. They built new shipyards, at Bristol, Hog Island, down the Lakes, and there was a constant demand on our management, and they were trying to take every man away from us, offering them salaries more than double, more than 100 percent, and in many cases it was the loyalty of the men to the company that made them refuse offers at much higher salaries to go to the new yards so that the increase in salaries was absolutely necessary.

Senator CLARK. That was at a time when men were being drafted to fight abroad for $1.25, was it not?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. Will you continue, Mr. Mitchell, with the disallowances?

The CHAIRMAN. Just one moment. If salaries were increased 50 and 100 percent, what have they been decreased since the war?

Mr. PARKER. They have never been decreased to a point where they were before the war.

The CHAIRMAN. How about the executives of the corporation?

Mr. PARKER. That would go for the executives and the wage earners as well. They have never been reduced to the point they were before.

Senator BONE. Can you designate the personnel of the Macy board? Do you recall who the members were?

Mr. PARKER. I do not, Senator. I recall Macy was the head of the board.

Mr. RAUSHENBUSH. What Macy is that?

Senator BONE. Did they have anything to do with the Army as well as the Navy?

Mr. PARKER. I really do not know. They called it the "Ship Labor Adjustment Board", so that I assume they were exclusively dealing with shipyards.

Senator BONE. It had to do exclusively with the building of ships, then, you think?

Mr. PARKER. I believe it did.

Senator BONE. You were compelled, I take it, then, to submit your salary and wage schedules to the Macy board for approval?

Mr. PARKER. They submitted us a schedule which we had to pay.

Senator Bone. In other words, you acted on direction of the Macy board, which was a governmental agency?

Mr. Parker. That is correct.

Senator Clark. That did not include the executives of the company?

Mr. Parker. That did not include the executives of the company.

Senator Clark. You did that on your own motion?

Mr. Parker. Yes, sir.

Senator Bone. So that we get the record straight, the Macy board made directions only as to wage earners?

Mr. Parker. Draftsmen.

Senator Bone. Men other than executives in the shipyards?

Mr. Parker. That is right.

Senator Vandenberg. Suppose the cost-plus formula had required everybody to cling to their peace-time costs, so that you would not have been in competition in the feature you were talking about: Would it have been possible, under such a general rule, to have saved a great deal of these tilted prices?

Mr. Parker. The reason for the organization of the Macy board was a strike, because the costs of living were increasing by leaps and bounds, and wages were not covering people in connection with increasing costs of living. A strike took place, which was the cause of the formation of the Macy board, and various employees in the various shipyards were told to return to work; that the board would consider their case when they reached it, and that any decision would be retroactive from that date.

In our particular case it took something like, I believe, 7 months before we finally got to a conclusion, and we paid back pay for that period.

Senator Vandenberg. Do you remember, in a general way, what you paid, let us say, general labor under the Macy board award?

Mr. Parker. Labor who pre-war had been receiving probably 30 cents an hour was paid about 65 cents an hour, at the high point of the Macy board.

Senator Vandenberg. Did some of your labor get up into the 15- and 20-dollar-a-day bracket?

Mr. Parker. That is based on a regular day. Where they were working, as we were those days, making from 80 to 120 hours a week, they did; yes, sir.

Senator Bone. The average wage for a manual worker in a shipyard, for an average time, was around $5. The great bulk of them got around $5 a day?

Mr. Parker. 54 cents an hour; yes, sir; about that.

Senator Bone. I happen to recall that very vividly because I was counsel for labor groups in my city at that time.

Mr. Raushenbush. Will you continue, Mr. Mitchell?

Mr. Mitchell. Amortization was claimed by the company in the amount of $3,620,234.68, but was allowed by the Internal Revenue Department in the amount of $2,543,588.44. The difference was disallowed by the Treasury Department, in the amount of $1,076,646.24.

Special rental received from the United States Navy, which was buried in accounts payable, instead of showing in profit and loss, in the amount of $103,689.18. That was restored to income by the Treasury Department.

Extra compensation paid, which was disallowed as excessive by the Navy in the amount for the 5 years of $1,349,199.

In determining the estimated earning profit on uncompleted contracts, the company used a certain percentage as indicating the percentage of completion; but the revenue agents went to the records of the United States Navy and used their percentages instead, which resulted in a disallowance and addition to income of $4,281,369.78.

The Emergency Fleet Corporation entered into an agreement with the company whereby they were to pay a flat overhead rate of 50 percent, based on direct labor. The actual overhead was less than that, and the computations of the revenue agents show that the company made an excess profit there of $2,152,976.81, which they have added back to income.

Senator VANDENBERG. Just a minute. I do not quite understand this 50 percent. Will you describe that to me again, please?

Mr. MITCHELL. In order to avoid a lot of controversy as to what items went into overhead, such as these claimed capital items, and so forth, the Emergency Fleet Corporation entered into a special contract with the company, agreeing to pay them, without examination of their records, 50 percent of their direct labor as an overhead expense. The revenue agents figured that the actual overhead ran between 40 and 42 or 44 percent, and the difference between those figures over this entire period amounted to that figure.

Senator VANDENBERG. Does that mean that the original cost-plus contemplation was an overhead allowance of 50 percent of the other items?

Mr. MITCHELL. That was not the original figure. I believe it was just cost, material, labor, and overhead, plus the percentage figure for profit. But they immediately got into such an argument with the company over all these items that they determined upon this flat allowance.

Senator BONE. Mr. Chairman, is it possible for us to have inserted in the record at this point a typical cost-plus contract?

The CHAIRMAN. Do we have such, Mr. Raushenbush?

Mr. RAUSHENBUSH. We could insert here the contract with the Emergency Fleet Corporation.

Senator BONE. Is that a cost-plus contract?

Mr. RAUSHENBUSH. That is a cost-plus contract, is it not?

Mr. PARKER. What ship is it for? Is that the supplemental contract covering all of the ships or just one ship?

Mr. RAUSHENBUSH. Settlement agreement, supplemental contract no. 151.

Mr. PARKER. It is a supplement and not a ship contract.

Senator BONE. I would like to have a typical cost-plus contract inserted in the record so that those who are interested can see exactly the character of such a contract.[1]

Mr. RAUSHENBUSH. We can do that, and we can put this supplemental contract[2] in at the same time, describing these overhead charges.

Mr. PARKER. May I make an observation?

Mr. RAUSHENBUSH. On the point he is on?

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[1] Typical cost-plus contract appears in appendix, p. 4927.

[2] Supplement Contract No. 151 was entered as "Exhibit No. 1431", see text, p. 4587.

Mr. Parker. No. He made use of an expression that it was "buried."

Mr. Raushenbush. Go ahead.

Mr. Parker wants to comment on what you said, Mr. Mitchell.

Mr. Parker. Mr. Mitchell, may I ask why the expression "buried in accounts payable" is used there? Is that your expression—or what?

Mr. Mitchell. I saw it in the income-tax papers, some place, but other places on the revenue agents' report it is described as "credited to accounts payable."

Mr. Parker. You used the expression "buried"?

Mr. Mitchell. I saw that in some of the correspondence over there.

Mr. Parker. I would like to comment on that, if I may, Mr. Raushenbush.

Mr. Raushenbush. Go ahead.

Mr. Parker. The special-rental provision was a provision by which we installed certain facilities; and there was paid a percentage of the cost of that installation, the final payment to be determined upon appraisal by the Navy Department of the then use of the facilities. And it was quite possible that any moneys we had received in payment or part payment for those facilities would have to be repaid to the Navy Department, if the appraisal showed that those facilities were not fully used and available for subsequent use. Therefore, that is a proper account payable to the Navy Department, and the contingent liability to be paid, and was so carried on the books. The fact that we carried it that way—and the Navy Department finally allowed us that amount—made it a proper item to be credited to surplus. But it was not "buried" in any sense.

Mr. Mitchell. I have not attempted to check into the merits of any items but to summarize the revenue agents' reports.

Mr. Parker. I am objecting to the word "buried."

Mr. Raushenbush. You are not saying that everything the Navy agreed to was a proper charge, are you, Mr. Parker?

Mr. Parker. Did you understand my explanation?

Mr. Raushenbush. In the course of your explanation you made some statement that because the Navy found later on that was right, and paid it, that made it right, in which case I would like to bring out evidence of the fact that the Navy had been paying you a certain amount of charges which were later disallowed under computation of the Treasury Department.

Mr. Parker. Under the provision of the special rental, the amount the Navy paid us was subject to final determination on the completion of the contract, and any amounts so paid would possibly be paid 100 percent to the Navy, depending upon their findings at that time. Therefore it was a proper contingent liability, to be so carried.

Mr. Mitchell. There were a few items on the other side, showing deduction from income made by the revenue agents. There were certain revenues during the progress of these contracts which the company decided to retain for itself, but the Navy later claimed them as a deduction from the contract price. They consisted of a cash discount of $142,398.86, interest on deposits, $111,024.55, proceeds of sales of scrap, $1,001,350.86.

Mr. RAUSHENBUSH. Could you summarize that, Mr. Mitchell, by saying how much during these 4 years was restored to income by these revenue agents?

Mr. MITCHELL. Yes.

Mr. RAUSHENBUSH. The net, now.

Mr. MITCHELL. The net addition to the income was $15,852,098.86.

Mr. RAUSHENBUSH. Mr. Chairman, at this point I would like to call attention to "Exhibit No. 1421", which was put in showing a comparison between the three sets of figures: (1) The company's return; (2) the revenue agents' findings; and (3) the final settlement in 1928; and showing so far as the attempt to determine taxes goes, the terrifically large fluctuation all the way through there. In 1918, for example, the revenue agents found a net income four times as big as the company reported, and suggested proposed taxes four times as big as the company reported.

In 1919 they found an income four times as large as the company reported, and proposed taxes which would have worked out, under the taxation laws at the time, roughly eight times as large as the company reported.

In 1920 they found an income two or three times as large as the company reported, and proposed taxes four to five times as large.

In 1921 the tax increase over the company's return would have amounted to—or their income would have been more than about 50 percent, and the taxes would have amounted to about four times as much. In other words, it was about this figure of 14 or 15 million dollars which they tried to add onto the taxes in 1926.

Now, they did not succeed in doing that, and I think we are rather interested, Mr. Parker, in having you tell us how this final settlement in 1928 came about. What conferences were called, where you were there, what pressure you used, what people you brought in to help you, and the like, to get that final settlement which reduced the taxes from the 1926 report to the point that they were finally reduced? Will you tell us about that?

Mr. PARKER. The tax matter at the time this was brought out was turned over to the firm of Larkin, Rathbone & Perry, New York City, who conducted the entire negotiation up to the point of final compromise.

The final compromise was worked out, I believe, between the then chairman of the shipbuilding division, Mr. L. R. Wilder and Mr. Charest, the general counsel of the Revenue Department.

The CHAIRMAN. Mr. Raushenbush, in a study in December of the existing war plans for the next year, was there any evidence at all indicating a plan to get away from the injustices that had been done during the last war? That is, were those who made the plans evidently striving to do away with any of these practices that grew up in the last war?

Mr. RAUSHENBUSH. Of course, I can give certain impressions about what those plans amounted to.

The significance of this information, to my mind, Mr. Chairman, is this: That those plans, at the best, are theoretical guesses as to what can or cannot be done in another war, and here you have a story of what actually happened, not only during the last war, so far as the financial matters go, but in the many, many years dragging along afterwards. The matters were not finally settled until 1928, and we are just trying to develop the story of what happened within a year after the revenue agents had reported an increased income of about 14 to 15 million dollars, how it happened, and the increase in taxation of about $11,000,000, how it happened just a year or so later it was lowered down to such an extent.

That is, the actual working out of an attempt to tax war profits.

Senator VANDENBERG. Also an exhibit of what the cost-plus contract contemplates.

The CHAIRMAN. It was that which I had in mind in asking whether there was anything about the new plans which recognized the abuse of the cost-plus contract in the World War.

Mr. RAUSHENBUSH. We are not at all through with the story here of what happened during all these years, and what did not happen during all these years, which might have been expected to have happened. But the significance of the story, Mr. Chairman, as I get it, is that with taxes far lower than are being proposed, in the war years there was a conflict between honest men in the Government and honest men in the shipbuilding company, with the result of 2 sets of findings that had a range in one item of 5 times as large as the other, I mean one finding was 5 times as large, and with that ratio was running all the way through, and with 1 of them it was 8 times as large.

The final range in taxes reported by the company was about 2 and the taxes proposed by the revenue agents was about 14 million, which shows the terrific difficulty of even trying to levy taxes, as reasonably mild as the taxes were in the last war.

Senator BONE. What was the profit allowed under these cost-plus contracts?

Mr. RAUSHENBUSH. Cost plus 10 percent.

Senator BONE. Have you any studies, Mr. Raushenbush, indicating what overheads were allowed as operating expenses?

Mr. RAUSHENBUSH. Well, sir, we come to that in just a moment. I do not know whether we will have time this morning, but when we have the Emergency Fleet Corporation men commenting on a contract that was made with the Emergency Fleet Corporation, in which they agreed to pay 50 percent of the overhead, it will be shown. And the comments are very definite on the point which you are raising, and I think very interesting in that connection.

Before we close this morning, I would like to have a fuller story, if we may have it, as to how it happened that from 1920 on up to 1926 there was practically no effort made to increase these taxes, and how substantially in 1926 it happened. Was that, sir, because of a change in the control of the company?

Mr. PARKER. I do not know. There was a change in the company in 1925.

Mr. RAUSHENBUSH. In 1927 conferences were being held in connection with reducing these proposed taxes. Did you secure any help from prominent political people in connection with these taxes at that time?

Mr. PARKER. I do not know. I had nothing to do with it except appear before the conferees and before various Treasury people.

Mr. RAUSHENBUSH. You do not know, then, whether any United States Senators, or people of that kind, were called in at the time?

Mr. PARKER. I do not. I met none of them.

Mr. RAUSHENBUSH. I would like to offer, Mr. Chairman, the report on redetermination of amortization claim of the New York Shipbuilding Corporation as an "Exhibit No. 1422."

(The report referred to was marked "Exhibit No. 1422" and is included in the appendix on p. 4855.)

Mr. RAUSHENBUSH. I offer as an exhibit here a letter, with the appropriate number, "No. 1423", signed by Walter E. Edge, directed to the Commissioner of Internal Revenue, which reads in part:

> I trust before any final action is taken in the matter of the reexamination of the returns of the New York Ship Building Corporation, of Camden, N. J., for the years 1917, 1918, and 1919, that you will personally review the situation.
>
> This corporation changed hands recently as you know and from all the information I have the reassessments are based upon conditions which could in no way be visited on the present corporation. I have already presented briefs in connection with the whole transaction so I will not attempt to review them by letter * * *.

Do you remember those briefs?

Mr. PARKER. No, sir; I do not.

Mr. RAUSHENBUSH (continuing):

> but I don't want to see the present corporation unfairly embarrassed and would personally appreciate it if you would give it your own careful attention.
>
> With kindest personal regards, I am,
>
> Sincerely,
>
> WALTER E. EDGE.

(The letter referred to was marked "Exhibit No. 1423" and is included in the appendix on p. 4856.)

Senator BARBOUR. To whom was that letter addressed?

Mr. RAUSHENBUSH. To the Commissioner of Internal Revenue, just about the same time that these conferences on taxation were taking place.

Senator BARBOUR. Let me say for the record, if I may, that I do not think you assume there is anything improper in connection with that letter or the activities of the Senator, was there?

Mr. RAUSHENBUSH. I do not know, Senator, what the customary procedure is about having Senators file briefs in tax matters.

Senator BARBOUR. It might have been a brief prepared by someone else.

Mr. RAUSHENBUSH. That might be true.

Senator BARBOUR. I, of course, am not familiar with the situation. But I think every Senator on this committee feels that if a constituent comes to him in good faith, he cannot close the door of his office to him or refuse to offer him help in any way he can. I certainly would not. I do not want that to be assumed as an improper action on the part of a former colleague of mine. And I am quite sure it would not be.

Mr. RAUSHENBUSH. I am trying to get from the company any further memory about this thing, and we do not seem to be able to get it.

For instance, in 1926, the revenue agents proposed a tax of fourteen and a half million dollars, and after a very elaborate check, in 1927 or 1928, the Treasury reduced that to the figure given. That whole subject is introduced for future guidance of the committee on the difficulties of putting on taxes.

Senator BARBOUR. I understand, Mr. Raushenbush, and I am not criticizing the presentation at all. I did not want inadvertently to have some erroneous impression arise with respect to anything pointed out, because there was no basis for it.

Mr. RAUSHENBUSH. I show you, Mr. Parker, a letter from Mr. Bardo, concerning what seems to be this tax matter. Will you look at that and see if you have ever seen that before? [Handing paper to witness.]

I would like to read that Mr. Chairman. It was dated about the time that these taxation matters were taking place, December 23, 1927, and while it mentions some costs of governmental ships, the *Saratoga* and the *Lexington*, it also refers to the tax matters. [Reading from "Exhibit No. 1424":]

> I have just received copy of House Resolution No. 55, introduced by Congressman McClintic December 13, copy of which is attached hereto. I had a short talk this morning with Judge Parker, who stated that on your return from Washington you had requested that certain information be developed by Mr. Parker with the thought of inviting the investigation referred to.

Mr. Parker, is that you, or is he referring to Judge Parker? Do you know?

Mr. PARKER. I assume he means me.

Mr. RAUSHENBUSH (continuing reading):

> Publicly, of course, we could not say other than that we welcome an investigation. Privately, we want to use every honorable means to see that the investigation is not started and that the resolution referred to dies a natural death in the Committee on Rules, to which it had been referred.
>
> There is altogether too much dynamite in a congressional investigation, and we are altogether too vulnerable from the standpoint of political attack to leave anything undone which will forestall the investigation. We have troubles enough with our tax situation and our new high-speed line development without having the waters muddied up by a congressional investigation, the effect of which would be harmful either to ourselves or to the industry as a whole.
>
> Who can say what statements Admiral Capps, for instance, if he were called before a congressional investigation, might make with respect as to what he regards as inefficiency and the lack of proper administration of the yard? He made these charges in one of our conferences. If he made them before a congressional committee, we never could catch up with the story, and it may well be that we will be confronted not only with our tax situation but in addition by a resolution from Congress asking somebody to investigate all of these things which obviously would be dragged out in an investigation of this kind.
>
> I expect to have a conference with Congressman Wolverton on Wednesday next.

That is the Congressman from Camden, is it not?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH (continuing reading):

The names of the House Naval Affairs Committee and the House Rules Committee are shown on the attached list.

Personally, I am strongly opposed to any encouragement of this investigation, for the reasons which I have generally outlined.

Does that bring to your mind at all what activities were being carried on in connection with this very tax matter business?

Mr. PARKER. He refers to tax changes, quite aside from the matter which I was discussing with Mr. Wilder at this particular time. The entire tax matter was left in the hands of the firm of Larkin, Rathbone & Perry, and we supplied the information requested. The whole tax matter was handled by them up to a point of compromise, and I was only drawn into the conferees' hearings and various hearings to provide data as requested. I had nothing to do with the settlement other than paying the money to the collector of internal revenue in the Camden district.

Mr. RAUSHENBUSH. Mr. Metten, were you with the company at the time?

Mr. METTEN. When was this?

Mr. RAUSHENBUSH. 1927?

Mr. METTEN. No.

Mr. RAUSHENBUSH. Mr. Parker, here we have a situation of the various things like the *Saratoga* and the *Lexington* costs, which are in the fire at the moment, but the major thing which I find disturbs the company is an attempt to get a tax reduction from the proposed figure of fourteen and a half million down to the final settlement figure of $5,705,000, and you, so far as you are concerned, do not remember anything that was done toward getting that reduction?

Mr. PARKER. All that I know is that the assessment could not have been paid, because the company would have been bankrupt. There was not anything by which it could be paid. Therefore a compromise was worked out between the Department and, I believe, Mr. Wilder. In any event I received instructions that a compromise had been worked out and to prepare and provide the funds necessary to the collector of the Camden district.

Mr. RAUSHENBUSH. Were you present at the final conference in the Treasury Department when the final settlement was made?

Mr. PARKER. No, sir; I was not.

Mr. RAUSHENBUSH. Mr. Chairman, we find in the files of the Bureau of Internal Revenue a statement which I want to offer for the record, with the proper number "No. 1425", showing that at the time this final settlement was made for the years 1918 to 1921, the settlement was made for some part of the years, 1922 to 1925, and the auditor reported that they were closed, not by a proper audit, but on the estimated tax liability to be determined within one-half hour; and, as such, such years might be included in the total tax.

First, however, I will offer the letter from Mr. Bardo to Mr. Wilder to which I have previously referred as an exhibit.

(The letter referred to was marked "Exhibit No. 1424" and is included in the appendix on p. 4857.)

Mr. RAUSHENBUSH. Mr. Parker, during the years 1922 to 1925, we have figures here which show you reported gross sales of about

470 million dollars worth of products. That is about right, from your memory, is it not?

Mr. PARKER. That is a large sum. I do not recall whether that is the amount or not. It may be one-half that.

Mr. RAUSHENBUSH. We added that up for the years 1922, 1923, 1924, and 1925.

Mr. PARKER. It seems very high to me. I do not believe there were that many sales in that period.

Mr. RAUSHENBUSH. You can go back and check it, but there was a very considerable volume of sales, and here we have a statement from the Auditor of the Treasury Department, saying that there was no field audit on all that sum, but that in the total settlement there was simply an office audit for one-half hour, and the taxes on all that were settled in one-half hour. Do you remember anything about that?

Mr. PARKER. No, sir.

(The report referred to was marked "Exhibit No. 1425" and is included in the appendix on p. 4857.)

Mr. RAUSHENBUSH. Mr. Chairman, I simply offer this as an exhibit bearing on the question of attempting in any way to satisfactorily tax profits. Here the situation, as we get it, was that with a great deal of delay and confusion, which we have not brought out but will show later, the taxes for away back in 1918, 1920, and 1921 were not properly assessed according to the Treasury until 1926. Then they made a very elaborate investigation and ran into some difficulty with the company in getting the facts, which we will bring out later, and finally instead of imposing those taxes, it imposed taxes which were roughly 8 million dollars less, between 8 and 9 million dollars less.

Then in order to clear up the whole matter, to get it out of the way, they settled taxes on something close to one-half billion dollars, for the years 1922, 1923, 1924, and 1925, in one-half hour, without any field audit.

Now the Treasury was handicapped for men and all, but that is the way it seems to have been worked out. The taxes are not levied in the spirit of war or patriotism and so forth, but levied later on, when things are lower and there are differences of that kind.

The CHAIRMAN. And irrespective of all plans that may be on foot now to meet the emergency of another war, nothing has been done to alter that program, has there?

Mr. RAUSHENBUSH. Senator Vandenberg's interchange with Secretary of the Treasury Mills, I think is in point there, to which he has referred many times, when after the War Policies Commission proposed a high war tax, he addressed a letter of inquiry to the Treasury saying, "What chance is there to work out the scheme proposed for high taxes and to make the administration a success?"—I assume more successful than this.

The CHAIRMAN. And the response is that there was nothing done until war comes?

Mr. RAUSHENBUSH. That, I think, is the response of Secretary Mills.

Mr. Chairman, we have before us a story which has significance again from this taxation angle, but just what happened during all this long delay will be shown. Some parts of it are quite interesting and some we can report today, and the whole question of the Emergency Fleet Corporation we want to go into in a little more detail, but I feel we cannot enter into it without some time ahead of us.

The CHAIRMAN. Unless you could proceed to bring the thing to an end in 10 or 15 minutes, I suggest we recess until tomorrow morning.

Senator BARBOUR. Before we recess, Mr. Chairman, I would like to state for the record, as a member of a very small subcommittee, the Public Grounds and Building Committee of the Senate, I will probably have to be absent from this committee tomorrow morning, and possibly Wednesday morning, in relation to the business of that committee. I will try to be here, if I can, and if I cannot you will realize that it is no fault of mine.

The CHAIRMAN. I am sure every member of the committee is conversant with the difficulties that we may encounter from day to day.

I wish that the reporter would note that the only absentee on the committee this morning is Senator George, who is absent on account of illness.

The committee will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12 noon, the committee recessed until tomorrow, Tuesday, Jan. 22, 1935, at 10 a. m.)

INVESTIGATION OF MUNITIONS INDUSTRY

TUESDAY, JANUARY 22, 1935

United States Senate,
Special Committee to Investigate the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m. in room 357 Senate Office Building, pursuant to the recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Bone, and Vandenberg.

Also present: Stephen Raushenbush, secretary to the committee.

The Chairman. The committee will be in order. Proceed, Mr. Raushenbush.

FURTHER TESTIMONY OF JOHN F. METTEN, N. R. PARKER, AND CHARLES J. LANGELL

Mr. Raushenbush. Mr. Metten, in order that you can get back to the company, you have requested the committee to conclude, if possible, their examination of you as soon as possible. We are glad to do that.

Will you outline briefly for the committee your career in the naval construction field?

Mr. Metten. I have been in the technical end or in the engineering end of the business for the last 30 years, and I was chief engineer of the Cramps Co. until the time they closed, and then I had charge of the central office, getting out standard plans for the seven cruisers that were built in the private yards, and the three navy yards.

Mr. Raushenbush. When you say "central office" will you describe that a little more in detail?

Mr. Metten. At the time that these contracts were sent out they contained a clause, that is the Navy invitation for bidding, a circulars, that those ships should all be alike, built from the same plans, and they decided the only way they could do that would be to have one set of detailed plans, from which all ships could be built for that class. Newport News built 2, New York Shipbuilding Co. built 1, Bethlehem Shipbuilding Co. built 1, and the navy yards built, I think, 3, was it not?

Mr. Langell. We had two.

Mr. Metten. The same plans were issued to all the yards and the ships were duplicates.

Mr. Raushenbush. Did you correct that, Mr. Langell?

Mr. Langell. The New York Ship had two ships, I think.

Mr. Metten. Those were the ones defaulted by the Cramp Co.

Mr. Langell. Excuse me.

Mr. RAUSHENBUSH. Please proceed, Mr. Metten. What happened when you went with the Marine Engineering Corporation?

Mr. METTEN. After that job was wound up, then I was consulting engineer for the Matson Line in connection with building those three ships for the Pacific trade, and I also worked on the *Manhattan* and *Washington*, and I was also consulting engineer for the Baldwin Locomotive Works.

Mr. RAUSHENBUSH. At the same time you were employed by the New York Shipbuilding Corporation?

Mr. METTEN. You see, I was only working in a consulting capacity for them, and I specifically was looking after the *Manhattan* and *Washington* designs.

Then in that capacity, when the 1933 program came out, there were some new types of ships involved. They asked for class II designs. And I acted in the capacity of consulting engineer for those plans being developed.

Mr. RAUSHENBUSH. Let me interrupt you for the benefit of the committee; when you say " class II ", do you mean designs furnished by the companies?

Mr. METTEN. Yes; they send out bids on class I, which is the Department's general design, and then they invite alternate bids on the builder's design, and then they select whichever one they think is most advantageous, and in this case they selected the design of the New York Shipbuilding Co. for the leader, the new heavy destroyers, and also the new 6-inch gun cruisers, and in accepting those designs they decided that all the ships of that class again would be to the same design; and that is all the 1,850-ton destroyers and all of the 6-inch gun cruisers. And in order to do that, it was necessary again to have all the ships built to the one set of plans.

That began, you might say, my permanent connection with the New York Shipbuilding Co., because there was an agreement between the builders and the Department to the effect that the ships of Bethlehem and the various orders in the navy yards would all be built from the one set of plans, so that they would be duplicates. The idea, of course, was that it is to their advantage to have the ships alike, so that the crews, when they are familiar with one, will be familiar with all that group.

I was working on their design and had charge of the design end of it until some time in October when I was elected president, to take effect November 1, 1934.

Mr. RAUSHENBUSH. And now you are no longer doing design work?

Mr. METTEN. Yes; that was an understanding, I believe, that I would have to still look after that in connection with the other details.

Mr. RAUSHENBUSH. There are several things on which you could probably inform the committee, Mr. Metten. You were, you say, connected with Cramps, back in 1926?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. At that time the Navy awarded two large contracts, one for the machinery on the *Pensacola* and for the whole building of the *Salt Lake City* to Cramps as the lowest responsible bidder. Did you feel at the time that Cramps was the lowest responsible bidder?

Mr. METTEN. Again those were class II designs. They were on the builder's design, and the award was made on the basis of the design that the builder had submitted.

You know the division of work in the designing end is that you are responsible for the design. The pricing and the bidding is made up by a separate department, an estimating department.

I did prepare the general designs, detailed designs, from which those bids were made up.

Mr. RAUSHENBUSH. The very year that the Navy Department decided that Cramps were the lowest responsible bidders, that particular firm went into bankruptcy, did it not?

Mr. METTEN. No, sir.

Mr. RAUSHENBUSH. 1926?

Mr. METTEN. I think it was the year afterward, 1927.

Mr. RAUSHENBUSH. But in 1926 it was known that it would no longer fulfill the contracts, was it not?

Mr. METTEN. No, sir. I do not think so.

Mr. RAUSHENBUSH. Almost immediately after the Navy had chosen Cramps as the lowest responsible bidder, the firm did find itself unable to complete the work, did it not?

Mr. METTEN. No; it was a year later, I think. I think a great deal of that work had progressed and part of the machinery was in the shop and part of the materials were in the yard. I think that it was about a year later.

POOLING OF DESIGNS BY SHIPBUILDERS

Mr. RAUSHENBUSH. About a year afterward the firm went under.

From there you proceeded in 1927 to become president of the Marine Engineering Corporation, did you not?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. Did you suggest the formation of that Marine Engineering Corporation to the Navy officials?

Mr. METTEN. No.

Mr. RAUSHENBUSH. That perhaps represented the Big Three, did it not; Bethlehem, New York Ship, and Newport News?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. And they all owned stock in it, did they not?

Mr. METTEN. Yes.

Mr. RAUSHENBUSH. You did have conversations, did you not, with the responsible people in the Navy before the formation of this corporation?

Mr. METTEN. I was brought down here and asked to take the position, on account of the idea being that I had had experience in design and it was an important design.

The CHAIRMAN. Asked by whom to take the position?

Mr. METTEN. I think the chief of bureaus suggested that. I was asked to come down here, but I think the shipbuilders were all down here at the time.

Mr. RAUSHENBUSH. Who were the chiefs of the bureaus at the time?

Mr. METTEN. Admiral Halligan, Chief of the Bureau of Engineering, Admiral Buret, C. & R. meaning "construction and repair."

Mr. RAUSHENBUSH. The corporation which was formed was formed by the Big Three with the blessing of the Navy. Can we put it that way?

Mr. METTEN. Yes; I think so.

Mr. RAUSHENBUSH. They hoped to get certain advantages out of having the designing work of the three corporations done in one office. Is that right?

Mr. METTEN. Yes, sir. It was not only that but prior to that time there had been only a few of those cruisers built. The first cruisers were five of the *Richmond* class, which were built by the Cramp Co. and then there were four or five others built at that time. While the five built by the Cramp Co., like all the others, were of different types, they decided it was much better in the new grouping to keep them alike.

Mr. RAUSHENBUSH. What advantages were there, both to the Navy and the big shipbuilders, in having this Navy Department designing pooled, you might call it?

Mr. METTEN. In the ordinary course of events, each ship would have been different. You see the Newport News contracts would have detailed plans, worked out by them, and in case of the New York shipbuilding contract, the details would have been worked out by them; in the case of the Bethlehem contracts, the same thing would have been done.

Mr. RAUSHENBUSH. One advantage was a standardized ship. What other advantages would either the shipbuilders or the Navy get out of this arrangement?

Mr. METTEN. I think that was the principal object. As I understood it at the time, that was the whole object in that set-up, to standardize the ships.

Mr. RAUSHENBUSH. Did not this corporation do combined purchasing for the shipyards?

Mr. METTEN. Yes, sir; they had to do that because they wanted the auxiliary duplicated as far as possible. Instead of having one type of auxiliary in one, and another in another, they naturally had to standardize the auxiliary machinery.

Mr. RAUSHENBUSH. You did then purchase from Westinghouse and General Electric, Babcock & Wilcox, and all the other big suppliers of machinery, not only for the Big Three but for the navy yards, too, did you not?

Mr. METTEN. No.

Mr. RAUSHENBUSH. No?

Mr. METTEN. You see that had to come through the Navy. Duplicates of all orders were sent to the Navy so that they could follow the Navy routine.

Mr. RAUSHENBUSH. Then the Navy did not get any advantages of common buying on these purchases which you were making through this Marine Engineering Corporation, for the benefit of the big three?

Mr. METTEN. Yes.

Mr. RAUSHENBUSH. Did it?

Mr. METTEN. Of course, you see, here would be, for instance, five units. Take something like generating sets, and so forth. Naturally the Navy in asking for a bid for those ships would get the benefit of quantity production, because they were to be duplicates of those they were building through these private yards.

I should say that they probably benefited equally with the other yards in the purchase of that material.

Mr. RAUSHENBUSH. So that you think the navy yards did get that benefit?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. That changes your other answer somewhat, does it not?

Mr. METTEN. I only tried to explain that the Navy, of course, has to order through their own supply system.

Mr. RAUSHENBUSH. The main advantage of standardized ships was there, and another one has been brought out, namely, the saving which you were able to obtain for the big three through common purchasing. It would do something else, would it not, namely, take from the Navy Department the burden—let us put it that way—of designing its own ships?

Mr. METTEN. It did not take from them because in the central office there were representatives of the Navy Department, Construction Corps, and Engineer Corps, and all plans had to go through them and had to go to the Bureau for approval.

Senator VANDENBERG. Is the Navy Department equipped to design a ship?

Mr. METTEN. Yes, sir.

Senator VANDENBERG. Could the Navy Department design a ship without any outside aid?

Mr. METTEN. That is a question that I think you could say "yes" to. You see, their people are transferred from place to place. In private yards the technical staffs do nothing else but that work practically all of their lives.

Senator VANDENBERG. When the Navy builds a ship, does the Navy build it on their own plans or on designs from the outside?

Mr. METTEN. In the case of those cruisers, of course, they used the central office design. It was practically a Navy design, because everything had passed through the Navy Department.

Senator VANDENBERG. As a matter of fact, is it not true in reality that the Navy is at the mercy of the outside designers and private producers for their designs?

Mr. METTEN. I do not think so; no, sir.

Senator VANDENBERG. Would you say that the Navy today could build a ship without outside assistance in respect to design?

Mr. METTEN. Yes; they could build a ship.

Senator VANDENBERG. What kind of a ship do you think it would be?

Mr. METTEN. I think it would be a pretty good ship, Senator.

Mr. RAUSHENBUSH. How much did the Navy have to pay for these designs on these cruisers which were made for the 26 to 31 class?

Mr. METTEN. I do not remember the figures; but it was divided up, as far as I can remember, in this way: There were 3 private yards building a total of 4 ships, and 3 navy yards, I think, building a total of 3 ships, and the navy yards paid, I think, one-quarter of the cost.

Mr. RAUSHENBUSH. I have a figure showing about $400,000 for those plans. It that right?

Mr. METTEN. For the Navy Department?

Mr. RAUSHENBUSH. Yes, sir; a letter from you to the Bureaus.

Senator BONE. Was that charge made, Mr. Raushenbush, even when the plans were duplicated?

Mr. RAUSHENBUSH. They were standardized plans which went to all the yards.

Senator BONE. I mean, was that charge assessed against the plans, even when they were duplicate plans?

Mr. RAUSHENBUSH. Mr. Metten, maybe you can answer that.

Mr. METTEN. Assessed against the plans?

Senator BONE. In other words, did you charge the Government $400,000 for a set of plans when they might need them?

I do not know whether I made it plain in the beginning, but that is what I meant.

Mr. METTEN. Yes; you see this situation was agreed upon in advance, before that subdivision was ever established. It was more or less a case of the Navy Department, you might say, being a partner in this scheme.

Senator BONE. You mean a partner in the charge?

Mr. METTEN. In the cost of these plans. As a matter of fact, they built three ships, and they got the plans cheaper than the private yards got them.

Senator BONE. Suppose that you drew up a set of plans, Mr. Metten, for a standardized type of ship, for which you made a charge of $400,000. Suppose you built 10 ships of that design; would the Government be required to pay $400,000 for each set of plans when they were all built from one set of plans?

Mr. METTEN. No; the division was made that the Government paid its proportion. The way it was set up was, it was considered that there were four building concerns. The Government was 1, Newport News 1, New York Ship 1, and Bethlehem 1; and the price, as I recollect it—I do not remember those figures, but I think it is roughly somewhere near one-quarter.

Mr. RAUSHENBUSH. Speaking of the $400,000?

Mr. METTEN. That is all a matter of record. You can get that.

The CHAIRMAN. Each builder, then, shared in the cost?

Mr. METTEN. Yes, sir.

The CHAIRMAN. Approximately one-fourth of the cost was assessed against each builder?

Mr. METTEN. Yes, sir.

Senator VANDENBERG. I would like to get this clear in my mind. That is in 1927. Were there any other shipbuilders in the country competent to build these ships besides the big three?

Mr. METTEN. They would have had to put in considerable additional equipment. I think that those three were perhaps the only ones who could have undertaken the work without modifying the plan.

Mr. RAUSHENBUSH. You say that neither Federal nor United could have built a cruiser in that year?

Mr. METTEN. I do not think so.

Mr. RAUSHENBUSH. I note there was apparently some controversy, and the Bureau took the position that $400,000 was too high. You wrote a letter on August 6 to the other officers of the big three saying:

> My inclination is to stand pat on the $400,000. * * *

Mr. METTEN. You know the discussion, as I remember it, was this way: The value of the contracts was thought to be a representative part, you might say, of the proportional share. For instance, Newport News was building two ships off of those plans. Bethlehem and New York Ship were building one ship off of those plans. And it seemed logical that the larger contracts should take a larger share of the cost of preparing the plans. The same way with the Navy Department. They were building three ships, and as that was the way the discussion went at that time, we thought that the Navy Department, on account of being in a position to benefit to the largest extent, they ought to take a proportional share.

Mr. RAUSHENBUSH. You have given a picture here, Mr. Metten, of the Navy Department being a sort of business partner, and yet that was not quite it, was it? I will read the rest of the paragraph of your letter of August 6, 1927, addressed to the members of the big three. [Reading:]

> My inclination is to stand pat on the $400,000 as entirely aside from obtaining plans and schedules, the bureaus expect the navy yards to participate in the saving through joint purchasing to an extent that from present indications will probably pay for the plans. I think we might as well recognize the fact that the navy yards are competitors in the present program and expect to be competitors in the future programs.

I will offer that for the record.

(The letter referred to was marked "Exhibit No. 1426" and is included in the appendix on p. 4858.)

Mr. RAUSHENBUSH. So that what you were really doing was to organize a group, financed by the big three, which had part of its expenses paid by the Navy Department and also took over and in a way monopolized the designing at the time, and yet found itself in the position where one of the people who was paying a share of the expenses at the navy yards were really competitors to your own private yards. Is not that about the basis of relationship at the time?

Mr. METTEN. Of course, the navy yards are competitors with private yards.

Senator VANDENBERG. Did not they cease to be competitors under these agreements, so far as these ships are concerned?

Mr. METTEN. There was a subdividing. As a matter of fact, that is just another one of those jobs which I had to undertake, to do the best I could, and be guided by the various people who were interested in it. We were down here and the thing was adjusted and discussed with the Navy Department.

Senator VANDENBERG. It was the Navy's price protection in this group of contracts?

Mr. METTEN. Price protection?

Senator VANDENBERG. On the ships you were going to build under this pooled arrangement?

Mr. METTEN. Each yard put in a bid at a definite contract price. This was a condition attached to that contract, that they should be duplicates.

Mr. RAUSHENBUSH. May I venture to explain the Senator's question, if I understand it? Did not the Navy stop being a competitor, as far as designing went, after this pool was established?

Mr. METTEN. Of course, they were all together building the duplicate ships from those plans.

Mr. RAUSHENBUSH. Yes.

Mr. METTEN. I would not call it a "pool."

Mr. RAUSHENBUSH. For that 1927 bidding on the cruisers series 26 to 31, the Navy did not draw designs of its own, did it?

Mr. METTEN. No; only general type plans.

Mr. RAUSHENBUSH. As usual?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. And it turned the designing job over to you people?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. It did not go into it any more?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. What was the status of the smaller yards while you had the combined designing arrangement? Did they even attempt to draw any designs for any ships that you were drawing designs for?

Mr. METTEN. I do not think so. There is another thing which I think will perhaps explain the situation. You know there has been very little Navy work built, and the skilled men in the designing end of it had more or less disappeared. There were only a few of them scattered around the country, and it was thought at the time that there was not a sufficient number of trained men to undertake that work separately at the various yards. And the idea of the central office was to concentrate all of the best men on this particular class of design work into one establishment, so that they could carry on this work, and so that the Navy would get the best possible job, so far as design was concerned.

Senator VANDENBERG. Excuse me, that goes back to my original inquiry, in which I am very much interested. Is not that still the situation?

Mr. METTEN. Yes, sir.

Senator VANDENBERG. That the Navy's equipment is so scattered, that it is not useful in the production of a completed net result?

Mr. METTEN. There has always been a scarcity of really competent designers on this class of work.

Senator VANDENBERG. In other words, it would be difficult today for the Navy, in a self-contained way, to produce these designs, would it not?

Mr. METTEN. It would be difficult, I think.

Senator VANDENBERG. Yes; certainly.

Senator BONE. How long has that condition existed?

Mr. METTEN. It has existed ever since, you might say, the general lull in Navy building. They are highly specialized ships and they require a lot of experience in the various classes of work.

Senator VANDENBERG. So long as that condition maintains, I ask again, is not the Navy more or less at the mercy of private designers?

Mr. METTEN. That is being reduced now, Senator. They are recognizing——

Senator VANDENBERG. The answer is "yes", and they are trying to meet it. Is that it?

Mr. METTEN. Yes, sir.

Senator BONE. In what way is the Navy trying to meet that condition, Mr. Metten?

Mr. METTEN. They are trying to organize select men, and in the navy yards they are getting together representatives groups to meet this condition.

Senator BONE. I believe you testified that they shifted these men around so that there was no stability to their service. That is, they are moved all around so that they cannot concentrate on their activities.

Mr. METTEN. That was true during a period when there was not very much work, and naturally the men would go from one place to another. The better class of designers in shipyards have been more or less of a floating group.

Senator VANDENBERG. Has the Navy any designers who have ever been responsible for the designing of a complete ship?

Mr. METTEN. Yes, sir. They have some officers that have been responsible.

Senator BONE. Then it simply resolves itself into this question: That either the Navy or private shipbuilding companies must of necessity have a group of designers brought together in an organization?

Mr. METTEN. Yes, sir.

Senator BONE. So far the Navy has not done that. Is that right?

Mr. METTEN. They have done it. They have established a central office. That started in some years ago, after this central office, and the advantage of it was recognized, and they began trying to group together a good staff of technical men.

Senator BONE. How much have they accomplished in that direction?

Mr. METTEN. I really could not say, because you see I do not come in contact with that end of it.

Senator BONE. You are unable, then, to enlighten us as to what the Navy has done in the way of getting a staff of designers together?

Mr. METTEN. I know they have a central office in the New York Navy Yard, but just how far that has progressed in the way of staffing I could not say.

Senator BONE. That is at the Government navy yard in New York?

Mr. METTEN. Yes, sir.

Senator BONE. Do you think they are able now to turn out a complete set of plans, designs, and specifications on all types of ships?

Mr. METTEN. Yes, sir. They could do that.

Senator BONE. Do you know whether or not they have done it or are doing it?

Mr. METTEN. I believe they have done it in the case of the new group of cruisers.

Senator BONE. But I want to get back to the question I asked you before. On a set of plans for a cruiser, as I understand it, it costs about $400,000. Who gets the money for drawing those plans—the individual designers or private shipyards?

Mr. METTEN. The individual designers. It is split up, and it takes a big staff to get out one of the plans.

Senator BONE. I understand that. In other words, the money goes to these private individuals who draw the plans?

Mr. METTEN. Yes, sir.

Senator BONE. Again I want to repeat—and perhaps I am a little tedious—is the Government required to pay $400,000 for each ship—for a set of plans on that ship?

Mr. METTEN. When they make the plans today?

Senator BONE. When a private company furnishes them?

Mr. METTEN. In that case the central office—yes——

Senator BONE. Could you not give us a "yes" or "no" answer on that? And then you can explain it. Does the Government have to pay $400,000 for the plans on each ship?

Mr. METTEN. Not now.

Senator BONE. Did they at the time that this was done?

Mr. METTEN. I see what you mean. No; that was the total price they paid.

Senator BONE. I do not know that you have yet made it plain to me. Was the United States Government required to pay $400,000 for the plans on each ship?

Mr. METTEN. No.

Senator BONE. Can you now enlighten us as to how much the Government did actually pay for the plans on these ships?

Mr. METTEN. They bought the plans as a group, and they built 3 ships from those plans.

Senator BONE. That is what I am getting at. In other words, they made really 1 payment for 1 set of plans, costing $400,000, and then they were following along on those plans on any ship subsequently built?

Mr. METTEN. Of that type.

Senator BONE. Is that a correct interpretation?

Mr. METTEN. That is correct. I think they got three sets of plans. My recollection is that when those plans were sent to them, they were duplicated to the extent that they could be distributed to the various yards. I am not sure of that.

The CHAIRMAN. What was charged for the duplicating?

Mr. METTEN. That all was included in that price. There was an agreement made down in the Navy Department to furnish the plans, so that they could build all the ships of that type from those plans.

Mr. RAUSHENBUSH. Mr. Metten, was not one of the results of this combination that any bright ideas that any particular one shipyard had would be shut out, unless the Marine Engineering Corporation, of which you were president, approved?

Mr. METTEN. No; we got the best men. As a matter of fact, when that company was organized, on account of the shortage of men, we got the best men from the three shipyards, who were brought into the central office.

Mr. RAUSHENBUSH. I have a letter here from Mr. Bardo to yourself, dated November 21, 1927, which I want to show you, and which seems to be a reference to a suggestion by Newport News that would have saved the Government some money, and Mr. Bardo is making the point that he does not want any of that sort of thing [handing paper to witness].

I will offer that for appropriate number.

(The letter referred was marked "Exhibit No. 1427" and is included in the appendix on p. 4858.)[1]

Mr. RAUSHENBUSH. I will read the second paragraph of that letter.

> The contract between the three shipyards which brought the Marine Engineering Corporation into existence contemplates, if it means anything, that Marine Engineering Corporation is to be the official mouthpiece of the three yards insofar as their relations with the Department for the crusier construction are concerned. Any departure from this understanding will, I am sure, have the effect of gradually repudiating the standing of Marine Engineering Corporation with the Department and result in serious embarrassment in many directions later on. Personally, I am strongly opposed to the practice complained of.
>
> We put ourselves in a very embarrassing and inconsistent position when we voluntarily propose to do something the effect of which is going to materially increase the cost. The margin between the cost of producing these ships and the selling price is narrow enough without further reducing it by a voluntary action which, so far as we can now see, will not improve either the efficiency of the particular units nor have the assurance that it will prolong their lives.

There is some more correspondence on that which gives the impression that Newport News had a proposal which would have increased the price to the private shipyards and would have given the Government a better ship, and here Mr. Bardo sent a letter to you in which he says he does not want anything like that, and that is not the purpose of the Marine Engineering Corporation.

Do you remember that incident?

Mr. METTEN. I think I do. You see, in establishing a design office of that kind, someone has got to be at the head of it and make the decisions. You cannot run a standardized design and have two or three different yards, each going their own way; and I was placed in a position of having to decide those questions which were decided on the basis of giving the Government a better job, as far as I can tell you.

Mr. RAUSHENBUSH. Well, apparently the suggestion that Newport News made on account of some turbine changes and spares and Mr. Bardo characterized it as something which would materially increase the cost——

Mr. METTEN. I do not know. At the outset decision was to be made whether or not they would buy the main turbines from someone else, like General Electric or Westinghouse, and I think it was just the other way about.

I think that they found that they could get a better price if they bought them than if they built them.

My experience had been that the machinery which had been built by the better-class yards had been more reliable and better suited to the navy work than that which had been bought outside, and I decided that we would build the standard turbines.

Mr. RAUSHENBUSH. Now, if the advantages of this marine corporation to get standardized ships and to get lower costs by dealing with the suppliers on a wholesale way were good in 1927, why was the Marine Engineering Corporation, of which you were president, disbanded a few years later?

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[1] See p. 4658 for further testimony regarding "Exhibit No. 1427."

Mr. METTEN. It was undertaken for the specific job, and then I believe there was some objection on the part of some of the builders. It was a rather trying thing to carry through, and, of course, when they talked about disbanding it I personally did not care about going through with this trying job any longer. It had completed the job for which it was organized.

Senator VANDENBERG. I would like to ask a question about that purpose before we get away from this letter. The letter says that the contract between these three big shipyards, which you say were the only three who could build these ships [reading from "Exhibit No. 1427"]:

> contemplates, if it means anything, that Marine Engineering Corporation is to be the official mouthpiece of the three yards insofar as their relations with the Department for the cruiser construction are concerned.

You have indicated that you pooled your engineering resources. Does that mean that you also pooled your bids?

Mr. METTEN. No, it had nothing to do with the bids.

Senator VANDENBERG. You went through all these mutual arrangements with respect to the design, but you did not talk with each other about the price which you were going to bid on the jobs?

Mr. METTEN. As I explained before, the circulars came out and had a condition attached that these ships must be duplicates. Now, as I recollect it, the bids were put in by the different yards separately, in the usual way, and then it was a case of determining how they could best make them duplicates. I think that the formation of this was after the bids were made.

Senator VANDENBERG. How near alike were the bids? Do you recall?

Mr. METTEN. I do not recall. I was the chief engineer of the Cramp Co. and of course I was not in contact at all with the bidding and was brought into it when they decided to form this central office.

Senator VANDENBERG. If the purpose of the organization of the Marine Engineering Corporation, as stated in this letter, was to make it the official mouthpiece of the three yards, in respect to cruiser construction, am I wrong in interpreting that as a price agreement as well as a design agreement?

Mr. METTEN. No, sir; it had nothing to do with prices. It was purely a matter of design.

Mr. RAUSHENBUSH. You just made the point, Mr. Metten, that these designs were drawn before the bids were let. Is that right?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. Then the Navy, in letting these bids, was doing it blindly, was it not, at the moment?

Mr. METTEN. No, they had issued the general plans and general specifications which covered the ships completely.

Mr. RAUSHENBUSH. And after all that was over, then the plans were drawn?

Mr. METTEN. Yes, sir. The detailed plans are always made up afterwards.

Mr. RAUSHENBUSH. And yet the Navy had, according to your earlier testimony, permitted itself to participate in those same plans, had they not?

Mr. METTEN. The plans of the central office had not been worked out. They had to lay down the condition that the ships must be built on the same detailed plans, but following the general type, plans, and specifications laid down by the Navy Department.

Mr. RAUSHENBUSH. And had gone into this arrangement, that it would take plans drawn by your group?

Mr. METTEN. I do not think at the time that they asked for bids they had any clear idea as to just how this was going to be carried out.

Mr. RAUSHENBUSH. You do not remember, Mr. Metten, when you first discussed this matter of the Marine Engineering Corporation with the Navy, do you?

Mr. METTEN. No; I do not. I was brought down here, and the chiefs of the bureaus talked to me about it.

Mr. RAUSHENBUSH. How much contact did you have with the estimators of the various companies while you were president of the Marine Engineering Corporation?

Mr. METTEN. Very little.

Mr. RAUSHENBUSH. Is that job on the cruisers the only thing Marine Engineering Corporation did?

Mr. METTEN. Yes.

Mr. RAUSHENBUSH. They did nothing on anything else?

Mr. METTEN. Nothing else.

Mr. RAUSHENBUSH. Not on mercantile work, or anything like that?

Mr. METTEN. No, sir.

DEFECTS IN CRUISERS 26 TO 31

Mr. RAUSHENBUSH. Was one of the reasons for dropping this engineering corporation some feeling that the designs drawn for all the cruiser class were unsatisfactory?

Mr. METTEN. I never heard of it.

Mr. RAUSHENBUSH. Could you tell us about the experience that all those cruisers had with regard to their sternpost?

Mr. METTEN. I do not remember. That, of course, happened in the yard. I believe there were some sternposts renewed.

Mr. RAUSHENBUSH. You know about these things more in detail than that, do you not, Mr. Metten? Here were the six cruisers all designed by you, or the Marine Engineering Corporation, and is it not true that every single one of them cracked their sternposts?

Mr. METTEN. I do not remember that it was all of them. That came, you see, after the ships were delivered. As far as that sternpost is concerned, that probably followed the general type of plan. That did not necessarily mean that the ships were defective.

Mr. RAUSHENBUSH. Was it not part of your design to have the sternposts just that way, and not any heavier than they were?

Mr. METTEN. You know that those ships were under weight limitations. The treaty imposed certain limits, and I think in all probability those sternposts followed the design which was a part of the type plan. I do not remember the details. You know, there were thousands of plans. I think you could find out at the Navy Department that, so far as the general ship was concerned, they were considered very satisfactory ships.

Mr. Raushenbush. According to the Navy Department records, the *Northampton*, *No. 26*, which was built by the Bethlehem Shipbuilding Corporation, the *Chester*, *No. 27*, built by the New York Ship, the *Louisville*, *No. 28*, which was built by Puget Sound, and the *Chicago*, *No. 29*, built at Mare Island, and the *Houston*, *No. 30*, built by Newport News, and the *Augusta*, *No. 31*, built at Newport News, all cracked their sternposts within some 6 months after they had been out, and in most cases it was still within the time limit, and the contractors had to pay the cost of repairing. Now, the story we get from the same records is that the sternposts were cast in two different foundries, one on the west coast and one on the east coast, and that after all this trouble and delay which resulted from the cracking of the sternposts on all six ships they decided that the designing was incorrect and that they had to have heavier sternposts made.

Mr. Metten. That may be. A sternpost is a rather small part of a 10,000-ton ship.

Mr. Raushenbush. Surely.

Mr. Metten. There are always some things which you do not discover until later.

Mr. Raushenbush. It is a fairly important part. When a sternpost cracks, there is a chance of a ship taking water?

Mr. Metten. Yes; but so far as that design is concerned, remember that the detailed design was approved by the Bureau. The detailed plans came down there and were checked and approved by the Navy Department.

Mr. Raushenbush. As we get this, then, you had this combined designing office, which was supposed to take the responsibility for all this work, and as soon as there is a mistake the blame gets put back onto the Navy Department. Is that the way the thing is worked?

Mr. Metten. No, sir. They did not pay for it. The yards paid for it.

Mr. Raushenbush. Because it was within the 6 months' limit, they paid it?

Mr. Metten. In designing a ship there are always some of those big things on which errors are made, like everything else. There might have been a mistake made in the sternpost, but that is not unusual.

Mr. Raushenbush. It is not unusual?

Mr. Metten. No, sir.

The Chairman. How long a period did the Navy have in which to determine the satisfactory character of the construction? Six months, do we understand?

Mr. Metten. The guaranties extended for 6 months, defects and deficiencies.

The Chairman. And these cracked sternposts were developed within those 6 months; is that it?

Mr. Metten. Yes, sir. You know in those ships there were 100,000 horsepower, and they required steering trials, with the helm hard over, and steering trials astern, and these stresses run up very high on those back-up trials; in fact, they developed more speed than they expected astern, and pushing those big ships with the rudder over, it resulted in transverse strains, and it caused these cracks.

I think if you go to the Navy Department and talk to the people there, they will tell you that that is something in big work which you are always liable to get into.

Mr. Raushenbush. If these cruisers were accepted on their trial trips, how did it happen that their sternposts cracked later on in actual work?

Mr. Metten. They were under the water and they may have developed some signs of it that were not discovered, you know.

Mr. Raushenbush. I see here a letter sent to various people commenting on the very successful trial trip of the *Chester*, built by the New York Shipbuilding Co., which later on developed the cracked sternpost, and the letter, among other things, is addressed to W. F. Kenney. How did he happen to get a letter referring to a trial trip of the *Chester?*

Mr. Metten. Mr. W. F. Kenney?

Mr. Raushenbush. Yes, sir.

Mr. Parker. He was a director of the corporation.

Mr. Raushenbush. He was a director of the New York Ship at the time?

Mr. Metten. That was a letter from New York Ship.

Mr. Raushenbush. Just a few more questions we want to get straight about this matter and I think we will be through.

All the way along you have been in the engineering and designing. You are still under your present arrangement head of designing of New York Ship?

Mr. Metten. Yes, sir.

Mr. Raushenbush. When did you first find out that you were going to be asked to take the vacancy which was created in October?

Mr. Metten. About a week before the election, before the meeting.

Mr. Raushenbush. That offer was made to you by the representatives of the Cord Co.?

Mr. Metten. Yes, sir.

Mr. Raushenbush. Which one?

Mr. Metten. Mr. Manning.

Mr. Raushenbush. Did Mr. Manning speak to you of any conversations he had with the Navy Department before the offer was made to you?

Mr. Metten. The first time he called me up and made the offer I turned it down. I said I did not care for it. I preferred to remain in the design end.

Mr. Raushenbush. That is not quite responsive, Mr. Metten. Did Mr. Manning speak to you of conversations which he had had with the Navy Department about the whole New York Ship situation at the time he made this offer to you?

Mr. Metten. The second time—you see, I was in a position that I had more or less agreed to go along with this, or I had more or less promised to stay with the design on these leaders and cruisers, until they were finished, and I felt that I was under certain obligations to the Navy Department to keep that promise.

Then when the offer was made to me, I told them, likewise, that I could not take it because I had to remain on the design work until these contracts were finished.

I believe he went down to the Navy Department, because the next time he talked to me he said that if it was arranged so that I could still look after the design work, the Navy Department was agreeable to it.

Mr. RAUSHENBUSH. Is that really the full substance of that conversation?

Mr. METTEN. Full substance?

Mr. RAUSHENBUSH. Yes. What I am getting at is this: The Navy Departmant had, had it not, rather severely criticized New York Ship for various reasons a little previous to this change in administration of the company?

Mr. METTEN. Yes; I think so. I think probably they criticized it to Mr. Manning. They wanted to make a change in the organization. I knew that, of course.

Mr. RAUSHENBUSH. You mean the Navy Department wanted a change in the organization?

Mr. METTEN. Yes; and I understand they probably complained to Mr. Manning about the ways things were developing.

Mr. RAUSHENBUSH. After the Navy Department had expressed its desire to Mr. Manning that there be a change in the management of the company, did Mr. Manning take you down to Washington to discuss that with the Navy people?

Mr. METTEN. No, sir.

Mr. RAUSHENBUSH. You had no discussion with the Navy people about that?

Mr. METTEN. I knew nothing about the contemplated change until about a week before the election, at the meeting of the board.

ACQUISITION OF CONTROL BY CORD CORPORATION

Mr. RAUSHENBUSH. When did the Cord Corporation take over New York Ship?

Mr. METTEN. I think roughly a year or so ago, but I do not remember the exact date.

Mr. RAUSHENBUSH. Do you remember, Mr. Parker?

Mr. PARKER. The new board of directors was elected August 2, 1933.

Mr. RAUSHENBUSH. August 2, 1933?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. But, Mr. Parker, had not the Cord Corporation obtained voting control of the company before August 2, 1933?

Mr. PARKER. I have no knowledge in that connection, Mr. Raushenbush.

Mr. RAUSHENBUSH. When were the bids opened in 1933 on the new Navy cruiser program?

Mr. PARKER. July 26, 1933.

Mr. RAUSHENBUSH. So that roughly a week after those bids were opened, the Cord Corporation actually took over official control, did it not?

Mr. PARKER. As represented by a new board of directors.

Mr. RAUSHENBUSH. As represented by a new board of directors. And you say you are not able to testify as to how much earlier than that they acquired the voting control?

Mr. PARKER. I have no knowledge in connection with that whatever.

Mr. RAUSHENBUSH. At this time, Mr. Metten, when you were put in as president was one of the Cord Co.'s own men put in there to help you, to assist you?

Mr. METTEN. Yes.

Mr. RAUSHENBUSH. Who was that?

Mr. METTEN. Mr. Kaltwasser.

Mr. RAUSHENBUSH. Had he been in the shipbuilding game before that?

Mr. METTEN. I believe not.

Mr. RAUSHENBUSH. Now, Mr. Metten, your function at present, as I get it, is really head of the designing department, is it not?

Mr. METTEN. That is part of it. Of course all the matters from now on in reference to the company will have to be decided, I suppose, by me.

Mr. RAUSHENBUSH. Have you so far interested yourself in any of the financial transactions; the bonds, the stocks?

Mr. METTEN. Not in the past.

Mr. RAUSHENBUSH. I mean within the last few months, since you have assumed the presidency?

Mr. METTEN. I have not had very much time. I have been tied up with a lot of details and the main thing is to get the plant reorganized and on a better footing.

Mr. RAUSHENBUSH. You are really not carrying on the financial transactions, in the same way, for instance, Mr. Bardo was?

Mr. METTEN. No.

Mr. RAUSHENBUSH. Actually, then, is it not a fair comment, Mr. Metten, that you are head of the design department, with the title of president?

Mr. METTEN. No; I do not think so.

Mr. RAUSHENBUSH. And the responsibility——

Mr. METTEN. You can see, I have been in the shipyard for about 40 years, and it is a case of trying to pick the men that will be the heads of the different departments and gradually change around and gradually get it back into shape. Of course my duty has changed, and while I am still looking after the design end, and at the same time——

The CHAIRMAN. Who is taking care of the financing end?

Mr. METTEN. Mr. Parker and Mr. Kaltwasser. He is executive vice president.

Mr. RAUSHENBUSH. If we ask you questions, for instance, about the financial structure of the company, would you be able to answer?

Mr. METTEN. No; I could not answer.

Mr. RAUSHENBUSH. Has Mr. Cord had any direct contact with you?

Mr. METTEN. Only once. That was on a visit to the yard, maybe 7 or 8 months ago. That is the only time I have met him.

Mr. RAUSHENBUSH. Has he given you any advice or instructions about how he wants the company conducted?

Mr. METTEN. Not Mr. Cord.

Mr. RAUSHENBUSH. Has Mr. Manning done it?

Mr. METTEN. In a general way; yes.

Mr. RAUSHENBUSH. Mr. Chairman, it might be well to point out at this time, that we asked for Mr. Cord as a witness and found that he was out of the country, and we could not be informed by his attorney exactly when he would be back. The information we requested from him has been promised through his attorney, Mr. Pruitt, to be brought by Mr. Manning when he appears later on.

The CHAIRMAN. Very well.

Mr. RAUSHENBUSH. I have no further questions to ask Mr. Metten at this time, Mr. Chairman.

Senator BONE. Mr. Metten, just one question occurs to me. Can you give the committee some idea of the average price the Government paid for cruisers of the type which we have been discussing, the *Northampton*, the *Chester*, the *Chicago?*

Mr. METTEN. I did not understand.

Senator BONE. Can you advise the committee what was the price, about the average price, of these cruisers we have been discussing?

Mr. METTEN. I do not remember the contract price, but I imagine it was somewhere around—do you remember that [referring to an associate]?—somewhere about 10 million dollars, of the *Chester* class.

Mr. LANGELL. I have got it right here somewhere.

Senator BONE. For instance, the one built by the New York Shipbuilding Co.

Mr. METTEN. They can give you that.

Mr. LANGELL. $10,815,000.

Senator BONE. That was a 10,000-ton cruiser?

Mr. LANGELL. Yes, sir.

Senator BONE. In what year was she finished?

Mr. LANGELL. I beg your pardon?

Senator BONE. When was she finished?

Mr. LANGELL. She was delivered on the 23d of June 1930.

Senator BONE. That was the cruiser *Chester?*

Mr. LANGELL. *Chester;* yes sir.

Senator BONE. I am interested in that because of the fluctuation in prices.

Senator VANDENBERG. I am still interested in this pooling arrangement. Have you the total prices there?

Mr. LANGELL. No; I have not any prices of the other yards.

Senator VANDENBERG. Mr. Metten, did you have anything to do with figuring the bids on this group of ships?

Mr. METTEN. No; I was not involved in that.

Senator VANDENBERG. Not at all?

Mr. METTEN. No, sir. That was all done by each yard separately.

Senator VANDENBERG. You do not know whether it was or not. You did not have anything to do with it?

Mr. METTEN. I assume it was done by each yard separately.

Senator VANDENBERG. It was entirely an assumption? I do not mean to be invidious, but you do not know. If there was any pooling of bids, you would not have any information on the subject?

Mr. METTEN. I would not have any information.

Senator VANDENBERG. You were not in a position to have any?

Mr. METTEN. No. The Cramp Co. did not even bid on that, I do not think. Did they?

Mr. LANGELL. No; Cramp did not put in a bid.

The CHAIRMAN. What invitation for bids was there outside of the "Big Three"?

Mr. METTEN. I believe there was the usual invitation sent by the Department.

Mr. RAUSHENBUSH. Did it go to anyone besides the "Big Three"?

Mr. METTEN. I imagine that anyone who could put up the bond was permitted to bid. Anyone who asked for the specifications and plans usually got them.

Senator VANDENBERG. The thing was pretty well in the hands of the big three, was it not?

Mr. METTEN. On account of yard equipment, I think so; yes.

Senator VANDENBERG. And the Navy was more or less at the mercy of the big three, were they not? I do not weigh that in an invidious way, but it was a fact?

Mr. METTEN. They had two or three yards, Philadelphia, New York, Mare Island, Bremerton.

Senator VANDENBERG. But they had made a contract with you, through this Marine Engineering Corporation, to let you build from them, had they not, so that whatever ones they had agreed to let to private yards had to be let to the big three, in your view?

Mr. METTEN. They had certain subdivisions, as I understand, so many to the navy yards and so many to the private yards.

Senator VANDENBERG. The only private yards were the big three?

Mr. METTEN. Yes, sir.

Senator VANDENBERG. Therefore, they were in the hands of the big three, so far as that section of the contract was concerned?

Mr. METTEN. Of course, they could have put them all in the navy yards.

Senator VANDENBERG. Not under the contract, could they?

Mr. METTEN. Before they asked for bids, they could decide at that time to build them all in the navy yards.

Senator BONE. Assuming that they determined to build one of these 10,000-ton cruisers in the Government yards, were they at liberty to use the detailed plans and specifications which you had prepared, and, if so, under what conditions?

Mr. METTEN. Of course, if they had built all of them, there would have been no occasion for a central office, and they would probably have organized their own central office.

Senator BONE. Were your plans employed in building any of these cruisers in the Government navy yards?

Mr. METTEN. Yes.

Senator BONE. What do they pay for the use of the plans when they build the ships?

Mr. METTEN. You had it right there. I have forgotten the price which was agreed on. They came down here and agreed on their share of the price.

Senator BONE. Where they built a cruiser, for instance like the *Louisville* in the Bremerton Navy Yard, do you recall what the Government paid for the plans and specifications?

Mr. METTEN. I think they were very similar to the previous type ships, and what modification they made, they made themselves.

Senator BONE. I know, but what did they pay for the use of the plans in building the *Louisville?*

Mr. METTEN. They did not pay anything.

Senator BONE. They did not pay anything?

Mr. METTEN. Nothing.

Mr. RAUSCHENBUSH. The *Louisville* was one of the No. 26 to No. 30 group, was it not?

Mr. PARKER. Yes, sir.

Mr. LANGELL. That was a part of the $400,000.

Mr. METTEN. I think she was one of the later group.

Senator BONE. The *Louisville* was finished about 3 or 4 years ago.

Mr. METTEN. She belonged to that group, Senator.

Senator BONE. Perhaps less than that. Somewhere around 3 or 4 years.

Mr. METTEN. Then she belonged to that group.

Senator BONE. Then we are to understand that the Government paid nothing for the plans on the *Louisville?*

Mr. METTEN. No.

Mr. LANGELL. What is the *Louisville's* number?

Mr. RAUSHENBUSH. No. 28.

Mr. METTEN. They did pay for part of the plans. If the *Louisville* was one of those ships, then, of course, they did pay that price to the central office for those plans.

Senator BONE. That is what I had in mind. Is that $400,000?

Mr. METTEN. Somewhere around there.

Mr. RAUSHENBUSH. And the Navy objected to the price and it was lowered a little bit.

Senator BONE. How much?

Mr. RAUSHENBUSH. $15,000.

Senator BONE. In other words, they took off $15,000 from $400,000 for the plans of the *Louisville;* is that correct?

Mr. METTEN. They usually divide the cost of the plans amongst the ships which are built from those plans.

Senator BONE. I have had some discussion with Navy officials about the *Louisville*, and therefore I am trying to arrive at specific figures. The plans on the *Louisville* cost $400,000 less $15,000, or $385,000?

Mr. RAUSHENBUSH. I think, Senator, you will find that there were three ships that were built in Government yards at the time, and the *Louisville* was supposed to pay one-third.

Mr. METTEN. That is correct. That is the way they usually do it.

Senator BONE. That is what I am trying to put into the record. It seems to me we could have the questions answered directly, unless you do not know. Do not tell us something with which you are not familiar.

Let us make this plain, so that we will have it in the record once and for all. The Government built two of those ships in the Government yards in this program?

Mr. METTEN. Three of them.

Senator BONE. Three of them. Then how much was charged against each of these ships for the use of the plans?

Mr. METTEN. One-third of that sum, assuming that the Navy accounting is carried out the way the private yard's is.

Mr. RAUSHENBUSH. I have no further questions to ask you, Mr. Metten, and if the chairman cares, he might excuse you until further notice. That would be satisfactory.

The Chairman. Very well, Mr. Metten, you can understand you are excused, with the understanding, of course, if we desire your presence here, you could and would run down.

Mr. Metten. Yes; I can come down at any time.

The Chairman. Thank you, Mr. Metten.

(Witness excused.)

Mr. Raushenbush. Mr. Parker, I would like to go into the story where we left off yesterday, and would have gone on with it this morning if we had not wanted to finish with Mr. Metten. I was very much impressed with some testimony which you gave, to the effect that in attempting to get one item which the committee had requested, the expenses of the Washington representatives for a period of 14 years, that it would take approximately $60,000.

Mr. Parker. Mr. Raushenbush, I would like to make that more clear. The committee in the 27 questions have asked for a lot of financial expenditures, salaries, payments to and from people under foreign patent agreements. What I meant was that the expense of collecting or compiling all the data requested in the letter would take a long time, and would cost, roughly, the equivalent of 3 years' accounting work, going over 18 years. I did not mean that it would take that to obtain the salaries and expenses for just one item, the Washington representative, or any of the other foreign representatives. I think that could be done in a reasonably short time.

As I told in response to Senator Vandenberg's question, I thought that I could get 1934 and 1933 very quickly, if I had time to get back of it. 1934 is the current record, and is quite easily obtained.

Mr. Raushenbush. It was in response to Senator Barbour's question as to the cost of finding this one item that you testified, going back over 14 years, would cost about $60,000, I believe.

Mr. Parker. To obtain all the information requested in the letter. I did not mean that for just the Washington representative. We would be very glad to get that for any particular one, and I do not think it would entail very much expense or any great expenditure of time to get that one item.

Mr. Raushenbush. When you got that one item, you are sure, according to your accounting system, that that will be all the expenses for the Washington representative under all accounts, under all heads?

Mr. Parker. Yes, sir; as far as the records would indicate.

VOLUME OF BUSINESS IN WAR AND POST-WAR YEARS

Mr. Raushenbush. I am somewhat interested in that question of the huge amount of expenditures involved in the war work of the company. According to our record, from 1917 to 1921 you did a total of $565,000,000 worth of business. Could you give us a rough idea——

Mr. Parker. What years, Mr. Raushenbush?

Mr. Raushenbush. 1917, 1918, 1920, and 1921, the sales added up to $565,083,357.05.

Mr. Parker. I do not believe that is a correct figure

Mr. RAUSHENBUSH. We have this from your income-tax returns.

Mr. PARKER. If I may explain something, Mr. Raushenbush, that is a thing which has been asserted time after time. We will take a list of the contracts obtained by this company in that period, and, if you do that, you will not arrive at the total of the contracts anywhere near that figure.

The way that figure was compiled by the income-tax division is that each year—these contracts running over the period of a year—each year the report is worked in process, which is a cumulative total, even though it may be for 2 years prior, and that is a cumulalative total which duplicates it; sometimes three times the same amount is added in.

If you will take the total contracts which this company had during that period, it does not equal more than one-half or quite one-half that sum.

Mr. RAUSHENBUSH. Would you put it at about one-half that sum?

Mr. PARKER. I would not know, but this question has been brought up many times, and the answer was given in the investigation of mail contracts. They had the same thing from the Treasury Department, and it was explained in the same fashion, and they determined the correct figure.

Mr. RAUSHENBUSH. I do not want to make too much of the point, but you believe it would be one-half?

Mr. PARKER. Not more than one-half.

Mr. RAUSHENBUSH. $220,000,000?

Mr. PARKER. As I remember the actual figure, it was about $165,000,000.

Mr. RAUSHENBUSH. All right; $165,000,000 for those 5 years. Now could you give us a rough idea, a very rough one, of how much of that expenditure was for the Navy and how much for the Emergency Fleet Corporation?

Mr. PARKER. It was approximately half and half; if anything, leaning a little bit to the Shipping Board in total.

Mr. RAUSHENBUSH. About 60–40 to the Emergency Fleet Corporation?

Mr. PARKER. Something like that.

TAXATION OF WAR PROFITS

Mr. RAUSHENBUSH. During this time how many men were around there employed by the Emergency Fleet Corporation to check and audit your books?

Mr. PARKER. They had a corps of accountants and engineers. I imagine they had as high as 20 and probably more than that for the Navy Department.

Mr. RAUSHENBUSH. Twenty for the Emergency Fleet Corporation?

Mr. PARKER. Probably, counting inspectors who checked the cost and audited the plant-construction accounts, as well as the ship accounts.

Mr. RAUSHENBUSH. And more than that for the Navy?

Mr. PARKER. Probably more than that for the Navy. The Navy usually had more than the Shipping Board.

Mr. RAUSHENBUSH. How many were there for the Bureau of Internal Revenue, for the Treasury?

Mr. PARKER. I do not believe at any time they had more than two.

Mr. RAUSHENBUSH. Not more than two. So that you had——

Mr. PARKER. At any one time.

Mr. RAUSHENBUSH. So that you had, roughly, 47 Government men trying to check the cost and auditing?

Mr. PARKER. The Shipping Board auditors were changed, moved from place to place. The Navy auditors were transferred from time to time. We had several field audits, amortization and engineering audits, at various times by the Treasury Department. If you are trying to get the total number of men who were there, it would be something over 100, I am sure, over the whole period.

Mr. RAUSHENBUSH. I am trying to get an average of how many were there steadily.

Mr. PARKER. Some place between 30 and 50, combined Navy and Shipping Board.

Mr. RAUSHENBUSH. And those studies kept going on all the way through 1926?

I want to introduce into the record at this point an exhibit, which is a letter from the Treasury Department man who made the investigation in 1926, which gives perhaps better than any other one document, a story, sir, of the difficulties and complexities in checking, even for the Treasury Department, many years after all this had happened, and after all the other work had been done the books of a company on expenditures to which Mr. Paker has testified.

This letter is dated December 9, 1926, and is addressed to the head of the Consolidated Returns Audit Division, Bureau of Internal Revenue.

(The document referred to was marked "Exhibit No. 1428" and is included in the appendix on p. 4859.)

Mr. RAUSHENBUSH. That reads, in part [reading]:

> A field examination was made by representatives of the Trenton (N. J.) office, covering the years 1918 to 1921, inclusive, which resulted in a recommendation of a net overassessment of $181,820.33 for the 4 years. A second field examination was made out of Trenton, N. J., covering the years 1919 to 1921, inclusive, which resulted in a recommendation of a net additional tax of $99,057.55. The taxpayer agreed to the results of both examinations at the times of their completion.

As I get it, the local people were making two examinations, and one showed the taxes were $181,000 too high, and the other one showed the taxes were $99,000 too low, and the taxpayer agreed to the results of both examinations at the time of their completion.

Then the memorandum continues [reading]:

> An office audit of the last revenue agent's report reflected adjustments that resulted in a net overassessment for the years 1919 and 1920 of $836,964.64, and a deficiency for 1921 of $487,763.34.
>
> The case then went forward to the Solicitor of Internal Revenue, claims section, where objections were raised with reference to certain of the allowances applying against gross expense applicable to Government contracts. A copy of the Solicitor's memorandum returning the case to the unit is attached.

There is further description along the same line, and then it continues [reading]:

> To verify the correctness of the taxpayer's returns, or books, it is most essential to procure the schedules referred to and to examine the computa-

tions of earned profit on each contract that was made by the taxpayer and appear thereon. Such schedules have been requested of the taxpayer, first over 3 weeks ago, and photostats thereof were promised by Mr. Norman F. Parker, asistant treasurer, almost daily after the first request.

Is that yourself, Mr. Parker?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH (continuing reading):

Last Saturday, on request again for the schedules, Mr. Parker informed us that he had been "stalling" and that we knew it, but that the corporation's counsel had advised him to delay giving the schedules to us. He called his counsel by telephone, a Mr. Orr, connected with White & Case, attorneys, while we were present, and explained the situation, and stated to Mr. Orr that he believed we were entitled to the schedules and should get them. Mr. Orr's advice, we were informed, was not to deliver them.

To date, the situation remains the same, the schedules have been refused on the advice of counsel, so we are informed by Mr. Parker and Mr. J. T. Wickersham, the treasurer.

The points raised by the Solicitor have developed other points that make it imperative, in the opinion of your examiners, after their investigation thus far, that a reexamination be made of the taxpayer's books for the period extending from 1918 to 1921, inclusive.

Their investigation thus far, with the information we have been able to gather, results in an increase in income over income as determined by the revenue agent from Trenton, who made the last examination for the period 1918 to 1921, inclusive, of approximately $8,000,000.

It is the positive opinion of your examiners, with the information gained thus far, that there should be recommended to the Commissioner that a reexamination be made of all of the taxpayer's books and records for the years 1918 to 1921, inclusive; and that the taxpayer should be duly notified under the provisions of section 1105 of the Revenue Act of 1926 that such investigation has been ordered.

That was just preliminary, Mr. Parker, was it not, to the examination which was made in great detail in 1926 that resulted in this increase in taxes?

Mr. PARKER. It was just at the beginning of that examination, as I recall it.

Mr. RAUSHENBUSH. Do you have any comment to make on the statement here that you had been "stalling" under the advice of your attorneys?

Mr. PARKER. None, except that that was true.

Mr. RAUSHENBUSH. In addition, we find here a letter which I want to offer for the record, a letter from the Assistant to the Commissioner of Internal Revenue, to the local office, calling attention to a rather strange situation, that the Treasury Department, either because of the "stalling" or because of the general delay, found it necessary to get waivers from the company to protect the Government in the matter, and the local Camden man of the Revenue Department had made out a very strange kind of waiver, where the Government assessed taxes against your company, allowing them to do that, but not allowing them to collect those taxed beyond a statutory period.

Do you remember anything like that?

Mr. PARKER. No, sir; I do not.

Mr. RAUSHENBUSH. You did not have a hand in that at all?

Mr. PARKER. No, sir.

Mr. RAUSHENBUSH. I will ask that that letter I have referred to, dated October 23, 1925, be marked "Exhibit No. 1429."

(The letter referred to was marked "Exhibit No. 1429", and is included in the appendix on p. 4860.)

Mr. Raushenbush. That goes in with your testimony of the other day, Mr. Parker, that the company was engaged in trying to prove it was bankrupt, or practically bankrupt, and could not pay those taxes. Do you remember an appraisal made by the firm of George W. Jessup & Son. of the company's property at the time?

Mr. Parker. I remember that George W. Jessup & Son, with some other engineering associates, made an appraisal for its purchase. I had nothing to do with it. I only knew that they were there, and I furnished them with maps and plans and certain data.

Mr. Raushenbush. Do you know what they reported?

Mr. Parker. I do not. I never saw the final report.

Mr. Raushenbush. We have their final report here, which I would like to offer. It is a letter from George W. Jessup & Son, dated August 19, 1927, to the American-Brown-Boveri Electric Co.; also a letter from Samuel T. Freeman & Co. on August 17, 1927, in which they appraised the property at $4,250,000 and also state:

> It is our opinion that such a liquidation would net your company $1,250,000 for the ground and buildings, and $1,750,000 for machinery, equipment, etc., or a total of not over $3,000,000.

(The letters referred to were marked "Exhibit No. 1430" and are included in the appendix on p. 4861.)

Senator Vandenberg. What was the date of that?

Mr. Raushenbush. That was in August 1927.

That was part of the attempt, was it not, Mr. Parker, to persuade the Treasury that the company was worth practically nothing at the time?

Mr. Parker. It was evidence that was submitted to the Department.

Mr. Raushenbush. At the same time I notice an annual report for the year 1927 of the American-Brown-Boveri Electric Co., which, I suppose, was used for stock sales and the like, being addressed to the stockholders, showing property and plant with a value of $16,178,211.83. Do you remember that at all [handing book to witness]?

Mr. Parker. I remember it. You will note that this is a consolidated balance sheet and includes consolidated plant values of not only the American-Brown-Boveri Electric Corporation property at Camden, against which this tax assessment rested, but also included subsidiary companies in St. Louis, Boston, and Sidney, N. Y.

Mr. Raushenbush. Which had property values, altogether, of about four and one-half millions dollars, did they not, if that?

Mr. Parker. Approximately $5,000,000, I would say.

Mr. Raushenbush. I am not talking about goodwill. I am talking about the plant property value.

Mr. Parker. The plant property on the books showed something like $5.000,000.

Mr. Raushenbush. So that at the outside they were charging up for plant and property $11,000,000?

Mr. Parker. So that this figure of plant property is not comparable to the appraisal.

Mr. Raushenbush. If you deduct the outside figure of $5,000,000, they are still claiming to their stockholders that the plant of the New York Ship at that time was worth $11,000,000.

Mr. Parker. It was on the books at $11,000,000, but the appraisal, as I understand it, was made at a liquidating value.

Mr. Raushenbush. Now, the appraisal, according to this letter, was made at a nonliquidating value.

Mr. Parker. That is right. They had four and three.

Mr. Raushenbush. $4,250,000, and a liquidating value of $3,000,000.

Now, coming for a moment to the transactions with the Emergency Fleet Corporation, were there any of the board of directors of the American International Corporation, that you know of, connected with the Emergency Fleet Corporation? Was Mr. Franklin on there?

Mr. Parker. Not so far as I know.

Mr. Raushenbush. We find him listed as a dollar-a-year man.

Mr. Parker. He may have been. I do not recall it.

Mr. Raushenbush. Do you know whether Mr. Baldwin was on there?

Mr. Parker. I do not know.

Mr. Raushenbush. Mr. Grace?

Mr. Parker. I do not know.

Mr. Raushenbush. Mr. Neeland?

Mr. Parker. Only in his capacity as president of the New York Shipbuilding Corporation, indirectly.

Mr. Raushenbush. Was he a dollar-a-year man there?

Mr. Parker. No.

Mr. Raushenbush. Was he on the Board?

Mr. Parker. No; not so far as I know.

Mr. Raushenbush. What do you mean, only in his capacity as president of the New York Shipbuilding Corporation, indirectly?

Mr. Parker. His connection with the shipbuilding, as a part of the contract of building ships for the Shipping Board.

Mr. Raushenbush. He was not on the Board?

Mr. Parker. Not so far as I know.

Mr. Raushenbush. Mr. Frick, who was one of the former large stockholders, was on the Emergency Fleet Corporation Board, was he not?

Mr. Parker. I do not recall.

Mr. Raushenbush. Henry C. Frick?

Mr. Parker. I think that must have been Henry C. Frick, Jr. Henry C. Frick, Sr., was a former stockholder of the old company.

Mr. Raushenbush. We have his name in evidence, here. Mr. Schwab was director at the time, was he not?

Mr. Parker. Of the Emergency Fleet Corporation?

Mr. Raushenbush. Of the Emergency Fleet Corporation.

Mr. Parker. That is correct.

Mr. Raushenbush. From whom did you buy your steel in those days, Mr. Parker?

Mr. Parker. Most of our steel was bought, in those days, from the United States Steel Corporation.

Mr. Raushenbush. When did that switch? When did you switch over to Bethlehem?

Mr. Parker. I would say subsequent to 1927.

Mr. Raushenbush. You are testifying that during these war years you were not buying your steel from Bethlehem? Is that correct?

Mr. Parker. As far as I can recall most of our steel purchases were from Carnegie, the United States Steel Corporation.

Mr. Langell. So far as I know.

Mr. Raushenbush. You both testify to that effect, Mr. Langell?

Mr. Langell. I am not sure. I think we got some from Sparrows Point.

Mr. Parker. We went into the structural-steel business for a period, when the ship programs were out, and we were buying Bethlehem sections at that time because Bethlehem sections in the building-construction business were more developed and were specified generally by the building contractors. So that, prior to 1927, we were buying structural steel from Bethlehem, but not for shipbuilding, to any great extent, so far as I know, but were buying it for building construction.

Mr. Raushenbush. Was there any particular reason for giving United States Steel preference over Bethlehem? Was there any difference in price?

Mr. Parker. That I do not recall. The prices were a matter for the purchasing department. It was something I had nothing to do with.

Mr. Raushenbush. You had a business which you think was about $250,000,000 during these years, with the Navy, and about 60 percent of that was with the Emergency Fleet Corporation, and you had, did you not, a contract with them largely at cost plus on their ships, that is, the Emergency Fleet Corporation ships? Cost plus how much was it?

Mr. Parker. There were varying methods of cost plus. There was cost plus fixed overhead percentage, cost plus fee of so much, per deadweight ton, cost plus fixed fees varying from 10 percent down to 5 percent. There were several types of cost-plus contracts.

Mr. Raushenbush. Was not a supplemental contract entered into with the Emergency Fleet Corporation, making an arrangement by which there was to be a flat payment of 50 percent of the whole company's overhead by the Emergency Fleet Corporation?

Mr. Parker. There was a supplemental contract on a certain group of ships, which was made on the basis of cost plus a fixed overhead rate, with the fees originally stated in the contract per deadweight ton, per 10 percent, or per fixed amount of the fee.

Mr. Raushenbush. And that supplemental contract involved the payment of 50 percent of the whole overhead, did it not?

Mr. Parker. Fifty percent of the direct labor for overhead allowance.

Mr. Raushenbush. I have here a copy of the supplemental agreement, dated July 27, 1920, which I will offer for the record.

(The document referred to was marked "Exhibit No. 1431" and is included in the appendix on p. 4862.)

Mr. Raushenbush. It says in that contract [reading]:

> Said fixed charge shall cover all other costs and charges of every nature whatsoever for such respective vessels, including all overhead charges of the ship-

builder with respect to the construction of such vessels for the owner, bond interest, taxes, all costs of administration, all maintenance, all repairs, all depreciation, and all insurance (but not including insurance on hulls of vessels during construction, which insurance is a material charge).

Mr. Parker. That is right.

Mr. Raushenbush. It just takes in about the whole world, does it not?

Mr. Parker. No, sir; it is one of the fairest types of contracts, and avoids what would be assumed by someone not really familiar with the situation, that we could gain by padding our overhead, by padding the salaries of the administrative officers. So that the overhead on a percentage basis became our own responsibility. If it were high, it was our own. If we saved, it was our own. So that every inducement was offered by the supplemental contract to reduce overhead on the contract. It was the fairest arrangement, far more fair than any of the previous cost-plus contracts.

Mr. Raushenbush. Did you not also have contracts with the Navy which called for the Navy paying some of the overhead?

Mr. Parker. All overhead on any class of work is on a prorated basis in proportion to the volume of the work.

Mr. Raushenbush. I would like to put into the record at this time a compilation made by the resident auditor of the Emergency Fleet Corporation at the New York Shipbuilding Corporation to show a picture of the actual overhead and the amount paid under the 50-percent overhead contract, dated July 27, 1920.

(The document referred to was marked " Exhibit No. 1432 " and is included in the appendix on p. 4866.)

Mr. Raushenbush. Mr. Chairman, this gives here in columns the total direct labor, the total actual overhead for the yard for the first 11 months of 1920, the actual percent that that overhead was, and then the actual charge to the Emergency Fleet Corporation. Now you will see that the actual percent of overhead was far lower than the 50-percent arrangement which the Fleet Corporation had entered into. It was 39.94. This shows the rate at which the Emergency Fleet Corporation billed, and this column shows the excess [indicating]. It shows that in those 11 months alone this arrangement which some of the Emergency Fleet Corporation people thought was most unusual resulted in that excess.

The Chairman. Whose compilation is that?

Mr. Raushenbush. That was prepared by the resident auditor of the Emergency Fleet Corporation and was found in the Treasury's files. It shows that the excess of 50 percent over actual cost for those 11 months alone amounted to $1,270,996.60, which would be running at the rate of about $1,400,000 in a year, purely excess.

That is only significant from the connection it has with a letter which was written by the district plant engineer, and which is in the nature of a confidential report to the Bureau investigators. He is commenting all the way through on this contract, and here is his introductory letter. He describes this situation.

Because of the importance of this to the attempt to classify taxes in case of war, especially high taxes, I would like very much to have your indulgence to read a good deal of this. I will offer it as " Exhibit No. 1433."

(The document referred to was marked "Exhibit No. 1433" and is included in the appendix on p. 4867.)

Mr. RAUSHENBUSH. During this discussion Mr. Freeman, the district plant engineer, refers to himself as "Mr. Freeman" instead of saying "I", because this is supposedly an official report.

After summarizing, in the first three paragraphs, his functions and his duties and obligations, he points out in paragraph 4 one of the few changes he made. That paragraph reads:

> Mr. Freeman cut down the force from 35 to 10 at the New York Shipbuilding Corporation and also discovered that there was no check on maintenance at this yard, the cost of which was a cost against the ships in general overhead, and on some contracts an additional 10-percent profit was allowed. This matter was pointed out by Mr. Freeman and he was allowed to place four engineers on maintenance. A record of maintenance, month by month, by the New York Shipbuilding Corporation, was kept in regular schedule, and at the date of Mr. Freeman starting activities had reached an amount of $448,805 per month, which was charged against ship construction at a time when only the north yard was in operation, as the south yard had just gotten started.

Then he goes on to point out how he brought maintenance down from an amount of $448,000 to $91,000 plus.

The fifth paragraph reads:

> Matters were brought somewhat to a head by the New York Shipbuilding Corporation receiving a letter dated February 20, 1920, from our resident engineer, in which their attention was called to the fact that they were doing considerable work in the yard and charging same to maintenance, which was an improper charge, as it was being done without authority, and 11 items were cited on which the work was going on at that time; and the said corporation was advised that we were requesting our resident auditors to withhold payment on these jobs until same were approved, if they were proper charges. On Wednesday, February 25, 1920, we were advised that Mr. Magoon, senior vice president of the New York Shipbuilding Corporation, was in conference in the home office of the Fleet Corporation; and one of the officers of the New York Shipbuilding Corporation at the yard stated that he was afraid to call him up as he—Mr. Magoon—was in an awful temper about maintenance, resulting from our letter.
>
> 6. On the same day Mr. Magoon replied to our letter, stating that he was unable to find any ruling which required him to submit regular application for doing maintenance work for approval and that it was his present purpose to proceed with maintenance work under his usual procedure. On the same day the New York Shipbuilding Corporation wrote to Mr. Frick, manager of construction, Emergency Fleet Corporation, in which they state that the jurisdiction of the plant maintenance by the district engineer's department had been assumed as an extension of its duties in connection with plant construction and that they ask the Fleet Corporation in said letter to issue instructions that will relieve the New York Shipbuilding Corporation from all question of such supervision. It is to be noted that these letters were written the same day as the conference above referred to in the home office. Under date of February 28, Mr. Frick issued instructions to Mr. Miller to remove all engineers in his district whose work was confined strictly to maintenance.

Later on, however, that was changed.

I will now read from paragraph 7:

> This department pointed out to various departments further irregularities that the New York Shipbuilding Corporation made in the matter of plant construction and charged to ships. In one case we discovered one of the old ways that had been there for 20 years had been remodeled from wooden construction to concrete construction at an expense of approximately $126,000; same had been charged to ship construction and apparently had been paid as a ship cost. This was brought very forcibly before the auditing department; and said department, on their own initiative, made an estimate of the improper cost that had already been paid the New York Shipbuilding Corporation. An estimate of our share, amounting to $750,000, had been improperly paid, and this

amount was held up by the auditing department as made to the New York Shipbuilding Corporation. The Navy Department, hearing of this action, called a meeting and stated that inasmuch as they were paying 50 percent of the overhead, that they be allowed to see this list, as they also desired to hold up funds for improper payments, resulting in a similar amount being held up by the Navy Department on March 3.

Mr. Chairman, according to this letter, the Emergency Fleet Corporation had overpaid $750,000, according to their figures, at that time; and the Navy Department found out about this thing and asked that they be allowed to see the list in order that they might see if they had not overpaid, too. [Continuing reading from "Exhibit No. 1433":]

The Fleet Corporation notified the New York Shipbuilding Corporation that $750,000 was held up from their payments, and following this they received a like notice from the Navy Department. So that we find in the spring of 1920, we, the Fleet Corporation, did know that the books of the New York Shipbuilding Corporation showed many charges as ship costs which were improper.

That is before the signing of the supplemental contract.

Now, in paragraph 8 of the letter he states [reading]:

There is no doubt that this Department is held responsible by the New York Shipbuilding Corporation due to the fact that we stopped them from getting away with improper cost in large sums; that we have brought out the fact that neither the Navy nor the Fleet Corporation were paying proper attention to ship costs. Admiral Capps, Chief of Cost Compensation Board, in Washington, sent for Mr. Freeman and asked him regarding the work he was doing, complimenting him upon same, and stating he was glad the Fleet Corporation had somebody who had backbone enough to stick up for what is right and did say that he could not understand where his own Cost Compensation Board had been at the plant of the New York Shipbuilding Corporation for the last 5 years.

Now, reading paragraph 9:

The feeling that the New York Shipbuilding Corporation had that they were being checked up in a manner that they were not used to; that their free hand in construction work was in a measure restrained, did, we imagine, after considerable bearing on their efforts to eliminate our activities from that yard, but due to the fact that Mr. Freeman succeeded in pointing out the value of checking maintenance, checking the interest of the Emergency Fleet Corporation, matters remained the same as usual until date of July 27, 1920, when a new arrangement was entered into between the shipbuilder and the Emergency Fleet Corporation in which a fixed percentage of direct labor was allowed, said yard requiring no longer any efforts of the organization until at the date of this report, there is practically no supervision, as no control is required by this arrangement of the money that is allowed the New York Shipbuilding Corporation for maintenance.

It was this contract which you were commenting on as being so unusually fair, was it not, Mr. Parker?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. The document continues [reading]:

Commenting on this report for the benefit of all concerned, attention is called to the following facts:

Mr. Freeman, district plant engineer, and Mr. Eason, district manager, visited the plant of the New York Shipbuilding Corporation on or about July 13, 1920, in order for Mr. Eason, the new district manager, to pay his respects to the yard and visit same. At a meeting in Mr. Neeland's office——

Mr. Neeland was your president at the time?

Mr. PARKER. That is correct.

Mr. RAUSHENBUSH (continuing reading):

(those present being Mr. Neeland, Mr. Eason, and Mr. Freeman), Mr. Eason stated to Mr. Neeland that it was considered advisable to allow a fixed percentage for maintenance, and Mr. Neeland replied that that was just what they were working on, and stated that Mr. Gillan, of the Shipping Board, was expected to visit the yard the next Saturday at the launching of the *Bay State;* that he, Mr. Neeland, had a very dear friend, who was also a friend of Mr. Gillan, and that this friend had come to him and stated that if he had anything to put through he had better arrange to do so in the next week, as the President expected to make some new appointees to the Board—

meaning the Shipping Board—

and that his friend, Mr. Gillan would probably resign; that as matters now stood, Mr. Gillan could get through anything he wanted to, as it was a one-man Board; that whatever he said was accepted; that any delay over a week might cause them not to get it through. Mr. Neeland then stated that for this reason he would like to have this matter brought up as soon as possible, so as to get it through by Mr. Gillan while still on the Board. Luncheon was then announced. Mr. Neeland asked Mr. Eason and Mr. Freeman to meet him after lunch, as he could not have luncheon with them because he had to make a talk to his superintendents. The meeting was then adjourned, and on the way out Mr. Freeman called Mr. Eason aside and told him that he did not like the way Mr. Neeland talked, and that while he agreed with the principle of a certain percentage being allowed the New York Shipbuilding Corporation, he did not think it possible to think of doing within a week, and he also advised Mr. Eason not to be a party to railroading anything like that through in that time, as it was a proposition that required a long time to work up. Mr. Eason replied that he would not, and was just drawing Mr. Neeland out, or words to that effect.

Mr. Freeman then asked to be excused from the afternoon meeting (as he did not desire to become a party to same). At the end of the same week Mr. Freeman went on his vacation, and on his return he found that the agreement had already been entered into.

Then we get the comments on the agreement [reading]:

(10) In connection with said agreement, your attention is called to the fact that the auditors, under date of August 2, 1920 (Mr. George W. Willbrock, resident auditor), submitted a report to the district controller, A. J. Paynter, in which he states, referring to the report, "It consists of as many facts as could be gotten together within a few days in connection with the proposition of a flat overhead of 50 percent, contract for which I understand has since been signed, no official notification, however, having been received at this office to date." He also stated in the same letter of transmittal of report, "all of the elements that entered into the proper consideration of this proposition have not been thoroughly weighed", this because of the limited time given the writer. It will be noted that this letter of transmittal, in which the resident auditor tells the Emergency Fleet Corporation that all elements have not been properly considered, under date of August 2, 1920, several days after the actual signing of the agreement, which was July 27, 1920, showing that agreement was prematurely entered into, if the knowledge that is secured from the auditors, who have been constantly on the work, is of any value.

The Chairman. As I get the picture, the Emergency Fleet Corporation had auditors there constantly. All their reports, and the report of the district manager, were, according to Mr. Freeman, ignored when this particular contract was signed. [Continuing reading from "Exhibit No. 1433":]

Your attention is also called to the fact that the plant engineering department which has had more to do with plant maintenance which forms a large part of the overhead at this yard, was not asked for any recommendation, nor consulted. Especially is this very pointed in view of the fact that this agreement appears to have been drawn up to avoid maintenance control or of accounts which at the date of the contracts were improperly on the books of the New York Shipbuilding Corporation and on which a million and one-half dollars was withheld. It is to be noted that the agreement on page 5, sets forth that "for this purpose, the direct and proportionate labor, cost, as they now appear and shall appear upon the books and records of the shipbuilder shall be used for work already performed, etc.", and which back cost appears to have been used as a basis for the agreement when same were known to be improper and not correctly recorded.

There is another paragraph and some comments by Mr. Gillan, and paragraph 12 says [reading]:

An examination of the facts of this agreement of July 27, which is made retroactive from the beginning of these contracts, in the opinion of the writer is manifestly wrong to the interests of the Fleet Corporation for it was drawn up apparently to ease the situation under which as set forth by the agreement both parties recognized that the determination of the actual cost of the said vessels as defined in the contract would necessitate long negotiations and expense to both parties and possible conflict and both parties are, therefore, desirous of settling, adjusting, or compromising all questions and so for these reasons they have drawn up an agreement on which there is apparently no compromise as all of the cost as shown by the books of the corporation for direct and apportionate labor cost is used without question, which is combatted by certain claims that are presented by the shipbuilder to offset all irregularities in said accounts.

13. It will be noted that the claims that the New York Shipbuilding Corporation have presented as made would apparently show a loss of 1¾ per cent to the New York Shipbuilding Corporation. This combated by figures from the auditing department which is made up mainly on plant figures about which the plant department was not consulted.

You see, Mr. Chairman, all the way through, apparently, this whole agreement was made without any consultation with any people who had been working at the plant before. That is this man's grievance in the matter. [Continuing reading:]

This agreement is based upon a list of work estimated by the auditing department on a strictly engineering propostion and in many cases lies deep in the ground, yet this estimate has been allowed which affects the Emergency Fleet Corporation's interest retroactive to the beginning of the Emergency Fleet Corporation's interest at this plant and also applies to all future work. This is absolutely wrong, improper, and unbusinesslike, and something that would not be countenanced by any private corporation, and yet we find that it has been thought to spend Government money in a way that cannot possibly be right. It was made without use of data that had been collected by our representatives, and used all data which was wrong and which was known to be wrong by the records as indicated above and which was vital to the formation of a proper agreement to protect the Government's interest. It is to be regretted that the Fleet Corporation representing the Government allowed this contract to be made with a corporation that has been under observation by the District plant engineer and the auditing department with the knowledge of the departments above, substantiated by proof that they had to be recognized to the extent of taking from this corporation funds that had been improperly paid out. All this occurred before the agreement was signed and was known before said agreement was signed.

Then, in the next paragraph, he goes on to say that there is going to be a certain amount of "velvet" [reading]:

14. An examination to the effect of the agreement as far back as 6 months which is as far as it was carried by the auditing department showed from January to June 1920, that the New York Shipbuilding Corporation by its new agreement made an excess in what they would have made under their other contract which is binding an amount of $667,014.50 as "velvet." The details by months is as shown in statement attached marked "Exhibit B."

Then he goes on to say:

We believe from conservative estimate that the entire benefits of this new contract by the Fleet Corporation will amount to between $2,000,000 and $3,000,000 profit as "velvet."

Then he goes on to comment on the south yard, and there is this comment on the whole thing [reading from paragraph 17 of "Exhibit No. 1433"]:

> Our force at the New York Shipbuilding Corporation is reduced 71 percent at the present time. There is no doubt that this reduction was brought about by the apparent sinister influence of the New York Shipbuilding Corporation.

Mr. Parker, what do you remember about that contract and those conditions which had to do with the letter from the plant engineer which was just read? That says that the contract, of which I introduced a copy just a minute ago, showed that the excess carried on a 50-percent basis of overhead was $1,270,000 for the 11 months. Were you in on the making of that supplemental contract with the Emergency Fleet Corporation at all?

Mr. Parker. Not at all. I supplied figures to Mr. Neeland. I supplied a list of the various items in controversy, most of which were matters of opinion. I felt then, and I feel now, that the items that we claimed as proper elements of cost were proper elements of cost, and the fact that this would have led to long-drawn-out controversy led to a final settlement of the whole matter on a contract basis which in principle is fair and is the soundest type of cost-plus contract we have ever experienced.

Mr. Raushenbush. And is that the kind which you would like to enter into in another war, if we had one?

Mr. Parker. The kind of contract which is fair, and is the only type of cost-plus contract which is fair, is an agency contract where, as an agent for a principal, and subject always to the approval of the principal, disbursements are made only on such approval of the principal.

And the amount of fee allowed the agent for the work by the principal can be fixed, can be competitive, can be increased, can be subject to savings, in which the agent might participate. So that the inducement to do an efficient, economical job and gain thereby is always the incentive to doing a good job.

That was the principle on which this contract was truly based, except for the fact that the work had progressed to about 80 or 85 percent complete, and it may be that the fixed overhead, which, in a sense, is a fee based on direct labor, may have been too high, as the results turned out. Had it not been for that fixed overhead, in which the contractor no doubt participated, the actual costs might have been far in excess of that, because it gave the contractor an opportunity to control those factors of cost which were then within his own jurisdiction.

The question of an expenditure of $50,000 for a repair may many times save $150,000 in the actual direct cost of a ship.

To have that approved and included in cost where you have difference of opinion by engineers who are not familiar with the shipbuilding business, not familiar with the results of inadequate or inefficient apparatus, naturally leads to differences of opinion.

So that the best interests of both parties, the principal and the contractor, are served where that factor is not subject to controversy because of normal and natural differences of opinion.

So that in principle that type of contract is, to my mind, the fairest and most equitable type of cost-plus contract.

Mr. Raushenbush. That is very interesting, and I hope we can get back to it after a while, but, at the moment, I would like to finish up with this subject. We brought out yesterday that the Emergency Fleet Corporation had planned ahead of time that the $14,000,000 investment would be given back to you in a certain way, to avoid taxes, at the end of the war period, and that was done. You paid about $500,000 for it. Now I find them making a contract which, while it may have been right in principle, fixed a percentage of overhead, and did so without consultation with any of the staff, apparently, who had been on the ground, and added to the advantage of the company to the extent which the plant engineer there estimates between $2,000,000 and $3,000,000, and did it completely ignoring the staff you have described, who were constantly around there.

Yesterday in the testimony we found that the revenue people, when they finally got into this situation in 1926, and for various reasons decided to look into it, and found a whole host of things which nobody had found before.

On top of that, if we take the testimony the other day about it costing $60,000 to find a certain number of items, and take the testimony that at the outside altogether it would run up to $250,000,000 or so for a period of years, and we are confronted with the situation which raises a question as to whether when once expenses are paid, there is any real possibility of controlling them. Whether you make it on a split overhead basis or a straight cost plus or a cost plus fixed fee, wherever expenses are required to come in, whether it is really possible for a government to police them. Certainly 40 men were not enough.

How many more did you have yourself, working for the company, on those figures, in the whole auditing department, the whole accounting department?

Mr. Parker. Fifty to one hundred.

Mr. Raushenbush. You had 50 to 100, and the Government had 40, and yet, 10 years after it is over you still are faced with the same disputes about who was " gypped " and who was not " gypped." And then there are these charges of " stalling " on advice of your attorney, Mr. Parker, to sort of complete the picture.

I would like to put in a few more things, because our time is short.

Did you charge up to expenses, for instance, some royalties to a Dutch firm for Diesel engines which you never used? The resident auditor states that you so did in a letter dated January 14, 1920.

Mr. Parker. That is correct.

Mr. Raushenbush. I would like to offer that letter for the record.

(The letter referred to was marked " Exhibit No. 1434 " and is included in the appendix on p. 4872.)

Senator Bone. Mr. Raushenbush, I am not clear on one thing. Was this yard doing Government work exclusively during this period?

Mr. Raushenbush. Mr. Parker could answer that.

Mr. Parker. During the period 1914——

Senator Bone. Take it from 1917 to 1921.

Mr. Parker. I am sure you want the complete picture, Senator. From 1914 to 1916, due to the shortage of shipping, all private yards were filled with new construction because of shipping needs and the opportunity of profit, with the result that when we entered the war in 1917 we had contracts on the books, not yet undertaken, private contracts, that would utilize the capacity of that plant for a long period.

The Government, of course, under the extraordinary powers granted by Congress to the respective bureaus and division and agencies set up, commandeered the entire output of the plant, all contracts in process, materials, plans, and everything else. They went into that, making extensive changes to fit their particular purposes.

The merchant ships were changed to include foundations for armament, depth bombs, compartments for protection against submarine attack, mine-sweeping devices, camouflage, and all such things, which was all done at the direction of the Government, who had commandeered all our plans. They were private contracts, but were not completed as private contracts but were completed for the Government, under the Government orders.

It was those changes in the contracts, the requirement that they meet the Government demands, which brought about all of these various charges, both with the Navy and the Shipping Board, which led to such long controversies.

Senator Clark. Did they commandeer your private vessels on the ways, in the process of building?

Mr. Parker. They commandeered everything we had.

Senator Clark. They took them all over?

Mr. Parker. Yes, sir.

Senator Clark. You did some Chinese work during that period?

Mr. Parker. That was later, after the war.

Senator Clark. I understood you to say that your reason for charging part of the Chinese compensation against the Government was that by getting a Chinese tanker to construct——

Mr. Parker. Japanese.

Senator Clark. I understood you to say Chinese. I believe you charged part of the compensation to the Chinese and Japanese agents to the Government; and I understood that that was because of the Japanese agent getting a Japanese tanker to construct, and you had saved the Government part of the overhead.

Mr. Parker. That was correct.

Senator Clark. When was that?

Mr. Parker. To get that complete, we had, at the end of the war, November 1918, under way, 30 destroyers, we had contracts for 2 battleships, a battle cruiser, any number of troop ships then under construction, and all these contracts were on a cost-plus basis. The war ended in November 1918, and the need for the ships, except the naval vessels, was not felt, except for troop movement, and the Navy Department was pushing the construction of the destroyers as being the essential vessels and the battleships and battle cruisers, being long-term contracts, running over a period of 4 years, were not being pushed, because it did not appear that they could be completed to be in time to be of service.

The destroyers were completed under the terms of the original contract, and the troop ships for the Shipping Board were changed and converted into passenger and cargo vessels and became, eventually, the President type ships.

The troop accommodations, and various other features which were in the original plans and specifications were changed, and they were under a new contract and under new plans finished under the same cost-plus basis.

The battleships—the *Colorado* was approximately 75 percent complete, and the battleship *Washington* was probably 60 percent complete in 1922, long after the war, and, of course, were caught, along with the battle cruiser, in the Limitation of Arms Conference of 1922. The battleship *Washington* was canceled and the *Colorado* was finished. The battle cruiser *Saratoga* was changed to an airplane carrier. The armament and armor and various structural changes which were necessary to convert any such battleship cruiser to an airplane carrier were carried out over a period, and final delivery of that ship was about 1927. That was still a cost-plus contract.

In the period from 1920 to 1921, when this Japanese tanker for the Japanese Navy was constructed, that was also on a cost-plus basis, the inclusion of fees, commissions, and expenses of the Japanese representative, and overhead and administrative expense incident to the Japanese tanker, which reflected, as stated yesterday, a saving, since the total overhead of the plant was prorated to all production, and the overhead, which would otherwise have been charged to all other construction in process was, in part, borne by the Japanese vessel.

Senator Clark. Is it customary on all your cost-plus contracts to have the commissions to agents in other nations included?

Mr. Parker. We charge that to administrative expense, and administrative expense is prorated to all production. It is not charged to the ship, but charged to all ships and prorated on the actual production of the plant.

Senator Bone. Is that a standard form of accounting employed generally?

Mr. Parker. Yes, sir; so far as I know, in every ship-building plant.

Senator Bone. At the present time?

Mr. Parker. Yes, sir; so far as I know.

Senator Bone. Did you build and deliver anything in the nature of a 10,000-ton cruiser during that period?

Mr. Parker. No, sir; the 10,000-ton cruiser class was not in the picture until 1926.

Senator Bone. That was a later development?

Mr. Parker. Yes, sir.

Senator Bone. Was there anything equivalent to a 10,000-ton cruiser turned out?

Mr. Parker. After the contracts which we were ordered to build during the war, the battle cruiser and battle ships, after the Limitation of Arms Conference in 1922, there was no construction in which we participated, that is, no naval construction in which we participated, until we took over the Cramps contract after default.

Senator Bone. The battle cruiser was converted into an airplane carrier?

Mr. Parker. Yes, sir; completed as an airplane carrier, and the armor was removed, and all the other structure which was required to make it into a plane carrier.

Mr. Raushenbush. The whole difficulty in determining costs, apparently, still persists after the war, Mr. Parker. We have here a Treasury Department letter in which they were attempting to compute the cost of the *Idaho*. That was after the war a while, was it not?

Mr. Parker. The *Idaho* was under a contract and was about 40 or 50 percent complete at the time of the war, a battleship contract at the time of the war. We were instructed by the Navy Department to suspend construction on it and advance the construction of the destroyers, and for a long time the *Idaho* remained just tied up at the dock, without any work of any character being done on it.

Mr. Raushenbush. Apparently in 1926 the revenue agents went into this thing. I have a document here, and there are a great many pages which I want to put in, but there is just one paragraph to which I wish to call your attention.

They say [reading]:

> After a very careful study of conditions, viz., the system of bookkeeping and record keeping, the practices of the corporation, etc., it is the opinion of your examiners that it is an utterly impossible task to attempt to determine correct costs in connection with each contract. It is our unqualified opinion that even a large corps of men working for an indefinite time could not even approach accuracy. Thousands and probably hundreds of thousands of vouchers, labor tickets, store requisitions, etc., would have to be examined and reanalyzed, and the books all recast. During the war emergency the plant employed in the neighborhood of 22,000 men.

I would like to offer that for the record.

(The document referred to was marked "Exhibit No. 1435" and is included in the appendix on p. 4873.)

The Chairman. But there was no real effort made at that time to get away from cost-plus?

Mr. Raushenbush. There were many efforts made, but in 1926 they go back over the whole thing and find it cannot be done.

I have here a letter which I would like to offer for the record, being addressed to H. B. Robinson, head Consolidated Returns Audit Division.

(The letter referred to was marked "Exhibit No. 1436" and is included in the appendix on p. 4877.)

Mr. Raushenbush. That letter reads, in part, as follows [reading]:

> In the course of our examination of the records of the cost inspector of the Navy, we have noted that it has been the continued practice of the taxpayer to include everything possible in expenses (cost of construction of ships) regardless of whether or not they represented correct costs. We have also noted that approximately $1,037,000 has been disallowed as expense by the Navy Department on billings to it by the taxpayer; and the items composing this amount capitalized and depreciation allowed thereon. This necessitates the computation of voluminous detailed schedules of depreciation, spread over the years 1918 to 1921, inclusive. Of necessity, in connection with the Navy dealings with the taxpayer, separate schedules of depreciation have to be prepared for every month of every year.

They say here:

> We have been informed by the commander in charge of the Navy cost-inspection office that the corporation included in 1 month in the cost of construction of ships a dividend in the amount of $35,000.

Is that correct, Mr. Parker? Was the attempt made to charge a dividend on preferred stock into the cost of the Navy vessels?

Mr. Parker. It was charged to expense?

Mr. Raushenbush. Expense of the ship?

Mr. Parker. It was charged to the cost, the expense of which was prorated to all work, and a part to naval vessels.

Mr. Raushenbush. So that you were in a position of asking the Government to pay a certain part of your preferred-stock dividends?

Mr. Parker. Mr. Raushenbush, you may have read the first cost-plus contract with the Navy Department, in which there was a semblance of a definition of cost, which item provided that costs shall include all taxes. Yesterday it was brought out by your investigator of the Revenue Department that income taxes to the extent of some $300,000 were included.[1]

Mr. Raushenbush. $377,000.

Mr. Parker. When that contract was reviewed literally, where the contract said that the costs were to include all taxes, it was quite apparent to everyone eventually there was slight chance of the income taxes being allowed as an element of cost when the contract provided that costs should include all taxes.

Senator Bone. Who framed that contract on behalf of the Government?

Mr. Parker. The Navy did, and handed to us that contract.

Senator Bone. The Navy Department agreed to that in the contract?

Mr. Parker. The Navy Department prepared the contract and offered it to us to sign.

Senator Bone. And included in there an allowance of income taxes as a part of your overhead?

Mr. Parker. No, sir; all taxes.

Senator Bone. That is what I mean.

Mr. Parker. They did not specify income taxes.

Senator Clark. That includes income taxes.

Senator Bone. That is an all-inclusive term.

Mr. Parker. Under the literal wording of the contract it was absolutely necessary that we charge all taxes to cost.

Senator Clark. So that in your compensation the percentage on the total cost would be figured in and the taxes which were paid were also to be figured in the base, on which you were getting your percentage?

Mr. Parker. It was quite apparent to us, Senator, that that was a thing which could not stand, and would never be allowed by the Department, the Revenue Department, or anybody else, because income taxes were apparently aside.

Senator Clark. It certainly did not seem to be apparent enough to you to not make the claim. You made the claim, did you not?

Mr. Parker. We tried to present our costs as the contract provided.

Senator Clark. It was not sufficiently apparent to you that it would not be allowed to cause you not to make a claim and put up a fight for it?

Mr. Parker. We tried to follow the contract.

Senator Bone. On the theory that, being "nominated in the bond", you were going to exact your "pound of flesh"?

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[1] In this connection see letter from Secretary of the Navy to Senator Barbour, appendix p. 4939.

Mr. **Parker**. We were putting in everything in the contract provisions.

Mr. **Raushenbush**. Do you know whether the other shipbuilders tried that?

Mr. **Parker**. I really do not know.

Mr. **Raushenbush**. According to all the letters put in, the constant picture, if you want to comment on it, is that the shipbuilding company, at every time, in every way, has tried to increase its costs and has tried to get them up as high as it could, and fought with the revenue agents or anybody else over what the figures should be.

You will remember the whole discussion, trying to get figures on *Ways J*, for instance, and they felt they were being definitely held up, and every single attempt they could make in any way, to get an increased cost, was being made.

Senator **Clark**. Coming back to this contract, the effect of this contract, according to its construction which you assert that it says, Mr. Parker, is that the more taxes which were assessed against you, the more money you actually received from the Government.

Mr. **Parker**. That was a peculiarity of the contract.

Senator **Clark**. Yes, sir; very peculiar.

Senator **Bone**. In other words, if you took all your profits and charged them to operating expenses, your profits would be just that much greater?

Mr. **Parker**. That is what the contract provided.

Senator **Clark**. Would it mean that the profits would be figured as taxes were figured, in the base set-up for figuring your percentage?

Mr. **Parker**. It would be on the basis provided.

Senator **Clark**. That is the assertion which you made.

Mr. **Parker**. Which, of course, was apparent to us as being impossible, but required us to make the charge against the expenses, which the contract provided.

Senator **Clark**. That is all.

Mr. **Raushenbush**. I would like to offer a letter I have here, dated October 14, 1926, also addressed to Mr. H. B. Robinson, head Consolidated Returns Audit Division, for the record.

(The letter referred to was marked "Exhibit No. 1437" and is included in the appendix on p. 4878.)

Mr. **Raushenbush**. Mr. Freeman, who commented on that being so, did not have his advice heeded. And 3 years afterward, whoever was drawing these contracts had not been a bit more careful about these things, had they? You will say it was done in a war rush; and the Navy, who had to have these ships, had more or less acquiesced in this contract, but here is a contract signed by the Emergency Fleet Corporation, a supplemental contract, of July 27, 1920, and they are saying the same thing, and giving you the same opportunity.

Mr. **Parker**. From what you said of Mr. Freeman's comment, the war rush was small compared with when that was put through.

Mr. **Raushenbush**. Yes, sir; that seems to be the situation.

Senator **Bone**. Mr. Parker, has there been any discussion between your company and the Government respecting the nature of any contracts for building ships in the event of another war?

Mr. **Parker**. The only matter in that connection with which I have had any part was in the supplying of the commandant and the various naval officers with a record of the capacity and the available facilities in the event of a national emergency.

Senator Bone. But there has been no discussion between your firm and the Navy Department as to the type of contract to be followed in the event of another war?

Mr. Parker. None in which I have had any connection.

Senator Bone. So that all we have to guide us now is this lamp of experience which has been shining or burning very brightly here, to guide us in the event we wanted to make some suggestions to the Navy on the type of contract to be employed? Is that right?

Mr. Parker. I believe you are right, sir.

Senator Bone. If we went into a war tomorrow, we would not have any experience to guide us except the unhappy experience of the last war, because the Navy made the contract, permitting you to charge up as an operating expense all the taxes you had, including income tax. That is all the experience we have had.

Mr. Parker. That was provided in the contract.

Senator Bone. And the Navy Department of this Government prepared and sent down to you that type of contract?

Mr. Parker. Senator, in 1917 no one had had any great amount of experience in cost-plus contracts.

Senator Bone. Mr. Parker, I realize that we had not been through a world war before that time, but certainly no business man with intelligence would enter into that sort of contract, would he? You would not make that sort of contract with a contractor, would you, if you were in the position of the Government?

Mr. Parker. Senator, if I may be a little bit facetious, when we took the first Government contract for the cruiser *Washington*, which was our contract no. 14—it has been a long time ago—we submitted that contract in its form presented by the Department to our general counsel, who reviewed the contract and returned it to us with the comment that anybody who signed that contract was a fool. It is only through the wisdom of experience that you gain by these various contracts. We found that the attitude of the Department was fair, that the intent of the contract was carried out by both sides, and we had no penalties exacted that were severe and not contemplated between the parties in this contract, and we have entered into Government contracts ever since on a fair-minded basis.

Senator Bone. It was left in your hands to decide on the basis of fairness what was to be done in the matter of the payment of taxes, literally in your hands, was it not? In other words, the Navy had drawn a contract that literally delivered the Navy over to your concern, if you wished to enforce the contract?

Mr. Parker. Not at all. It could not be enforced. It was illegal in the first instance. That was recognized by everybody. You are a lawyer, and ought to know.

Senator Bone. It is perfectly legal for the Government to pay a certain amount for a ship.

Mr. Parker. Yes, but this was a cost-plus contract.

Senator Bone. The Government agreed to waive its rights, so far as taxes were concerned?

Mr. Parker. No; it was not waived. They cannot waive a right.

Senator CLARK. Do I understand, Mr. Parker, you say that under this contract you figured in the dividends on your preferred stock as a part of the expense?

Mr. PARKER. Under this contract, Senator, where our whole plant was commandeered by the Government, and where the whole activity of that plant was for the Government, either one division or another, the assumption was that all the costs of operation, including interest on borrowed money, bond interest, interest on bonds used for providing the working capital, or dividends on preferred stock, if preferred stock had been issued to provide working capital, were interest charges and such were included necessarily.

Senator CLARK. Do you mean if you wanted to be a good fellow and to declare dividends on preferred stock, the more money went into the treasury?

Mr. PARKER. It seems the interest on bonds is an element of cost, on which to determine cost, and is recognized by everybody.

Senator BONE. The Navy Department has made claims that to build ships in a public yard does not provide a fair comparison with private yards, because the private yards have to stand overheads which a public yard does not have. Apparently here you have not only charged in all the possible overheads in respect to such matters, with which any man knowing utility practices is familiar, but have charged in as overheads dividends on preferred stock, and the contract handed you by the Navy Department permitted you to charge off even income tax as an "overhead."

Mr. PARKER. That is the first contract, the second contract did not.

Senator BONE. The Navy prepared the contract, and yet the Navy has made the assertion that a public yard has an advantage over a private yard because the public yard does not have to carry taxes as an overhead. That argument won't hold water, will it, if you want to be fair about it?

Mr. PARKER. You are speaking of what will hold water under cost-plus contracts?

Senator CLARK. At least you do not have to charge up, in addition to the amount that the navy yard would have to pay in taxes, if it were a private yard. In this case, according to the theory under the contract, the Government not only gave you the taxes but also paid you for the privilege of having the right to assess taxes. In other words, you did not have to pay any of the tax, but you got 10 percent, or 20 percent, or whatever your commission above cost was, on the taxes which were assessed.

Mr. PARKER. We did not.

Senator CLARK. You claimed that was in the contract and tried to get it.

Mr. PARKER. We claimed that was in the contract and tried to get it, because that was provided in the contract.

Senator BONE. That was a contract drawn by the Navy Department?

Mr. PARKER. Right.

Mr. RAUSHENBUSH. Just one more question, Mr. Parker, in regard to this unusual supplemental contract of the Emergency Fleet Corporation, at the time when P. A. S. Franklin was a dollar-a-year man with the Fleet Corporation, and was also a member of your board. I notice, some years later, the company gave him the opportunity of purchasing a certain amount of treasury stock at $1. Is it true that that is the same stock that, a few months later, was given under option for $30? Do you remember the transaction, which we found in your minute books last night?

Mr. PARKER. I remember the transaction by which Mr. Franklin and Mr. Feeland were given some stock which had been reacquired by the New York Shipbuilding Co., but whether that was a part of the stock acquired later by L. R. Wilder and his associates in the American-Brown-Boveri Electric Corporation, I do not know.

Mr. RAUSHENBUSH. It was the same class of stock?

Mr. PARKER. There was only one class of stock.

Mr. RAUSHENBUSH. So that you were giving Mr. Franklin a reward, or tip, or whatever it is, for his services to the corporation, in the form of allowing him to buy treasury stock out of the treasury for $1, which, a little later, was worth, under option, $30. Is that not correct?

Senator CLARK. Is that the same dollar he got from the Government?

Mr. RAUSHENBUSH. One dollar a share.

Senator BONE. Is that the P. A. S. Franklin who was the head of a concern who bought a lot of ships from the Government at a low price?

Mr. RAUSHENBUSH. Yes, sir.

Senator BONE. What firm?

Mr. PARKER. International Mercantile Marine.

Senator BONE. They bought a number of ships which are now operating under mail contracts. Is that correct?

Mr. PARKER. I do not know, I believe so.

Mr. RAUSHENBUSH. You say that there was only one class of stock, so that the stock under option at $30 did go to him for $1?

Mr. PARKER. What he sold it for, or whether that was part of the stock which was optioned, I have no knowledge.

Mr. RAUSHENBUSH. You say there was only one class of stock?

Mr. PARKER. There was only one class of stock.

Mr. RAUSHENBUSH. A little later, American-Brown-Boveri Electrical Corporation was advertising stock at 77. Is that the same kind of stock?

Mr. PARKER. 77?

Mr. RAUSHENBUSH. Yes, sir; there is a circular of October 1925 referring to the stock being worth 77 on the market, the property and assets behind it worth 77.

Mr. PARKER. That is not the same stock.

The CHAIRMAN. The committee will be in recess until 10 o'clock tomorrow morning.

(Thereupon, at 12:22 p. m., a recess was taken until tomorrow, Wednesday, Jan. 23, 1935, at 10 a. m.)

INVESTIGATION OF MUNITIONS INDUSTRY

WEDNESDAY, JANUARY 23, 1935

United States Senate,
Special Committee to Investigate the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m. in room 357 Senate Office Building, pursuant to the recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee.

The Chairman. The committee will be in order. Mr. Humphreys.

TESTIMONY OF H. R. HUMPHREYS

ATTEMPTS TO INFLUENCE CONGRESS

(Witness was duly sworn by the chairman.)

Mr. Raushenbush. Mr. Humphreys, you were formerly connected with the New York Shipbuilding Co., were you not?

Mr. Humphreys. Yes, sir.

Mr. Raushenbush. For what years?

Mr. Humphreys. From 1918 to 1929, I think.

Mr. Raushenbush. Would you describe for the committee the various capacities in which you served the company?

Mr. Humphreys. I was engineer of the industrial service department. That is about the only title I think I ever had.

Mr. Raushenbush. During what years was that?

Mr. Humphreys. Well, of course, that has been a long while ago, but I think I became engineer the very last part, probably in December of 1918.

Mr. Raushenbush. And how long did you stay in that capacity?

Mr. Humphreys. I do not ever remember there being any change in it except that the details gradually diminished in that work as the shipbuilding program diminished.

Mr. Raushenbush. Did you not perform other functions for the company besides that of industrial manager?

Mr. Humphreys. Yes, unless you would class it as part of that work. I used to come down here to Washington once in a while for Mr. Neeland, when he was president of the company.

Mr. Raushenbush. Would you begin at the beginning of your Washington activities and follow them through as much year by year as possible, telling us rather fully and freely what you did down here for the company?

Mr. Humphreys. That would be rather difficult. I do not remember so much about it. I just came down here from time to time as the president of the company asked me to. We had large contracts here for which we had to collect the money and I came down here and sort of went around the Department and tried to hurry up the payment of the bills as much as I could. I sort of watched the papers, and things as bills were introduced which seemed favorable or unfavorable to the company, and sent them up there. When Mr. Neeland was down here I connected with him.

The CHAIRMAN. Who?

Mr. HUMPHREYS. Mr. Neeland who was president of the company. I do not think I came down here—I am pretty sure I did not—in 1918. I do not remember just when I started coming down here but I know it was not that early because for several years I was up there in the plant.

Mr. RAUSHENBUSH. I am only asking, Mr. Humphreys, about all the following years up to the time you left the company.

Mr. HUMPHREYS. That is what I referred to when I said what I was doing. You mean after Mr. Neeland resigned or was out of the picture?

Mr. RAUSHENBUSH. Yes; all the way through.

Mr. HUMPHREYS. I did the same thing while Mr. Bardo was president, only in a much smaller way. There was not so much to do.

Mr. RAUSHENBUSH. Won't you go over that a little, year by year, and tell us what you had to do in 1922, let us say, and bring it on up through the years.

Mr. HUMPHREYS. I am afraid I could not do that because I do not remember what years there were that I did anything special. There was not anything particular about it that I did except just what I have said. I mean, there was not any particular thing that I recall that I had anything special to do, other than what I have said. It was just in a very general sort of way.

Mr. RAUSHENBUSH. How much were you paid by the company for both salary and expenses during these years, let us say from 1921 on up to 1929?

Mr. HUMPHREYS. I would not know that. As I remember my salary, it was—some parts of the time it was $5,000, and afterwards it was reduced to $4,250.

Mr. RAUSHENBUSH. What I would like to get at would be the total per year with expenses.

Mr. HUMPHREYS. I would not know that. I have no record of that in any way. I never knew what the expenses were.

Mr. RAUSHENBUSH. You put them in as lump sums, for a long time, did you not?

Mr. HUMPHREYS. Lump sums?

Mr. RAUSHENBUSH. Yes, sir.

Mr. HUMPHREYS. No; it seems to me that I usually put them in by the week, or I do not think ever more than by the month.

Mr. RAUSHENBUSH. How much did the expenses amount to?

Mr. HUMPHREYS. I have not the slightest idea.

Mr. RAUSHENBUSH. Did the whole total you received from the company run about $10,000 a year? Can you say within $5,000 whether it was $10,000, $15,000, or what it was?

Mr. HUMPHREYS. I really cannot. I kept no record of them.

Mr. RAUSHENBUSH. You kept no record of them at all?

Mr. HUMPHREYS. Except they were expenses. Of course I kept record of my salary.

Mr. RAUSHENBUSH. You did keep a record of your salary. Do you think that was about $5,000?

Mr. HUMPHREYS. I have not any record of it now, but of course that was something that was regularly paid to me and I of course made a record of that.

Mr. RAUSHENBUSH. Did you ever go abroad for the company?

Mr. HUMPHREYS. I did not exactly go abroad for the company, but I recall they paid my expenses on two occasions, or part of my expenses, when they knew I was going abroad just for pleasure.

Mr. RAUSHENBUSH. What did you do for the company over there?

Mr. HUMPHREYS. The first time, as I recall, Mr. Neeland had been talking to somebody about a coal process, taking powdered coal and putting it into locks, or something like that, and these fellows had requested that he put some money into it, and Mr Neeland was very anxious to supplement the work of the shipyard, some of the idle buildings. He felt shipbuilding was sort of diminishing and he wanted to get them into some other kind of business. He was always trying something like that. He asked me, when I was over there if I would not inspect this plant which these fellows claimed was in operation successfully over there.

I just cannot recall where it was now, but I remember very well when I got there I found that the lumber for the building of the plant was the only thing that was on the job. There was no plant built or no plant in operation, and I think I cabled him, or wrote him something to that effect.

Mr. RAUSHENBUSH. What was your other trip?

Mr. HUMPHREYS. My other trip, as I recall, was later when Mr. Bardo was president, and he sent some papers down to the steamer for me to deliver to their interests in Baden, Switzerland, the Brown Boveri Co. of Switzerland. He knew I was going over there and he sent, as I recall, a large envelope of important papers that he wanted to get over there quickly.

Mr. RAUSHENBUSH. What did you do for the company when you were over there?

Mr. HUMPHREYS. I delivered those papers, and also they were having some difficulty about that; they had a lot of men over here who had not been able to get their families over here, or something like that, and they asked me if I would not call on, I guess it would be the consul, in Zurich, and ask him if there was not some way that those people could be let come over here for, as I remember it, it was something like 6 months' quota.

You understand I have been away from this company since 1929 and these things, which if I had kept in continuous employment with them, they probably would have kept in my mind, but I have not thought of these things since.

The CHAIRMAN. Mr. Humphreys, what has been your employment since 1929?

Mr. HUMPHREYS. I am a special agent of life insurance.

Mr. RAUSHENBUSH. Is that all you did for the company on that trip? When was that; in 1926? Did you bring over Swiss to work for the company?

Mr. HUMPHREYS. I did not bring them over, but I just simply went there and asked the consul if there was not something which could be done to expedite it, and he said he would fix it, or had fixed it—I forget which—and some of those people afterwards came over. That is all I did, sir. I was traveling with my wife and little girl.

Mr. RAUSHENBUSH. In a letter which I ask you to look at, addressed to Mr. Bardo, apparently dated the second of June 1926, you refer, apparently, to this matter of getting Swiss to come over here and work, and there seemed to be some difficulty about this, did there not? You say: "My personal relationship to a United States Senator did the trick."

Mr. HUMPHREYS. You say I referred to that in this letter?

Mr. RAUSHENBUSH. On the second page.

Mr. HUMPHREYS. I have not gotten to it here yet, but I know what I meant by that was that usually, when a stranger goes into a person's office, or a foreign office like that, you might have some difficulty, a day or two, to get a hearing, but when he knew that I happened to be the son-in-law of a former Senator—not a Senator—he immediately granted me an audience. That is all that amounted to.

Mr. RAUSHENBUSH. Why did this company want to have these Swiss come over here and work?

Mr. HUMPHREYS. They were over here.

Mr. RAUSHENBUSH. They were over here?

Mr. HUMPHREYS. Oh, yes.

Mr. RAUSHENBUSH. Were you not getting visas for new families to come over?

Mr. HUMPHREYS. No; these men refused to stay over here, as I remember, unless their wives could come over, or something like that; and the company over here wanted these men to stay here for 2 or 3 months longer, or something like that, and as I understand it, it was perfectly legal and everything. It was just a question of not being able to get the O. K.

Mr. RAUSHENBUSH. Do you know in what capacity those Swiss were employed over here when they finally did come over?

Mr. HUMPHREYS. You mean any that got over under that?

Mr. RAUSHENBUSH. Yes.

Mr. HUMPHREYS. No; I never knew who came on, if any came. In fact, I question if any did come, because it seems to me it was shortly after that that there was the break-up and they gave up the contract. But, as I understand it, they were not any employed. They were to be—like I see in this letter it refers to a Mrs. Looser. Here husband was in America on business and she and the children wanted to join him. That was, as I understood the whole thing; what it was. He was unhappy over here and refused to stay unless his family were permitted to come over.

Mr. RAUSHENBUSH. You did bring over about 200 Swiss at the time, did you not?

Mr. HUMPHREYS. You mean the wives and children?

Mr. RAUSHENBUSH. No; the working group.

Mr. HUMPHREYS. They were all over here prior to my going over, as I understood it. I did not know very much about it. It was all brought up to me suddenly as I was about to sail, or something like that.

Mr. Raushenbush. I will offer that letter of June 2, 1926, as an exhibit.

(The letter referred to was marked "Exhibit No. 1438" and is included in the appendix on p. 4879.)

ACTIVITY IN GENEVA IN 1926

Mr. Raushenbush. Did you get to Geneva in the course of this visit?

Mr. Humphreys. Geneva?

Mr. Raushenbush. Yes. That is in Switzerland.

Mr. Humphreys. Yes; I know. I am just wondering whether I did on that particular trip. I went to Zurich and from Zurich to Lucerne. Yes; we went to Geneva for about 2 days.

The Chairman. That was in 1927?

Mr. Humphreys. I do not know the year, sir.

Mr. Raushenbush. That letter is dated in 1926. Did you make another trip in 1927?

Mr. Humphreys. I might have, but if I did, it had nothing to do with the company. I do not recall whether I went over in 1927 or not.

The Chairman. What business would take you to Geneva?

Mr. Humphreys. Just because my wife had not been there and we wanted to see the buildings of the League of Nations.

The Chairman. And you did see them?

Mr. Humphreys. Yes, sir.

The Chairman. You visited there 2 days?

Mr. Humphreys. I think 2 days only; and then went on to Paris.

The Chairman. Did you have any friends in Geneva?

Mr. Humphreys. I think I saw a friend of mine there. Yes.

The Chairman. An American?

Mr. Humphreys. Yes.

The Chairman. Who was it?

Mr. Humphreys. Admiral Long.

The Chairman. A. T. Long?

Mr. Humphreys. Andrew Long.

The Chairman. Andrew Long?

Mr. Humphreys. Yes, sir.

The Chairman. Was there a conference on at that time in Geneva?

Mr. Humphreys. I do not know whether it was on then or whether it had been on and was over. I want to say, since that has come up, that the New York Shipbuilding Co. had in no way ever asked me to see, or knew that I knew Andrew Long. I had met him years ago here in Washington, and I just happened to run into him there one morning at breakfast, and it had nothing to do with New York Ship. New York Ship never asked me. I cannot recall now whether I even asked him anything about the doings of the session, or anything, or whether it was on or not.

The Chairman. Did he volunteer any information concerning the prospects?

Mr. Humphreys. That I do not recall. In our conversation I may have, as I probably would say to anyone when you are naturally over there and interested in things, in general, how they were getting along, or something like that, but there certainly was no business connected with it in any way, or any intention on my part to do it.

The Chairman. Did you encounter any other acquaintances while you were at Geneva besides Admiral Long? First, what did you understand Admiral Long's capacity at Geneva to be?

Mr. Humphreys. I think he was one of a delegation, was he not?

The Chairman. The American delegation?

Mr. Humphreys. The American delegation. Senator, if I may say so here, because this is going on the record, I am too good an American to have ever attempted to say anything for any company or for any amount of money, or anything else, to attempt in any way to try even to influence Admiral Long or anybody else about anything to do away with war, stop war, bring on war, or anything else.

The Chairman. We understand that your interest, then, was rather one of hoping that there might be agreement accomplished at Geneva, that would bring about disarmament, or some degree of it?

Mr. Humphreys. That would be my personal wish. Yes. I certainly had no thought of doing anything opposed to any such thing as that. I do not recall now just what it was they were doing, I mean that particular year, just what they were doing, because I thought that was all fixed until this year.

The Chairman. Suppose you had gotten to Geneva and found Admiral Long, or any others, indicating that there was very large prospect for an agreement whereby there would be large disarmament on every hand, would you have felt that that was a matter to report to your employers in New York?

Mr. Humphreys. I would have felt it, not with the idea of influencing it in any way, but that probably I should, being over there, tell them the true state of affairs, in order that they might trim their sails accordingly. I mean by that, that they should not get themselves committed to big purchases of steel, maybe, and they should not build new buildings, or something like that. Of course, I did not know what they did.

The Chairman. Did you report in that manner to the company?

Mr. Humphreys. I do not remember whether I did or not.

The Chairman. What did you find to be the situation there at that time?

Mr. Humphreys. As I recall, there was a kind of disagreement on the part of some of the rest of them—Senator, you know this has been a good many years ago and I was on a pleasure trip, but, as I remember it, they said they were just kind of not getting anywheres, as I remember it.

The Chairman. I asked you something and then we were diverted from it. What other acquaintances did you meet at Geneva besides Admiral Long?

Mr. Humphreys. I have been trying to think ever since you asked me the question, and I do not remember another person.

The Chairman. Do you know Mr. Shearer?

Mr. Humphreys. No, sir. Never saw Mr. Shearer, and, as long as we bring Mr. Shearer up, I never knew—and yet I was employed at the time by the New York Shipbuilding Co.—I never knew that Mr. Shearer was in any way connected with the New York Shipbuilding Co., or any other shipbuilding interests. All I know about it was in the papers, after I had left New York Ship in 1929. I had never heard of Mr. Shearer. Certainly Mr. Bardo or no one else connected with the company had ever asked me what I thought of him, or whether it was a good thing to hire him or not, and if they had I would have told them "no", because I am dead opposed to anything of that kind. And I was certainly very thankful that my name was not brought into the thing at that time because I would have hated to have my name connected with anything which was unpatriotic to my country.

I have never seen Mr. Shearer and would not know Mr. Shearer if I ran into him today.

The CHAIRMAN. Where did you encounter Admiral Long while you were there?

Mr. HUMPHREYS. I think I was eating breakfast, or he was eating breakfast. That is the way it seems to me. I just happened to run into him. I did not know he was there.

The CHAIRMAN. Did you have breakfast together?

Mr. HUMPHREYS. I think we did, but I am not sure of that.

The CHAIRMAN. Were you alone, you two, at breakfast?

Mr. HUMPHREYS. Yes, I do not think my wife and little girl were with me. It is all kind of hazy.

The CHAIRMAN. I wish you would try to recollect how, if at all, the subject of the disarmament conference was approached at that time. What was said about it?

Mr. HUMPHREYS. I think all there was was that I just kind of ran into him, and I certainly did not know he was there, either in the city or in the hotel or anywhere else. I happened to run into him and naturally, knowing him—this would only be supposition—I asked him what he was doing over there and he told me, and I said, "How are you getting along"? And he told me as I remember it, just what I said before, that they were not getting along very good. There were other countries that were all pulling apart and, therefore, they were not getting anywhere. That is as I recall it.

The CHAIRMAN. Did you consider Admiral Long an authority on the status of the question there at that time?

Mr. HUMPHREYS. I supposed he knew what he was talking about. That is all.

The CHAIRMAN. Did you report you conversation with Admiral Long to any of your employers?

Mr. HUMPHREYS. I am not sure on that. I may have in writing home, or something, may have sent them word. That certainly could not have been any different than what I am telling you now, unless my recollection is entirely wrong.

The CHAIRMAN. As a matter of fact, you found while you were there, did you not, that the cause of disarmament in that conference was rather hopelessly lost?

Mr. HUMPHREYS. Just from what he said; yes. I did not make any effort to investigate anywhere else to find out what the status was. We were there on a pleasure trip, and after I said good-bye to him we went on our way, and I never paid any more attention to it.

The CHAIRMAN. Are you able to recollect whether you encountered others besides Admiral Long at that time on your visit to Geneva?

Mr. HUMPHREYS. I cannot recall anyone else. I might have, but I cannot recall anyone else.

The CHAIRMAN. Mr. Humphreys, I hand you a letter, written in your own hand, evidently, written on June 7, 1926. [Handing paper to witness.]

Mr. HUMPHREYS. That happens to be my birthday.

The CHAIRMAN. This letter was addressed to Mr. Bardo. [Reading from "Exhibit No. 1439":]

> DEAR MR. BARDO: The yard has nothing to worry over anything drastic being done at the Disarmament Conference now being held at Geneva.
>
> I stopped off and saw some of my friends there last week.
>
> Suppose you received my cable and letter.

What is the next name there?

Mr. HUMPHREYS. It looks like "Baden." That is where I visited to deliver this letter.

The CHAIRMAN [continuing reading]:

> Baden advised me today Mrs.——

What is the next word?

Mr. HUMPHREYS. Mrs. Looser. That is the lady I referred to in the former letter who wanted to bring her husband over.

The CHAIRMAN [continuing reading]:

> Mrs. Looser had——

Is that "actually"?

Mr. HUMPHREYS [reading]:

> actually received her visa.

The CHAIRMAN [reading]:

> Very truly yours, Harry R. Humphreys, 6/7/26.

Then the letter states at the bottom:

> Suggest treat Geneva information as confidential. My source is dependable.

Does this awaken any recollection of your visit at Geneva at that time?

Mr. HUMPHREYS. Nothing more than what I have said. I had nothing more to base it on in any way.

The CHAIRMAN. What do you think would be the occasion of anything you might learn at Geneva that would be a cause for worry for your home friends?

Mr. HUMPHREYS. Well, as I said before, I thought with contracts they might be wondering whether they should place orders for steel, maybe, and maybe orders for all kinds of materials that entered into it. And if they knew there was not going to be any change in things, they could go ahead and do so. I do not know—the natural inclination of a man who had been in business would be that. They did not ask me anything about it. There was nothing mentioned about Geneva before I left there; and, of course, I had no thought of ever running into Admiral Long or anyone else, and I am sorry I have to bring his name into it here now, because he is a very wonderful fellow.

The CHAIRMAN. Admiral Long did indicate to you at that time that it was not likely that there was going to be agreement on the disarmament question, did he?

Mr. HUMPHREYS. Just to the contrary. He said that these other countries were all pulling apart, and they were left in the middle and could not get anywhere. I think he would have liked to have done it. He acted as if he wanted to bring about disarmament, but he said they could not get anywhere with it.

The CHAIRMAN. I will offer that letter for the record.

(The letter referred to was marked "Exhibit No. 1439" and appears in full in the text.)

Senator VANDENBERG. Do you think Admiral Long gave you any information he would not give to any other citizen?

Mr. HUMPHREYS. No, sir.

Senator VANDENBERG. Then why the importance of keeping it confidential?

Mr. HUMPHREYS. Just because Admiral Long is a personal friend of mine—I had met him officially and personally—and I did not want him to get any publicity over it, and I certainly regret having to put it in here now, because he has had a very honorable career.

Senator VANDENBERG. A statement like this, "my source is dependable", sounds like more than casual information, does it not, to you, as you look back on it now?

Mr. HUMPHREYS. I may be a poor one in the choice of words.

Senator VANDENBERG. In other words, did you not think you were giving Mr. Bardo some pretty important information—some pretty important inside information?

Mr. HUMPHREYS. Not inside information. I think it was important information. I would not have bothered him with it if I had not thought that.

Senator VANDENBERG. Why would it have been any embarrassment to Admiral Long to say, "I saw Admiral Long, and we chatted about the conference, and he said they were not getting anywhere"? What embarrassment is there in that to Admiral Long?

Mr. HUMPHREYS. Those things get out, as a rule. It might not have embarrassed him; but I felt I did not want to mention his name, that is all.

Mr. RAUSHENBUSH. As far as you know, Mr. Humphreys, did any other citizens of the country, outside the shipbuilders, know as far back as 1926 that the situation was such that the shipbuilders had nothing to worry about from the Disarmament Conference?

Mr. HUMPHREYS. I do not know about anybody else. I do not know whether it had been sent to America by the newspapers. I suppose the newspapermen were around there; they were able to get the same information I was.

Mr. RAUSHENBUSH. You do not know whether that was in the newspapers or not—that the American delegation could get nowhere and that there was nothing to worry about—until 1926?

Mr. HUMPHREYS. I did not see it.

Mr. RAUSHENBUSH. The conference did not take place until 1927, did it?

Mr. HUMPHREYS. I do not recall now. I do not remember the dates at all. I could not have told you what year I was there, if you had not shown me the letter.

Mr. RAUSHENBUSH. Let the last two letters be entered with the proper numbers.

We have here a letter from Mr. Bardo to Brown Boveri Co., Ltd., Baden, Switzerland, presumably the letter being for you to take over there, saying [reading]:

> This will introduce to you Mr. Harry R. Humphreys, etc.

I show you a copy of his letter [handing paper to witness].

Mr. HUMPHREYS. I did not see that letter.

Mr. Raushenbush. In the course of it he says:

> As Mr. Humphreys will explain to you, it will probably be possible without trouble to obtain the necessary permits for the families of Baden men to enter this country; but the matter has become somewhat complicated as apparently the American consul general in Zurich has told you that he refused to grant visas to Mr. Looser's family. Mr. Humphreys is of the opinion, and we quite agree with him, that the best thing will be to take the case of Mr. Looser's family first and try to settle it, after which a precedent will have been established, which will make it simpler for future families to come across. I have informed Mr. Humphreys of the whole history that lies behind the question of visas, and I would be obliged to you if you will give him such further information as he may need before he visits the consul general in Zurich.

That certainly seems to look as if you had talked the matter over with Mr. Bardo about the visas before you left.

Mr. Humphreys. Is not that letter dated the same day I sailed?

Mr. Raushenbush. May 21. I do not know when you sailed.

Mr. Humphreys. When I talked to Mr. Bardo I was going to sail, he did mention something to me about these things, but he did not say anything about this letter. He said he was sending some papers, and I thought they were drawings. They were in a sealed envelope and I did not open it and did not know what was in there. But Mr. Bardo and I did talk about it probably a week before, when I said I was going.

Mr. Raushenbush. It was not a matter of giving the letters to you on the boat at the last minute, was it?

Mr. Humphreys. I got the letters the last minute. Mr. Bardo is here and probably he can tell you what was in the envelop. It was that thick. [Indicating.]

Mr. Raushenbush. I want to enter that with the proper number.

(The letter referred to was marked "Exhibit No. 1440", and is included in the appendix on p. 4879.)

ATTEMPTS TO INFLUENCE CONGRESS

Mr. Raushenbush. When you came back to this country here, what did you proceed to do for the company?

Mr. Humphreys. I do not think I did anything else than what I said before, just whatever happened to come along they wanted me to do.

Mr. Raushenbush. Is it not true that what you did was to come down to Washington and do everything that you could to see that the cruiser bill went through at the time, and that the private shipyards got as much of that building as they possibly could? Is not that a fair statement of what you tried to do?

Mr. Humphreys. I imagine that is a fair statement, because we had to fight for our rights as against the navy yards. The navy yards were doing all they could to get this work. The private shipbuilders had to do what they could to get their share of it.

Mr. Raushenbush. I hand you a memorandum dated December 10, 1926, from Mr. Bardo, asking that a brief be prepared for your use on the allotment of cruisers to the private yards, rather than the navy yards.

We find here in December, the 26th of December 1926, that you were reporting on the 10-cruiser bill before the House of Representatives.

The CHAIRMAN. Are these written from Washington?

Mr. RAUSHENBUSH. The letterhead is "The Willard" Washington.

Mr. HUMPHREYS. Yes; these apparently were.

Mr. RAUSHENBUSH. I will ask that those letters be entered in the record with the proper number.

(The documents referred to were marked "Exhibits Nos. 1441 and 1442" and are included in the appendix on p. 4880.)

Mr. RAUSHENBUSH. You say there that the—

> bill will be reported unchanged from the committee today and an accompanying report and a resolution for the Rules Committee to enable the House to pass on H. R. 15415 this session will be printed so I can send them to you tomorrow.

On the second page there is something about new construction, but I cannot make out the next word.

Mr. HUMPHREYS (reading):

> There is some money for new construction outside of the Navy—which will be available for new large ships for the Coast Guard as soon as bill which has passed both Houses comes from conference and is signed by the President.

That is a fair sample of part of my duties, to report on things like that.

Mr. RAUSHENBUSH. Here is a wire of January 8, 1927, to Mr. Bardo from yourself [reading]:

> Will continue effort in Senate to secure additional cruisers appropriation.

That is what you were doing down here, is it not?

Mr. HUMPHREYS. Yes, sir. That is the kind of thing.

Mr. RAUSHENBUSH. I will ask that that be entered and given the proper number.

(The telegram referred to was marked "Exhibit No. 1443" and appears in full in the text.)

Mr. RAUSHENBUSH. Here is a letter dated the 15th of January 1927, which I show to you [handing paper to witness]. Is that how you helped get those bills through?

Mr. HUMPHREYS. No, sir. I am explaining why I am staying down here and these names which are mentioned here were all ladies who were friends of my wife, who is now deceased. They were all personal friends of hers.

Mr. RAUSHENBUSH. That letter, I might state, is from Mr. Humphreys to Mr. Bardo. Why did you find it important to tell Mr. Bardo how many prominent Senators' and Representatives' wives your wife was entertaining? Is that part of the "social lobby" we hear about, Mr. Humphreys?

Mr. HUMPHREYS. I do not know, sir. My wife knew these ladies through her association with them for many years, and she never mixed politics or business with her social affairs, so far as I know.

Mr. RAUSHENBUSH. Did you?

Mr. HUMPHREYS. Did I?

Mr. RAUSHENBUSH. Yes.

Mr. HUMPHREYS. Not with these ladies anyhow.

Mr. RAUSHENBUSH. I will ask that that letter be appropriately numbered.

(The letter referred to is marked "Exhibit No. 1444" and is included in the appendix on p. 4881.)

Mr. RAUSHENBUSH. I show you a letter from yourself to Mr. Bardo, dated January 17, 1927, and ask you if that refreshes your recollection? [Handing paper to witness.]

Mr. HUMPHREYS. You know sometimes the salesmen will attempt to bolster up his case.

Mr. RAUSHENBUSH. Don't tell us these letters are all "sales talk", Mr. Humphreys. You do not really mean that, do you?

Mr. HUMPHREYS. I do not mean that altogether, but it has its effect.

Mr. RAUSHENBUSH. You were getting paid a good deal of money for this work down here. We have some checks of yours here. They are not complete at all but there is one here for $8,000. What period would that cover?

Mr. HUMPHREYS. I tell you I do not know about that, but——

Mr. RAUSHENBUSH. That was back in 1925.

Mr. HUMPHREYS. That was the time when Mr. Neeland was president.

Mr. RAUSHENBUSH. 1925?

Mr. HUMPHREYS. Yes, sir. He always explained to me they could not pay me much of a salary, but from time to time, as they did with other employees, they gave bonuses. I helped him out a lot when he was in bad health, and he always told me he certainly was appreciative of what I did, and could not pay me a salary, but whenever these bonuses were being given out that he would get that through for me easier than he could a larger salary.

Mr. RAUSHENBUSH. Then how much did your total in bonuses amount to? Maybe my other question was not complete.

Mr. HUMPHREYS. I do not know that. I knew at the time, of course, at the end of the year, and reported them.

Mr. RAUSHENBUSH. Did you get any more of these big $8,000 bonuses at one crack?

Mr. HUMPHREYS. No, sir; I think that is as big a one as I ever got.

Mr. RAUSHENBUSH. I wonder if you could go over your accounts and tell us that? The company does not seem to be able to do it.

Mr. HUMPHREYS. No, sir; I have no accounts. I never kept any record of those things. What I am trying to say is that I did at the end of the year, of course, keep a record of something like a bonus, and my salary, and reported it, and that is all there is to it.

Mr. RAUSHENBUSH. Did you have any other income except from this company?

Mr. HUMPHREYS. Some, yes. A part of the time I also had some income from my previous savings, and I had some income from my insurance work.

Mr. RAUSHENBUSH. So that these contributions from the company are not the bulk of your income?

Mr. HUMPHREYS. Yes; I would say that they are the bulk but not entirely.

Mr. RAUSHENBUSH. This letter which I have just showed you of the 17th of January 1927, again tells the story of watching these naval appropriation bills very closely and following them through; how they get along in the Senate and the House conferences, and all the rest.

Mr. HUMPHREYS. Is that the one I have here. I do not see any date on it.

Mr. RAUSHENBUSH. Yes, sir.

Mr. HUMPHREYS (examining letter). The 17th of January 1927.

Mr. RAUSHENBUSH. I will offer that for appropriate number in the record.

(The letter referred to was marked "Exhibit No. 1445" and is included in the appendix on p. 4881.)

Mr. RAUSHENBUSH. Was this while the disarmament conference was going on?

Mr. HUMPHREYS. Sir?

Mr. RAUSHENBUSH. Were all these letters, when you were actually getting your cruisers for the private companies, at the same time the disarmament conference was going on?

Mr. HUMPHREYS. That I do not know.

Mr. RAUSHENBUSH. I would like to know that.

Mr. HUMPHREYS. This disarmament conference was going on?

Mr. RAUSHENBUSH. Yes, sir. I think in 1927.

Mr. HUMPHREYS. You mean going on on the other side?

Mr. RAUSHENBUSH. In Geneva; yes, sir.

Mr. HUMPHREYS. I do not know.

Mr. RAUSHENBUSH. I think that is so. I would like to enter that with the proper number, as I have said.

Now on the same date, January 17, 1927, you wired Mr. Bardo as follows:

> Senate appropriation committee recommends million two hundred thousand three additional crusiers.

I would like to enter that for appropriate number.

(The telegram referred to was marked "Exhibit No. 1446" and appears in full in the text.)

Mr. RAUSHENBUSH. Now you wired Mr. Bardo on January 28, 1927, as follows:

> I am to have a conference with members of House Naval Affairs Committee tomorrow morning at 10 in reference to the Cramp situation and am therefore unable at this time to tell you if they will want you to come down soon. Conference arranged too late to write you.

What were you doing with relation to the Cramp situation?

Mr. HUMPHREYS. That is just what I am wondering. Is that the time when the Cramp people fell down on their contract and it was a question of the committee wanting the New York Ship to take it over?

Mr. RAUSHENBUSH. Did the House committee express itself to that effect?

Mr. HUMPHREYS. I do not know.

Mr. RAUSHENBUSH. You said the committee wanted New York Ship to take it over.

Mr. HUMPHREYS. I do not know whether the Committee did, but it seems to me—that is very hazy in my mind—but it seems to me that the Cramp Co. failed about that time, did it not?

Mr. RAUSHENBUSH. Yes; it did, about that time.

Mr. HUMPHREYS. And I think the Navy Department, or somebody, wanted the company to take it over. I am not sure of that. I am very hazy on that.

Mr. RAUSHENBUSH. I will ask that that letter be entered.

(The telegram referred to was marked "Exhibit No. 1447" and appears in full in the text.)

Mr. RAUSHENBUSH. Here is a letter dated February 4, 1927, to Mr. Bardo from yourself, which reads:

> The Navy Department are moving with extreme caution on account of the Harriman-Cramp-bond holdup combination so as not to enable those interested to put the blame for a breach of contract on the Government, I am informed today by most reliable and informed source.

Do you remember who that source was?

Mr. HUMPHREYS. I have not the slightest recollection of that.

Mr. RAUSHENBUSH. I would like to offer that for the record.

(The letter referred to was marked "Exhibit No. 1448" and is included in the appendix on p. 4881.)

Mr. HUMPHREYS. I do not remember much about that Cramp situation.

Mr. RAUSHENBUSH. Then you were writing Mr. Bardo again on the same day, the 4th of February 1927, as follows:

> Thought you might hear of a bill reported for relief of Bethlehem and of an estimate sent in by the President for additional appropriations for Navy. The former also applies to us. Those notes given the Government which contractors may now pay and secure a discount. The letter is explained by a report enclosed.
>
> The Naval Appropriations Conferees are meeting today now in session; will not in all probability agree or disagree to the Senate amendments until next week.

I ask that that be appropriately entered in the record with a proper number.

(The letter referred to was marked "Exhibit No. 1449" and appears in full in the text.)

Mr. RAUSHENBUSH. How many members of the committees there were you in active touch with during these years?

Mr. HUMPHREYS. Active touch? I was not in with any of them, but I attended all the hearings, and consequently I got to know all the members.

Mr. RAUSHENBUSH. Here is a letter about the same date, Sunday the 9th. The photostat is rather hard to read, but I will show it to you. It is from you to Mr. Bardo and reads [reading]:

> Dear Mr. Bardo: I warned Congressman Begg, whip of the House——

Mr. HUMPHREYS. Warned him?

Mr. RAUSHENBUSH. Is not that "warned"?

Mr. HUMPHREYS. I cannot read it here. I cannot imagine warning Congressman Begg of anything.

Mr. RAUSHENBUSH. That is what we are interested in. Try it on this copy. [Handing another document to witness.]

Mr. RAUSHENBUSH. Would you read it out loud from that copy, Mr. Humphreys?

Mr. HUMPHREYS (reading):

> I warned Congressman Begg, whip of the House on Wednesday, after Black of N. Y., Democrat, in speaking in favor of appropriation for the three cruisers tried to make a monkey out of Coolidge, that if such policy was not stopped and something done to offset that speech by some prominent Democrat, we would lose the fight in the House.

I do not know what that is about. [Continuing reading:]

> He assured me no one paid any attention to Black.
>
> The enclosed article by that great reporter, George Rothwell Brown——

He used to write a column for the Washington Post—

> hits the nail square on the head.

Do you want me to read it all?

Mr. RAUSHENBUSH. I wish you would.

Mr. HUMPHREYS (reading):

> Had a talk with Senator Edwards then, Sunday morning. He was attending a banquet at Atlantic last night. I suggested to him that he not only not make Coolidge the issue, speaking straight to the necessity for the appropriation for three more cruisers now for purpose of national defense, but also try to keep all the other Democratic Senators from making Coolidge the issue, in all of which he heartily concurred.
>
> The bill will come up tomorrow at 10:30 before the Senate Appropriations Committee and will be reported to the Senate later in the week at a time not yet determined.
>
> Very truly yours,

I do not recall what that is all about.

Mr. RAUSHENBUSH. I will offer that letter for appropriate number.

(The letter referred to was marked "Exhibit No. 1450" and is included in the appendix on p. 4882.)

Mr. RAUSHENBUSH. In an earlier letter, "Exhibit No. 1449", you pointed out the President's suggestions for additional appropriations for the Navy. That seems to be the point, not to make Coolidge the issue on it. Is not that the point?

Mr. HUMPHREYS. I do not remember about it at all.

Mr. RAUSHENBUSH. In February, when we think the Disarmament Conference was still on, you wrote another letter, this time to "Dear Walter." Do you remember who Walter is?

Mr. HUMPHREYS. No; but if I see the letter perhaps I can tell.

Mr. RAUSHENBUSH. Perhaps you better read the first part of that.

Mr. HUMPHREYS. I think that was the name of Mr. Neeland's secretary.

Mr. RAUSHENBUSH. Would you read the first part of that letter aloud, please?

Mr. HUMPHREYS (reading):

> Am going to Washington tomorrow again. Will be at Willard if you want me. Will attend the Saturday hearing. Have a lot of missionary work to do on Navy appropriation bill, and other bills in which we are interested.

(The letter referred to was marked "Exhibit No. 1451" and is included in the appendix on p. 4882.)

The CHAIRMAN. What is the "missionary work"?

Mr. RAUSHENBUSH. What missionary work?

Mr. HUMPHREYS. Missionary work.

The CHAIRMAN. What do you mean by "missionary work"? You say you have a lot of missionary work to do on the naval appropriation bill?

Mr. HUMPHREYS. I suppose just going around and talking to different Members and asking them about it or putting our case up to them.

Mr. RAUSHENBUSH. Are you sure that letter was addressed to that particular secretary you mentioned, or to one of the Senators to whom you are related?

Mr. HUMPHREYS. To whom I am related, did you say?

Mr. RAUSHENBUSH. Are you not?

Mr. HUMPHREYS. Me related?

Mr. RAUSHENBUSH. Are you not related to some Senator?

Mr. HUMPHREYS. No.

Mr. RAUSHENBUSH. Or former Senator?

Mr. HUMPHREYS. Yes; he was not in the Senate at that time.

Mr. RAUSHENBUSH. His name was not Walter?

Mr. HUMPHREYS. No sir. May I just there say that I have had both a father-in-law in the United States Senate and a brother-in-law in the United States Senate. At no time when my father-in-law was in the Senate, or since 1929, when my brother-in-law was a Senator, did I ever as much as come into Washington for a day. I even steered away from Washington when my brother-in-law took his seat, which almost broke my heart, as I did not want to do anything which would make it appear I was doing anything when I had a relative here.

Neither when my brother-in-law or father-in-law were in the Senate, was I ever in Washington.

The CHAIRMAN. Coming back to the issue in that letter, describe to the committee what you mean by "missionary work."

Mr. HUMPHREYS. Just like, for instance—I do not remember just what this was on. Let me see. [Examining letter.]

If we had a contract on which we were dependent, and the men of our yard, for a lot of the appropriations to continue that contract, I would attempt to see them to say that we needed that money to keep our yard going at different times.

Mr. RAUSHENBUSH. Here on March 3, 1927, just before the close of that Congress, you were wiring Mr. Bardo—and I show you that wire:

> President signed both bills naval appropriation including extra cruisers and *Saratoga* increase working hard to slip through filibuster money for latter.

Is that one of your ships, the *Saratoga*?

Mr. HUMPHREYS. Slip through?

Mr. RAUSHENBUSH. (Repeating):

> Slip through fillibuster money for latter.

Mr. HUMPHREYS. There was a fillibuster on, and they were working very hard trying to get them to agree to let up on the filibuster for a minute so that we could get money through to keep the contract going. It would have cost the Government a tremendous amount of extra money if we had not got the money through, because to hold up the contract until the next session of Congress would have cost the Government millions. It was not all in the interest of the shipyard that I worked down here for appropriations.

Mr. RAUSHENBUSH. What happened?

Mr. HUMPHREYS. I do not recall, but I think they raised the fillibuster for about 5 minutes.

Mr. RAUSHENBUSH. And did put it through? Is that your memory?

Mr. HUMPHREYS. Yes, sir.

Mr. RAUSHENBUSH. What missionary work did you have to do which called for setting aside the filibuster for 5 minutes to pass the naval appropriations?

Mr. HUMPHREYS. Senator, you know from all your multitudinous duties, that you cannot keep tab on everything going on down here, and, if I said to you, "Will you give me 5 minutes to tell you the real importance of this thing?", after you listened to it and got the real details of the thing, you would say, "I understand that, and I will stand on that and will help you on it."

That is what I call "missionary work" that is all there is to that.

Mr. RAUSHENBUSH. I offer that wire of March 3, 1927, for the record.

(The telegram referred to was marked "Exhibit No. 1452" and appears in full in the text.)

Mr. RAUSHENBUSH. I show you another letter dated April 13, 1927, from yourself to Mr. Bardo, and ask you for an explanation about the second paragraph. [Handing paper to witness.]

That letter reads in part. [Reading:]

> The paragraph the Secretary of the Navy refers to in his letter to our men' contained in the appropriation bill, we beat in the House, and could have beaten in the Senate, but when it was learned I was going to do so, Senator Hale, chairman of the Senate Naval Affairs Committee, and Mr. Rowser (?) the representative of the Navy Department, told Senator Edge, "to do so would beat the bill entirely and to eliminate it except to apply to repair work done would cause the Senators who favored the navy yards, to kill the bill, and as it is a practical impossibility to make definite and binding bids on the part of the navy yards, we need have no cause to be alarmed on these cruisers." Both Senators Edge and Edwards appealed to me to let it go and I then went to Senator Hale in the presence of Mr. Rowser and told him I wouldn't keep up the fight with the understanding we would be protected. We had other things besides the cruisers to not fight the Navy Department uselessly and just had to take our chances. I didn't tell any one that, of course, I wanted to keep every one under obligation to us. You will note Senator Edge in his letter of yesterday to you, copy of which he sent to me, refers to these informal bids by navy yards in his second paragraph referring to his letter to Secretary Wilbur. No other of the shipyards protested so far as I have been able to learn against the paragraph referred to by the Secretary of the Navy. I was not depending on either Edge or Edwards for the one Senator who would have killed the amendment.

Could you explain just what happened there?

I do not want to insert the third paragraph of the letter at all.

Mr. HUMPHREYS. Thank you very much.

Mr. RAUSHENBUSH. Could you explain what you mean there: "we beat in the House." What was it that you beat in the House, and you would have beaten in the Senate but when it was learned you were going to do so you got this other information?

Mr. HUMPHREYS. It is all very hazy to me, but I can imagine what it referred to. We had a big shipyard at Camden, and I imagine I got hold of the New Jersey delegation in the House and explained the situation to them and asked them if they would not put up a fight, and probably they did.

Mr. RAUSHENBUSH. The expression "we beat in the House" does not mean so much the New York Ship as somebody else?

Mr. HUMPHREYS. I would take it that meant there our New Jersey delegation; yes, sir.

Mr. RAUSHENBUSH. Then how do you explain the rest of it, "but when it was learned I was going to do so"—you were going to beat it?

Mr. HUMPHREYS. I suppose that was just a loose expression.

Mr. RAUSHENBUSH. Were you acting for any one besides the New York ship at this time?

Mr. HUMPHREYS. Down here?

Mr. RAUSHENBUSH. Yes, sir.

Mr. HUMPHREYS. No, sir.

Senator CLARK. Now were you going to "beat it" in the Senate?

Mr. HUMPHREYS. Senator, as I said earlier, I have not been connected with this work for so many years, and a lot of it is very hazy to me now that would have been probably clear if I had kept on continuous in the work, and when these things come up now, it has passed out of my mind.

Senator CLARK. Was it a common practice for you to be able to "beat" things in the Senate, so much so that it would not cause any impression on your mind?

Mr. HUMPHREYS. Will you repeat that?

Senator CLARK. Was it a common practice for you to be in a position to defeat measures in the United States Senate, as in this particular case where you say you were in a position to beat it, that it did not make any impression on your mind so as to be able to remember the dates?

Mr. HUMPHREYS. I was never able to "beat" anything in the Senate.

Senator CLARK. It says there that you felt you were going to be able to beat it.

Mr. HUMPHREYS. I suppose what it means is that the committee, or whoever were working against it in the House, were going to beat it, and that they did not want the bill beaten entirely.

Senator CLARK. You say:

> The paragraph the Secretary of the Navy refers to in his letter to our men, contained in the appropriation bill, we beat in the House, and could have beaten in the Senate; but when it was learned I was going to do so, Senator Hale, chairman of the Senate Naval Affairs Committee, and Mr. Rowser the representative of the Navy Department, told Senator Edge, "to do so would beat the bill entirely and to eliminate it except to apply to repair work done would cause the Senators who favored the navy yards, to kill the bill * * *."

In other words, you were certainly holding yourself out as not only being able to beat the measure but Senator Hale and the representative of the Navy Department thought you were in a position to do it.

Mr. HUMPHREYS. I think that was a foolish use of "I."

Senator CLARK. Maybe that is another one of the "sales letters" about which we have heard so much.

Mr. RAUSHENBUSH. Mr. Humphreys, in the course of that letter there is a sort of understanding referred to that you would not keep up the fight if you had an understanding that you would be protected. That means that when this cruiser bill went through, that the private yards would get their share, does it not?

Mr. HUMPHREYS. I would take that from it to mean that. I do not know.

Mr. RAUSHENBUSH. I will offer that letter for the record.

(The letter referred to was marked "Exhibit No. 1453" and is included in the appendix on p. 4883.)

Mr. RAUSHENBUSH. I show you a letter or rather a telegram, addressed to the Secretary of the Treasury by the secretary of the New York Ship Building Corporation, dated April 15, 1927, and ask you if that is not along the same lines [handing paper to witness]?

It states in part:

> On April 5th we submitted bids for 2 scout cruisers out of 6 to be constructed the understanding was that this construction would be done by three remaining private yards. Acting in good faith and on this assumption, we expended large sums of money in preparation for this work.

They had also found out about a year ago from you that nothing happened at the disarmament conference, so that that is part of "acting in good faith", is it not [continuing reading]?

> Very unexpectedly the Department announced after opening bids that Mare Island and Puget Sound Navy Yards have submitted estimate for one each of these cruisers.

And the rest of the wire goes on to explain why those bids should be given to the private yards.

That was the understanding, was it not, that you would drop this fight in the Senate, which you thought you could win, on the understanding that the private yards would get the work, and you thought the Navy was double-crossing you in some way on that understanding?

Mr. HUMPHREYS. Of course, I did not write this letter from the secretary to the Treasury Department, and I do not know what other understanding somebody else connected with the company might have had. I cannot speak for what they meant by their understanding.

Mr. RAUSHENBUSH. I will offer that letter in the record for appropriate numbering.

(The telegram referred to was marked "Exhibit No. 1454" and is included in the appendix on p. 4883.)

Mr. RAUSHENBUSH. Were the other officers of the company down here at that time trying to get this legislation through?

Mr. HUMPHREYS. That I do not know.

Mr. RAUSHENBUSH. Do you remember any meetings down here with them, or did you handle the legislative work all by yourself?

Mr. HUMPHREYS. I do not recall on that particular piece of legislation at that particular time. I do not know even who was president of the company at that time. Do you know? Do you know the date when Mr. Bardo came in?

Mr. RAUSHENBUSH. Wilder was president.

Mr. HUMPHREYS. It must have been just about the time when Mr. Wilder became president, because when he became president I did not have anything to do with things down here very much.

Mr. RAUSHENBUSH. You do not know, you testify, then, what the understanding was that the New York Ship Building Co. had in the matter?

Mr. HUMPHREYS. No, I do not.

Mr. RAUSHENBUSH. You so testify?

Mr. HUMPHREYS. I cannot testify to it.

Mr. RAUSHENBUSH. There is a letter here which I show you, dated the 23d of October 1927, addressed to Mr. Bardo, which I will ask be appropriately numbered.

(The letter referred to was marked "Exhibit No. 1455" and appears in full in the text.)

Mr. RAUSHENBUSH. That letter reads in part as follows:

> The crowd at Washington feeling I could do a lot for them in helping to put through sale of ships at tomorrow's session of the Shipping Board kept the wires hot between Washington and my home yesterday and today urging me to go to Washington today and see several people.

What crowd was that? Do you remember?

Mr. HUMPHREYS. I do not remember that at all.

Mr. RAUSHENBUSH. These things do not seem to have left a very lasting impression.

Mr. HUMPHREYS. May I see the letter and maybe I can recall.

Mr. RAUSHENBUSH. Yes, sir [handing paper to witness]. Perhaps you better read the whole letter. That is the only photostat we have.

Mr. HUMPHREYS. At that particular time my mind was very much befuddled anyhow. This was the 23d of October 1927, and I had other troubles than this. My wife had just passed away, and I had a pretty heavy load on me.

Mr. RAUSHENBUSH. Will you read it out loud. It is the only copy I have.

Mr. HUMPHREYS (reading "Exhibit No. 1455":)

> The crowd at Washington feeling I could do a lot for them in helping to put through sale of ships at tomorrow's session of the Shipping Board kept the wires hot between Washington and my home yesterday and today urging me to go to Washington today and see several people. I knew the value to the shipyards of getting the lines out of the hands of the Government but as four of the Commissioners are opposed to the sale I felt even if I converted someone—let alone if I failed that it might hurt A. B. B. (American Brown Boveri) Co. in dealings with the Board on the proposition about which I know nothing except the papers seem to be full of it. So I regretted my inability to aid them unless I had your permission to do so and I tried in every way to reach you without success. Should the sale be postponed tomorrow for later in the week I will appreciate it if you will advise me at Racquet Club, Washington, D. C., where I go tomorrow, if you want me to aid them, as I have always worked along with their crowd which includes representatives of the shipyards who are on the job and in this case also the Senators and Representatives from the West Coast States particularly the new Senator from Oregon.
>
> Very truly yours.

I do not recall a thing at all about that. This letter was evidently written from my home.

Mr. RAUSHENBUSH. You were back and forth a good deal, were you not?

Mr. HUMPHREYS. Yes; but not so much, as I say, after Mr. Wilder became president. I had very little to do down here.

Mr. RAUSHENBUSH. The letter refers to keeping the wires "hot."

Mr. HUMPHREYS. They kept the wires hot, not me.

Mr. RAUSHENBUSH. Well, you listened. What advantage would there be to the private yards in the sale of Government vessels, to which you referred in that letter? Do you remember that at all?

Mr. HUMPHREYS. As I remember that, if they could get the vessels sold to private companies, then there was a feeling that with that competition withdrawn, that there would be more ship building; that the private companies would start to build more new ships.

Mr. RAUSHENBUSH. Is that all you remember about that?

Mr. HUMPHREYS. Yes. I do not recall that. I did not go down there and did not have to do anything, if I did.

Mr. RAUSHENBUSH. Do you remember this: On the 31st of December 1927 you were writing Mr. Bardo as follows:

> Dear Mr. Bardo: I have assurances from most responsible people that the matter you object to will be satisfactorily taken care of.

Do you remember that at all, what that whole story was about?

Mr. HUMPHREYS. No; I do not.

Mr. RAUSHENBUSH. Do these few letters which we have shown you refresh your memory at all as to what you really were doing here further, in any other respects, which you perhaps want to tell us about now, Mr. Humphreys?

Mr. HUMPHREYS. No; I think my first statement covers what I was doing, and all I did down here. I never did anything else. I kept tabs on everything that I thought was of interest either for or against the company.

Mr. RAUSHENBUSH. More than "keeping tabs." You were taking credit for beating amendments in the House and promising to do so in the Senate, were you not?

Mr. HUMPHREYS. And then conferring with Members afterward and trying to get them to see it our way. That is all there was to it. I think every business man has to do that.

Mr. RAUSHENBUSH. And you testified a moment ago that there were no other officers of the New York Ship Building Corporation down here engaged in these same matters at the time?

Mr. HUMPHREYS. No; I do not think I testified to that. I said I was not sure whether there were any down here at the time.

Mr. RAUSHENBUSH. When did your employment with New York Ship end?

Mr. HUMPHREYS. I think it was in 1929.

Mr. RAUSHENBUSH. Who was your successor?

Mr. HUMPHREYS. I do not know. I did not know that I had a successor. It seems to me they told me they could not afford to have anybody down here any more, and some agency or something was going to handle it, for all the companies, or something like that. I am not quite sure.

Mr. RAUSHENBUSH. I will offer the letter of December 31, 1927, for the record, with appropriate number.

(The letter referred to was marked "Exhibit No. 1456", and is included in the appendix on p. 4884.)

Mr. RAUSHENBUSH. We have here a letter dated December 10, 1928, addressed to you.

Mr. HUMPHREYS. What date?

Mr. RAUSHENBUSH. December 10, 1928, addressed to you at the Racquet Club, Washington. That letter reads in part:

> Dear Harry: Yours of the 7th, enclosing expense account received. Same has been passed for payment.
>
> I note that you are now prepared to devote all of your time when not needed in Camden or Trenton——

By the way, were you doing work at Trenton for the company at the capitol of New Jersey?

Mr. HUMPHREYS. If they would have a bill which they wanted to get through up there, or something detrimental, I would take up something like that there, the same as I did here.

Mr. RAUSHENBUSH. The same as in Washington?

Mr. HUMPHREYS. Yes.

Mr. RAUSHENBUSH (continuing reading):

> I note that you are now prepared to devote all of your time, when not needed in Camden or Trenton, at Washington for at least the balance of the session. What we are most interested in now is the defeat of the Dallinger amendment to the cruiser bill, * * *.

What was that?

Mr. HUMPHREYS. I am not sure, Mr. Raushenbush, but I think it was to put all the work in the navy yards. Mr. Dallinger, as I remember it, was always trying to put all the shipbuilding work in the navy yards.

Mr. RAUSHENBUSH. Do you remember whether it was all or half of it?

Mr. HUMPHREYS. He was always trying to put it all there.

Mr. RAUSHENBUSH (continuing reading):

> and this is being handled by Mr. H. G. Smith, vice president of the Bethlehem Company—

That is another one of the big shipbuilding companies, is it not?

Mr. HUMPHREYS. Yes, sir.

Mr. RAUSHENBUSH (continuing reading):

> although Mr. Ferguson—

Who is Mr. Ferguson?

Mr. HUMPHREYS. I do not know, unless it is Mr. Ferguson, the president of Newport News.

Mr. RAUSHENBUSH (continuing reading):

> and I have devoted some time and have interviewed a substantial number of Senators on the matter.

Is that the president of Newport News?

Mr. HUMPHREYS. I do not know. It might be. That is Mr. Bardo's letter to me.

Mr. RAUSHENBUSH (continuing reading):

> We are working in Washington with Messrs. Frank A. Lord, Hotel Blackstone., and James Barnes, who has an office on the sixth floor of the Albee Building You no doubt know them both. I suggest that you keep in close touch with them, so that our cooperation may be complete.

Do you not know that these two men were employed by New York Ship to take up where you left off?

Mr. HUMPHREYS. Who?

Mr. RAUSHENBUSH. Lord and Barnes.

Mr. HUMPHREYS. No, I do not know that because I paid no attention to it. When I was free there, I did not pay any more attention to what they did or what was going on.

Mr. RAUSHENBUSH. I will offer that letter for the record for appropriate number.

(The letter referred to was marked "Exhibit No. 1457" and is included in the appendix on p. 4884.)

Mr. RAUSHENBUSH. Coming back a minute to your payments, there is a letter here dated February 20, 1928, from Mr. Bardo to you, which reads as follows:

> FEBRUARY 20, 1928.
>
> Mr. HARRY R. HUMPHREYS,
> *Hotel Carlton, Washington.*
>
> DEAR MR. HUMPHREYS: In order to comply with requirements of our accounting department, it will be necessary that future expense accounts be detailed instead of a lump sum, as has been your practice heretofore.
>
> I can explain this to you when I see you again.
>
> Very truly yours,
>
> C. L. BARDO, *Vice President.*

(The letter referred to was marked "Exhibit No. 1458" and appears in full in the text.)

Mr. RAUSHENBUSH. Does that mean that up to February 1928 you had been getting payments in lump sums, without itemizing what they were spent for?

Mr. HUMPHREYS. Yes, sir; I never made out any detailed accounts.

Mr. RAUSHENBUSH. We were having some testimony the other day as to the difficulty on the part of the company getting up such a statement, and perhaps this is an explanation.

Do you think that the testimony you have given, Mr. Humphreys, so far completes the picture of what you did for New York Ship while you were employed representing it here in Washington?

Mr. HUMPHREYS. Yes; I do.

Mr. RAUSHENBUSH. The matter dealt with specifically the attempts to get more cruisers, did it not, and to get them put in the private yards? Did you also have activities in connection with the Jones-White bill?

It was largely on the cruiser business?

Mr. HUMPHREYS. As I said before, we had these contracts, and a good bit of time was devoted to trying to get paid for the contracts we had. It was not a question of getting more contracts. We had the contracts, and it was trying to be sure that we got enough money appropriated, and after we got it appropriated to get the money.

Mr. RAUSHENBUSH. There is a good deal more to it than that, is there not, Mr. Humphreys? Most of the correspondence we dealt with here pertained to getting the cruiser bills through and getting the ships put in private yards. Is not that what most of it was about?

Mr. HUMPHREYS. Most of the correspondence seems to be that way, but most of the work seems to me to be the other way. However, that is a fair picture of what I did.

Mr. RAUSHENBUSH. Did you attribute your employment to all your political connections at the time?

Mr. HUMPHREYS. My employment to my political connections?

Mr. RAUSHENBUSH. Yes, sir.

Mr. HUMPHREYS. No, sir; it had nothing to do with it.

Mr. RAUSHENBUSH. Did you attribute the fact that you were relieved in favor of other people to their political connections?

Mr. HUMPHREYS. No.

Mr. RAUSHENBUSH. With a change of administration?

Mr. HUMPHREYS. No; I thought it was an effort to economize.

Mr. RAUSHENBUSH. Mr. Chairman, I have no further questions at the moment to ask this witness.

The CHAIRMAN. Senator Clark, do you have any questions?

Senator CLARK. No, sir.

The CHAIRMAN. Mr. Humphreys, you may understand yourself excused.

Mr. HUMPHREYS. Thank you very much, Senator.

(Witness excused.)

The CHAIRMAN. Before calling the next witness, Mr. Raushenbush, will you make clear to the committee the status of our effort to accomplish the appearance here of Mr. Cord?

Mr. RAUSHENBUSH. Mr. Chairman, a few days after the New York Ship was invited to appear, in a letter dated I think January 2, 1935, Mr. Cord was invited to appear some time next week. I forget the exact date at the moment. His attorney, Mr. Pruitt, informed us that he was out of the country and could not appear, but that the information requested from Mr. Cord would be presented by Mr. Manning, the vice president of the Cord Corporation, who is scheduled to appear next week.

A letter was then sent to Mr. Pruitt, asking when Mr. Cord might be expected to return to the country, so that the committee might be on notice if they wanted him as a witness, and the reply was that the date of his return could not be determined at the time.

Senator Clark. That is the same fellow who flew away when the Black committee wanted him, is it not?

Mr. Raushenbush. I believe so.

The Chairman. Is Mr. Pruitt here?

Mr. Raushenbush. Yes, sir.

The Chairman. Are you Mr. Pruitt?

Mr. Pruitt. Yes, sir.

The Chairman. What can you advise the committee concerning the likelihood of Mr. Cord's return?

Mr. Pruitt. I notice an article in one of the newspapers this morning, which I think was a very unfair statement of the situation. It said that Mr. Cord was absent when the Black committee was looking for him, and was now absent again, when this committee was looking for him.

Senator Clark. That is a fact, is it not?

Mr. Pruitt. As a matter of fact, he was here in the United States continuously in the months of January, February, and March, when the Black committee was in session, and was never asked to appear. He was sent numerous questionnaires and answered them, and never at any time was asked to appear before the Black committee. He was in California at his home, and received threats that his children were about to be kidnapped, and he got into quite a nervous condition, as one would naturally under the circumstances, and decided to take a long vacation.

He went across to England and had his boat sent over there, and came back for a few weeks in September and October, and about the middle of October went over there again and is going on around the world.

Mr. Cord has business interests in various places besides the United States, including an air line in Australia, I believe.

The Chairman. Are we to understand that Mr. Cord has not been in this country since October?

Mr. Pruitt. He has not been in this country since about October 5, and the last time I heard anything from him he was in Genoa, Italy, and it is my understanding that he was going on his boat through the Suez Canal and down to Australia, and would be back here sometime around about June 1, I think, but I have no definite information, as I advised Mr. Raushenbush.

But he certainly is not outside the United States because of any activities of this committee, because I am quite sure he would be glad to appear here and tell you everything he knows—which is very little—about the New York Ship Building Corporation.

Mr. Raushenbush. May we have Mr. Bardo?

The Chairman. Mr. Bardo.

TESTIMONY OF CLINTON L. BARDO

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Mr. Bardo, of course, you understand that a certain measure of protection is yours against self incrimination by reason of your appearance and testimony before the committee.

Are you prepared and willing to waive any immunity that might be yours by reason of that constitutional provision?

Mr. BARDO. I do not know. That is a brand new question. I really do not know what the import of that all may be. I am here prepared to give any testimony that I can with respect to the inquiry.

The CHAIRMAN. I am going to submit for your consideration, Mr. Bardo, a suggested form of witness waiver. You may have a few minutes to consider it there.

(Thereupon a short recess was taken, after which the proceedings were resumed as follows:)

The CHAIRMAN. I think it would be very unfair, unless you are prepared to make up your mind now on this matter, to force you to do so, and if you want to consider it during the day and come back tomorrow morning and advise us your choice in the matter, we would be glad to accommodate you.

Mr. BARDO. I was just discussing it with Mr. Pruitt, and trying to find out what it all means. I am frank to say that in all my experience in any investigations, that I have never been asked to do this and been submitted this kind of a document, and I am not sure what its implications are.

Senator BARBOUR. I think you are quite right, Mr. Bardo. I think you should not be expected certainly to assume a position which you do not understand, and we want to give you that opportunity, and I am sure the Chair will agree with me.

The CHAIRMAN. I suggest that you do that if you wish.

Mr. BARDO. I will say very frankly, for the benefit of the committee, that I have got nothing I would want to conceal, and nothing that I would be apprehensive about, so far as any testimony that I might give before this committee, relating to the investigation, is concerned. I have no apprehensions as to that.

Senator BARBOUR. On the other hand, you do not want inadvertently to do something, being a layman like myself, that you might not know the full significance of.

Mr. BARDO. At this later period of my life I do not want to put myself in a position of doing something without knowing what it means.

The CHAIRMAN. Certainly. The committee appreciates the position you are in, and the Chair suggests that you take it under advisement and make yourself more conversant with the situation and report here tomorrow morning at 10 o'clock.

Mr. BARDO. I would be very glad to do that.

Mr. RAUSHENBUSH. I would like to have Mr. Langell.

TESTIMONY OF CHARLES J. LANGELL—Resumed

PREPARATION OF ESTIMATES

Mr. Raushenbush. Mr. Langell, you are the estimator for the New York Shipbuilding Corporation?

Mr. Langell. Yes, sir.

Mr. Raushenbush. How long have you served the company in that capacity?

Mr. Langell. Since November 1903, except for 2 years.

Mr. Raushenbush. Will you roughly outline for the benefit of the committee exactly what you do when you are told to estimate on a ship for the United States Navy?

Mr. Langell. The Government advertises, taking cruisers as a typical ship, and send us type plans and specifications. Those plans and specifications are distributed to the hull department, the engine department, and to the electrical department in the yard. Those departments get out the amount of material and quantities of the various articles that go into the proposed ship. Those quantities are sent to me.

In the meantime, those same departments write out to various people who supply the material for the ship, or who are supposed to if we get the contract, and those replies all come to me.

I figure out the cost of the material, and estimate the labor to complete the ship, and that is as far as I go.

I might say that the electrical department do furnish their estimate complete for labor and material.

Mr. Raushenbush. Your job, then, are we to take it, consists of supervising the estimate of the various departments under you for the hull and the machinery and the machinery engineering?

Mr. Langell. I have no jurisdiction over those people at all. I just have my own little department, five of us.

Mr. Raushenbush. And you figure out the price of steel and the price of labor and arrive at a figure which represents, then, as we take it, the actual cost as far as you can determine, and the labor that is going to be put on, on the ship?

Mr. Langell. The probable cost.

Mr. Raushenbush. The probable cost, as far as you can determine, or as accurately as you can. Is not that right?

Mr. Langell. Yes, sir.

Mr. Raushenbush. And what material is going into it?

Mr. Langell. Yes, sir.

Mr. Raushenbush. So that your estimate takes in, so far as those two elements, material and labor, go, everything that will complete the ship up to the point of the armament. Is that right?

Mr. Langell. Up to what point?

Mr. Raushenbush. Putting on the armament.

Mr. Langell. No; we install that, too.

Mr. Raushenbush. You install that, too?

Mr. Langell. Yes, sir; we install the armament.

Mr. Raushenbush. Is that included in your estimate for bidding?

Mr. Langell. We put what we think is going to be the cost to install it in our estimate.

Mr. RAUSHENBUSH. But not the cost of the material for the armament?

Mr. LANGELL. No; that is furnished by the Government.

Mr. RAUSHENBUSH. The Government furnishes the armament?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. So that your estimates are for the total material and the total labor and cost of installing the armament, but not including the armament?

Mr. LANGELL. Yes, sir

Mr. RAUSHENBUSH. So that when you get through estimating all added expenses of determinable kind, the ship is complete except what the Government is going to add by way of material for armament? Is not that right?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. Now, in 1927, you were called upon, I take it, to prepare estimates for the no. 26 to no. 31 classification of ships?

Mr. LANGELL. Right; yes, sir.

Mr. RAUSHENBUSH. Do you have before you the estimates you made at that time?

Mr. LANGELL. I think you have it.

Mr. RAUSHENBUSH. We have them but if you have got them, read them off.

Mr. LANGELL. I have not the detail.

Mr. RAUSHENBUSH. I do not want the detail but the summary for material and for labor.

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. These were light cruisers; class 26 to 31.

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. Will you read off the estimate you made for material and the estimate you made for labor and the total of those two?

Mr. LANGELL. The material amounted to $4,170,065. The labor was $3,780,115. I have not got them totaled. I would have to total that up.

Mr. RAUSHENBUSH. That totaled together is $7,950,000?

Mr. LANGELL. That is right, $7,950,180.

Mr. RAUSHENBUSH. And $180.

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. Shortly thereafter the company, did it not, made a bid for one of the cruisers at the rate of $10,815,000?

Mr. LANGELL. Right.

Mr. RAUSHENBUSH. There was a difference there between your estimate and the bid of $2,854,820. Can you explain to the committee the difference and what happened there, or what was the allocation for the difference, the point of the difference?

Mr. LANGELL. I hand this material and labor over to Mr. Bardo, and he prepares the bid. I have nothing whatever to do with the bid, in any way, shape, or manner.

Mr. RAUSHENBUSH. Your whole function in the situation is simply to estimate, as accurately as you can, the amount of material and the cost of labor going into that, and then the whole thing from that point on is beyond your handling, you say?

Mr. LANGELL. Absolutely.

Senator CLARK. You figure out how much it will actually cost, and somebody else figures out how much the traffic will stand. Is that it?

Mr. LANGELL. As I say, I have nothing whatever to do with the bid.

Mr. RAUSHENBUSH. Those cruisers, Mr. Langell, were later on designed for by the Marine Engineering Corporation, concerning which Mr. Metten testified the other day?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. Before these bids were put in, did you have any information from the estimators of the other shipbuilding corporations as to about what figures they were arriving at?

Mr. LANGELL. Not a thing.

Mr. RAUSHENBUSH. Not in the least?

Mr. LANGELL. No, sir.

Mr. RAUSHENBUSH. Later on, in 1929, you prepared another estimate for the 1929 cruisers, the class 33 to 35, the *Indianapolis* and *Portland*?

Mr. LANGELL. Right.

Mr. RAUSHENBUSH. Will you summarize your estimate for the material and labor?

Mr. LANGELL. The material was $3,950,000 and the labor $3,223,000.

Mr. RAUSHENBSUH. And the total would be what?

Mr. LANGELL. $7,273,000. Is that right [making computation], $7,173,000?

Mr. RAUSHENBUSH. $7,173,000 for the total labor and materials, and how much was the bid of the company?

Mr. LANGELL. $10,903,000.

Mr. RAUSHENBUSH. And the difference between your estimate and the bid was how much?

Mr. LANGELL. I have not got it figured out.

Mr. RAUSHENBUSH. $3,730,200. That difference between your estimate and the bid was a good deal higher than it was in the earlier year, was it not?

Mr. LANGELL: Apparently so.

Mr. RAUSHENBUSH. Here you have in 1929 a difference of $3,730,000, and 2 years before you had only a difference of $2,854,000. There is almost $1,000,000 difference.

Let me call your attention to the fact, Mr. Langell, that your estimate in 1927 was a good deal higher than your estimate in 1929. It was higher by roughly $700,000 plus, and yet your bid was $100,000 higher instead of lower in 1929, and the difference there between your estimate and your bid is almost $1,000,000 in those 2 years.

Can you give us any help in explaining that?

Mr. LANGELL. No; I cannot. It is not my bid.

Mr. RAUSHENBUSH. It is not your bid at all. It is your estimate. Did you have any knowledge of what the estimates of other companies were in 1929?

Mr. LANGELL. Not the slightest.

Mr. RAUSHENBUSH. I want to show you a photostat taken from the Iron Age of January 3, 1935, showing your prices during those years, Mr. Langell, for structural shapes at Pittsburgh, cents a pound, and I want to read them off and see how they check with your own experience on prices of steel at that time. I seem to have only two copies of this steel exhibit, structural shapes at Pittsburgh, cents a pound, and I call your attention to that line showing roughly that in 1927 they were 1.83 cents a pound, and in 1928, 1.87 cents, and 1929 1.92 cents.

Steel seems to have been higher in 1929 than in 1927, and yet your estimate on material is a good deal lower in 1929 than in 1927. It is almost $200,000 lower.

The prices go on: 1930, 1.69 cents; 1931, 1.62 cents; 1932, 1.57 cents; 1933, 1.63 cents; 1934, 1.78 cents.

Do those check with your experience on the price of structural-steel shapes?

Mr. LANGELL. Yes; I would say they do, but reference to my detailed estimates there will show exactly what I did use.

Mr. RAUSHENBUSH. Can you find that quickly in your detailed estimate?

Mr. LANGELL. I think I can, if you will show it to me for a minute. This is 1927 which I am looking at.

Mr. RAUSHENBUSH. You are looking at 1927?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. Which consists of three volumes, does it not?

Mr. LANGELL. Yes, sir. Mild-steel plates, I figure at 2.32.

Mr. RAUSHENBUSH. That included freight, however, did it not?

Mr. LANGELL. That included freight and also a differential for the Government material, which at that time I think was one-tenth of a cent. I think that is what it was.

Mr. RAUSHENBUSH. Would that differential for Government materials stay all the way through, so that your figures will be comparative throughout the year, freight plus the Government differential of one-tenth of a cent, so that we can get fairly good comparison?

Mr. LANGELL. Yes. There are high-tensile plates and all kinds of plates going into the ship.

Mr. RAUSHENBUSH. This is not "plates" but "shapes".

Mr. LANGELL. 2.32 for shapes.

Mr. RAUSHENBUSH. In 1927 you have 2.32 for both plates and shapes?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. All right. Now, I show you your estimates for 1929, for the cruiser *Indianapolis*, No. 399, which consists of five volumes of envelopes, and I wonder if you could state the price of steel there without too much trouble. [Handing volumes to witness.]

Mr. LANGELL. They are the same exactly.

Mr. RAUSHENBUSH. 2.32?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. Then, the figures go on and show the 1934 and 1933 price of steel is a good deal lower than it was in 1927 and 1928. That is right, is it not? In 1927 it was 1.83, and in 1933, 1.63, and 1934, 1.78. So that the price of steel has gone down rather than up in these years?

Mr. LANGELL. Yes, sir; it has a trifle.

Mr. RAUSHENBUSH. This compilation from Iron Age is usually accepted as authoritative, is it not?

Mr. LANGELL. I do not use it in my estimates.

Mr. RAUSHENBUSH. You have to get the price of the freight and the Government differential on that?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. But in making comparisons, the Government differential of one-tenth of a cent, which is for the steel, is it not?

Mr. LANGELL. Yes, sir; and inspection.

Mr. RAUSHENBUSH (continuing). Would stay uniform comparatively. We have the same information from the N. R. A., which are practically identical, furnished by the Iron Institute.

Mr. Chairman, in view of the fact that we expected another witness to be on most of the day, I think we can close now.

(The document referred to was marked "Exhibit No. 1459" and is included in the appendix on p. 4885.)

The CHAIRMAN. Before we recess, how large a part of the material entering into the construction of a cruiser is steel?

Mr. LANGELL. May I have this estimate?

Mr. RAUSHENBUSH. For 1927?

Mr. LANGELL. Any time. This is 1927, which I think will be comparable right down the line. The total material was $4,170,000, and the steel in that is practically $780,000, out of that $4,000,000. I am talking about plates and shapes.

The CHAIRMAN. Can you say offhand what happened to costs of other materials than steel? Has the price trend been up or down?

Mr. LANGELL. The trend from 1927 was down.

The CHAIRMAN. From 1927 up to this time?

Mr. LANGELL. Well, no; I would not say up to this time. I would say up to 1932.

The CHAIRMAN. The trend was down to then for other material as well as steel?

Mr. LANGELL. Yes, sir; for other materials.

The CHAIRMAN. The committee will be in recess until 10 o'clock tomorrow morning.

(Thereupon, at 12 noon, a recess was taken until tomorrow morning, Thursday, Jan. 24, 1935.)

INVESTIGATION OF MUNITIONS INDUSTRY

THURSDAY, JANUARY 24, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m., in room 357, Senate Office Building, pursuant to the recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Pope, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee.

The Chairman. The committee will be in order.

The committee had on the coming Monday planned to hear Mr. Cornbrooks, who had been notified to appear before the committee at that time. Telegraphic notice is before the committee this morning as follows:

Collingswood, N. J.,
January 23, 1935.

Senator Gerald P. Nye,
United States Senate, Washington, D. C.:

Mister Cornbrook in hospital, will have him answer wire as soon as he is able.

Margaret K. Cornbrook.

The committee's former plan of convening on Monday morning has been changed, and will therefore provide for a hearing at Collingswood, N. J., at some time on Monday, to hear Mr. Ernest I. Cornbrook, or to take his deposition.

The committee has before it a telegram from H. Birchard Taylor, of Greenwich, Conn., which I ask be made a part of the record, to clear up what has developed, and which reads as follows:

Greenwich, Conn.

Senator Nye,
Chairman Senate Munitions Investigating Committee, Washington, D. C.

As an executive officer for many years of the Cramp Ship Building Co., unfortunately out of the marine business for some years, I note question has been raised regarding early cost plus contracts when the definition of costs included taxes of all kinds. The contracts were executed, if my memory serves me correctly, before the income-tax and excess-profit laws were enacted. I advised Secretary Daniels voluntarily that Cramps were willing to interpret the clause taxes of all kinds as not including income and excess-profit taxes. These amendments were executed. Let us not forget movements of a high moral plane during the war. Kindly submit this to your committee.

H. Birchard Taylor.

The committee would like to hear briefly this morning Mr. Stanley Matheson. Will you come forward, Mr. Matheson, and be sworn?

TESTIMONY OF STANLEY MATHESON

PROTECTIVE OR COMPLIMENTARY BIDS ON MERCHANT VESSELS

(Witness was duly sworn by the chairman.)

The CHAIRMAN. Your full name?

Mr. MATHESON. Stanley Matheson.

The CHAIRMAN. You were formerly with the New York Shipbuilding Co.?

Mr. MATHESON. I was.

The CHAIRMAN. In what capacity?

Mr. MATHESON. Draftsman in the design department.

The CHAIRMAN. Were you known as an assistant naval architect?

Mr. MATHESON. Not definitely. I was one of Mr. Riggs' assistants.

The CHAIRMAN. How recently were you employed by the New York Shipbuilding Co.?

Mr. MATHESON. I left there in August 1929.

The CHAIRMAN. What has been your employment since?

Mr. MATHESON. I have been a draftsman in the shipbuilding business. I went with the Dravo Contracting Business of Pittsburgh and later with Theodore Ferris, then with Bethlehem Shipbuilding Co., with Electric Boat Co., and I am now employed in Washington.

The CHAIRMAN. All right, Mr. Raushenbush.

Mr. RAUSHENBUSH. Mr. Matheson, the question came up yesterday as to the practice of estimators on naval vessels and other vessels to consult one another. Do you know whether that is occasionally done?

Mr. MATHESON. Just to what extent do you mean?

Mr. RAUSHENBUSH. The matter of getting in touch with the estimators of other yards and finding out what sort of estimates they are going to put in. Is that occasionally done, so far as your knowledge goes?

Mr. MATHESON. In regard to naval vessels, I have no knowledge whatsoever.

Mr. RAUSHENBUSH. On merchant marine vessels?

Mr. MATHESON. On merchant marine vessels, where a yard is perhaps not particularly interested in securing a contract, and does not prepare a full estimate, they may put in what is known as a "complimentary" estimate and then I believe figures are sometimes prepared to make sure that they do not slip up and their estimate is high enough to cover somebody's who may be expected to get it.

Mr. RAUSHENBUSH. You know that that has been done?

Mr. MATHESON. My recollection, going back to about 1922 or 1923, is I believe I heard a telephone conversation one time which would indicate that.

Mr. RAUSHENBUSH. You made a general statement just a moment ago that when a yard did not really want a ship, but simply wanted to put in a complimentary estimate, that that was occasionally done, that the estimators of other yards were occasionally consulted. Is that correct, so far as you know?

Mr. MATHESON. Yes.

Mr. RAUSHENBUSH. I have no other questions.

The CHAIRMAN. That will be all, Mr. Matheson. Thank you.

(Witness excused.)

The CHAIRMAN. Mr. Bardo.

TESTIMONY OF CLINTON L. BARDO—Resumed

Mr. Bardo. I want to apologize to your honorable committee for being late. I was caught in a very unfortunate situation and could not get here as soon as I thought.

The Chairman. The committee did not know you were late, because they did not call for you earlier.

Mr. Bardo, I expect you have something which you want to say to the committee regarding its request of yesterday.

Mr. Bardo. Yes, sir.

The Chairman. Do you have a statement prepared which you wish to read?

Mr. Bardo. I have.

The Chairman. Very well, you may proceed with it.

Mr. Bardo. I would like to say, before reading it, that it is submitted not with any desire at all of being antagonistic or in any way wanting to offend the dignity of the United States Senate, but the situation, as I see it, is one of such import that I felt that it was necessary, if you please, to prepare this statement and to make it in simple language that I will endeavor to use in it.

(The statement is as follows:)

> I was elected president of the New York Shipbuilding Co. in October 1928 and resigned November 1934. I am perfectly willing to testify as to any matters or transactions which occurred during my administration. I know of nothing in which I took part which is in any way reprehensible or in violation of the laws of the United States.
>
> This committee, however, has requested that I waive my constitutional rights as an American citizen, and since I am unwilling to do so it seems proper that I should here state my reasons for refusing to comply with your request.
>
> In the first place, the hearings before your committee are entirely ex parte. No opportunity is afforded any witness to be represented by counsel, nor to volunteer any explanation of evidence which has been taken in such ex parte examination.
>
> From the most innocent transactions inferences and innuendos are drawn intended to induce the newspapers to print and the public to believe that sinister influences have dominated the shipbuilding industry, and much that is reprehensible if not illegal has occurred.
>
> My opinion is that every citizen is assumed to be innocent until proven to be guilty and that the fifth amendment to the Constitution and laws pertaining to self-incrimination were adopted to protect citizens against inquisition of the character I refer to.
>
> Feeling as I do, it seems to me that your request that I sign the waiver submitted is a request that I renounce my constitutional rights, and this I respectfully refuse to do.
>
> I am perfectly willing to testify as to all transactions of which I have knowledge and hope that I may be afforded an opportunity to do so. My decision not to sign the waiver request is my personal decision.

The Chairman. Mr. Raushenbush, the committee would suggest that the questioning of Mr. Bardo proceed, but that the questioning be confined to a period leading up to and including 1931.

Senator Vandenberg. And no further.

The Chairman. If you would refrain from questioning concerning the period beyond 1931, you would comply with the thought that is the committee's this morning.

Mr. Raushenbush. Yes, sir.

Mr. Bardo, will you describe briefly for the committee your connection with the New York Ship, your various offices?

Mr. BARDO. I first became connected with the New York Ship as a vice president of the American Brown-Boveri Electric Corporation, when that was organized late in 1925. My connection at that time was one intended to deal entirely with the development of the electric program by reason of the fact that I had been associated in the railroad field for a number of years handling electric traction, and it was the purpose of the organization of the new company to largely engage in the field of heavy electric railroad traction.

I went to Camden early in 1926 and began organizing and setting up the shop machinery and getting together the personnel to carry on the electric work.

At that time there was only one ship in the shipyard, and that was the *Saratoga*, and every indication pointed to the fact, in some investigations that the board had made, that the shipbuilding business was apparently over in this country, and that they would convert the shipbuilding plant from a shipbuilding plant to a plant for the manufacture of electric equipment.

Vice President Magoon and Vice President Groesbeck, who were respectively the operating and engineering vice presidents of the company, of the shipbuilding company, had indicated a desire to retire, and I was gradually asked by the president of the company if I would not follow up and become familiar with the shipbuilding activities and the shipbuilding operations, and that I did, carrying on at the same time my activities in the development of the electric operations.

Magoon and Groesbeck did retire, and former President Neeland retired. So that left the situation very much in my hands, and I carried it on as a vice president up until October 1928, when the electric business had grown to such proportions that the directors deemed it time to make a segregation. And they then separated the two properties, organized the American Brown-Boveri Co., as a subsidiary, and that activity was turned over to Mr. Burnham, and at that time I was elected president of the shipbuilding company.

Mr. RAUSHENBUSH. And you resigned when?

Mr. BARDO. November 1 last year; 1934.

Mr. RAUSHENBUSH. When did it come to your knowledge, first, that Mr. Cord, or the group he was connected with, had begun to acquire stock in your company?

Mr. BARDO. My recollection of that is that it was in August 1933.

Mr. RAUSHENBUSH. You mean until August 1933 you had no idea that the Cord interests were securing control of the company?

Mr. BARDO. That is correct.

Mr. RAUSHENBUSH. Then when on August 2, suddenly a meeting was held and the Cord Corporation took over, that was the first that you knew about it?

Mr. BARDO. I had heard of it only a very short time, probably a week or 10 days, before that. That was the first anybody had heard of it, as a matter of fact.

ALLOCATION OF MERCHANT VESSELS

Mr. RAUSHENBUSH. Mr. Bardo, will you tell us, as fully as possible, the practice that was prevalent in the shipbuilding industry concerning the bidding on merchant-marine vessels, supposedly part of the national defense, and the extent to which the shipbuilders talked among themselves about who would get those vessels, and the nature of their combined efforts, if any, to allocate those vessels? Will you tell us, as fully and freely as you can, the transactions let us say, surrounding the *Manhattan* and *Washington* in those respects?

Mr. BARDO. You are dealing with a very practical question. As a matter of policy, at least the policy of the yard with which I was connected, we undertook, just as far as we could, to so distribute our work between merchant work and Navy work as to not lose our position in either of those two fields.

We did not want to dominate or to have a majority, so to speak, of either one of those activities, because primarily of the fact that you never know very far in advance what you can expect from the standpoint of Navy work. And it was the view of our group, very definitely, that inasmuch as the Government of the country had been engaged in an endeavor to build up a foreign trade, that there would necessarily have to be a very substantial building of merchant ships, primarily because of the fact that we could not hope to maintain our place in the foreign trade unless we did have ships of the type and character that would compete successfully with the ships of foreign nations.

So that from that standpoint, we proceeded in the handling oi our business.

So far as allocation of the work is concerned, there never was any understanding, nor ever any discussion, as to where this work would be allocated. That never was done.

Mr. RAUSHENBUSH. Will you repeat that, Mr. Bardo?

Mr. BARDO. I say there was never any indication nor ever any understanding as to where this merchant work would be allocated.

Mr. RAUSHENBUSH. And it was never talked about at all among the shipbuilders?

Mr. BARDO. No, sir.

Mr. RAUSHENBUSH. Was it talked about with the officers of the United States Lines who were planning to buy those ships?

Mr. BARDO. You mean to build the two ships?

Mr. RAUSHENBUSH. Yes.

Mr. BARDO. As to who would build them?

Mr. RAUSHENBUSH. As to who would bid on them, what they would bid, and so forth?

Mr. BARDO. No, indeed; not to my knowledge. I discussed it personally with Mr. Sheedy, who was the operating vice president of the United States Lines repeatedly, and he indicated to me—I do not know whether he indicated to anybody else—that he was very desirous that we should build the ships. What conversation he had with any other shipbuilders, I do not kow.

Mr. RAUSHENBUSH. Was a Mr. Ferris acting for Mr. Sheedy in that connection at the time the bids were being prepared for the ships?

Mr. BARDO. I do not know any connection between Mr. Ferris and Mr. Sheedy. I could not say as to that. But our negotiations, and the whole question of design and construction was all one of purely local interest with us.

Mr. RAUSHENBUSH. And there was at no time, then, any comparison of notes by yourself with the officers of the Newport News or Bethlehem companies, for example, on what your bids would be for those ships?

Mr. Bardo. No, sir.

Mr. Raushenbush. Or with any of their subordinates?

Mr. Bardo. No, sir.

Mr. Raushenbush. We have here a letter from Mr. Ferris, addressed to one of the Bethlehem men, Mr. A. D. Homer, in which he seems to refer to such an arrangement, or suggests it. The letter is dated June 11, 1930, on the letterhead of Theodore E. Ferris, and he tells Mr. Homer of the Bethlehem Co. as follows:

> May tell you that the program is to have the three big yards individually estimate the cost of these ships. I have now made arrangements with the New York Shipbuilding Co. and the Newport News Shipbuilding & Drydock Co. to this effect. Therefore it would seem to be mutually agreed upon and with very fine spirit on the part of all concerned, that is, each yard to go ahead and figure up the cost of these ships, after which if it seems essential to do so, we can compare notes and arrive at something that will be substantially good and reasonably solid for the program ahead in connection with these vessels.
>
> This matter is as you know a request by Mr. Sheedy through me and this letter will serve to confirm the various conversations we have had on the subject.

Mr. Bardo. May I inquire whether that letter was not directed to an entirely different program?

Mr. Raushenbush. Surely.

Mr. Bardo. What is the date of it, if you please?

Mr. Raushenbush. June 11, 1930.

Mr. Bardo. There was a movement on foot to design a superliner, something that would match up, so to speak, with the *Leviathan*, and Mr. Ferris, I think, was commissioned by Mr. Sheedy to draw up such a plan. And when the plan was drawn up, if that is what it refers to, we did agree to make an estimate for Mr. Ferris' purposes for all three yards, so that he might have something as an economic basis upon which Mr. Sheedy might proceed to develop whether or not he could afford to build that type of ship.

Mr. Raushenbush. You do not think that refers to the *Manhattan* and *Washington* at all?

Mr. Bardo. I am quite sure that it does not refer to the *Manhattan* and *Washington*.

Mr. Raushenbush. We have a note from the Black committee records that when the bids went in for those ships, the Bethlehem and Newport News Cos. bid $9,750,000 apiece. They were exactly even. There was not 1 cent of variation. They bid exactly the same.

Mr. Bardo. I do not know anything about that.

Mr. Raushenbush. And that New York Ship then bid $9,515,000, and received the award.

Mr. Bardo. That is right. That is correct.

Mr. Raushenbush. Do you think that Bethlehem Ship and Newport News would have arrived at that figure, running into millions, $9,750,000 each, without at least a telephone conversation about it?

Mr. Bardo. I have had exactly that same thing happen to me, and I guarantee this committee that there was no contact of any kind between the two companies that made the bid. It happened that the Grace Liner *Santa Clara*, the bid which we made, and which was made by the Federal Shipbuilding Co., was exactly the same. When I walked into President Carter's office, he laughed at me and said right out, "You fellows must be in collusion." None of us had had any conversation of any kind with the Federal Shipbuilding Co.

Again, when the four Grace liners which were built by the Federal Shipbuilding Co. were bid on, our bids in that case were $10,000 a ship apart.

In making an estimate, you might just as easily hit the figure of another shipyard as to miss it. You do not know what they are going to do.

The CHAIRMAN. Mr. Bardo, are you wanting us to conclude that there really is nothing in this, then, about the fact that three companies would bid and that two of them would bid an identical figure, $9,750,000?

Mr. BARDO. Senator, that is true. And I think this will help to enlighten you on how this thing works: There are two principal phases. First, you have got labor, and you have got materials. There are these three yards that were bidding upon an identical ship. We made the same investigation. We made the same inquiries to all of the suppliers of steel, auxiliary facilities, and auxiliaries of every kind, and it is fair to assume that we got the same quotation from all of them. You would not find very much difference there, if any. You might find a little in the way that the thing was assembled and put up.

Now when it comes to the question of labor, that is always a very important question, and the three yards kept very close in touch with one another as to our labor costs and our labor wages and our labor conditions, because we wanted to know and we wanted to keep tabs on what was going on, and what was happening, and what was likely to happen.

Mr. RAUSHENBUSH. Were you the one which kept in touch with the other yards on labor and material?

Mr. BARDO. No. One of the men on my staff did that.

Mr. RAUSHENBUSH. Who was that?

Mr. BARDO. Mr. Taylor.

Mr. RAUSHENBUSH. What capacity did he have?

Mr. BARDO. I think he had the title of assistant comptroller.

Mr. RAUSHENBUSH. He was the one who kept finding out what the other yards were paying for labor and material?

Mr. BARDO. He did not know anything about the material. He did not get that figure because that was out of his line, but that is the man who kept the record for us on labor costs and labor wages.

Mr. RAUSHENBUSH. When he got that information, did he communicate it to you or the estimating department?

Mr. BARDO. It came to me.

Mr. RAUSHENBUSH. The estimating department did not have that?

Mr. BARDO. They did not have that information.

Senator VANDENBERG. Would he be advised as to what the labor element would be on a given bid?

Mr. BARDO. No. He simply reported the facts. That is all.

Senator VANDENBERG. You did not need an N. R. A. to standardize your practices?

Mr. BARDO. No, sir; we did not.

Senator VANDENBERG. You beat the N. R. A. to it.

Mr. RAUSHENBUSH. Mr. Bardo, assuming, then, that you knew what the labor figure on a given ship would be in other yards and all. did you have a practice of adding to the labor and material figure of your own estimator a certain percentage for overhead to arrive at your final bid price?

Mr. Bardo. That varied as the conditions varied. You see, here is a contract which goes over a period of 2 years—26 months. When we got the estimates from the estimator as to labor and material, it was my practice to call the staff into the office—the vice president, the shopmen, the comptroller, and sometimes the purchasing agent—and we would sit down and consider and analyze, just as far as we could, what we thought the situation was going to be during the life of that contract. So that we were not leaving ourselves out on the end of a limb.

Then our price would again be influenced by two other factors: First is the amount of work that we had in the yard, and over which we could prorate the overhead, if we got the contract; and, second, other work that was in prospect, which we might get, and where we would again prorate the overhead.

So that there were a number of fluctuating factors always to be considered every time we sat down to make an estimate on ships.

Mr. Raushenbush. The final decision was yours, as to whether you would add $3,000,000, three and a half million dollars, $2,800,000, or whatever it would be?

Mr. Bardo. Yes; that is the result of the conference. Usually it was my responsibility to decide where we would finally stop and what we would finally do.

Mr. Raushenbush. Have you testified here this morning that before doing that, you never in any way consulted with the heads of the other big shipbuilding concerns as to what their final figures would be?

Mr. Bardo. That is correct.

INCORRECT INFORMATION GIVEN SHIPPING BOARD ON BRITISH COSTS

Mr. Raushenbush. Before leaving this question of the merchant ships, I call your attention to a letter dated August 12, 1931, signed by A. G. Foster, and addressed to you, Mr. Bardo. Was Mr. Foster at that time your Washington representative?

Mr. Bardo. He was both in New York and Washington. He was at New York first and Washington later. Is that dated New York or Washington?

Mr. Raushenbush. It is interoffice correspondence. I cannot make out where it comes from.

Mr. Bardo. I think that is while he was in the New York office. That would be my feeling about it.

Mr. Raushenbush (reading):

> Dear Mr. Bardo: As requested by you, attached hereto, please find papers which I received from Mr. Sheedy this morning.
>
> Mr. Sheedy apologized for not having been in town when you called and explained that he did not reach New York until late last night.
>
> He wished me to emphasize the fact that the attached bids for the 705-footers were based on the original 82-foot beam and that correspondence from British shipyards suggesting increase in beam crossed our revised plans calling for 86-foot beam.
>
> Mr. Sheedy said that he would be very glad for us to make copies of all this correspondence; however, naturally wishing us to keep it confidential.

There was some British bidding on the ships? Was there not?

Mr. Bardo. There was.

Mr. RAUSHENBUSH. And the explanation of that is in this last paragraph which reads:

> Mr. Sheedy said that he gave the amount of the bids from British yards to the Shipping Board at a figure lower than actual for mail-contract reasons.

Mr. BARDO. I know nothing about that. You will have to ask Mr. Sheedy about that. I know nothing about that.

Mr. RAUSHENBUSH. I will offer that letter for the record.

(The letter referred to was marked "Exhibit No. 1460" and appears in full in the text.)

Mr. RAUSHENBUSH. What advantage would there be in portraying to the Shipping Board a picture that the shipyards in Britain were bidding a great deal under the American yards? Can you give any information on that?

Mr. BARDO. They were not a great deal under. As a matter of fact, as I recall it, there was only about $700,000 difference in what one of the bids was and our bid, between one of the British yards and ourselves.

Mr. RAUSHENBUSH. One of them was over $2,000,000 under, was it not?

Mr. BARDO. Not as I recall the figures.

Mr. RAUSHENBUSH. John Brown & Co., Ltd., Clyde Banks, Scotland, $7,295,260. That is over $2,000,000.

Mr. BARDO. That would be, if that was one of them.

Mr. RAUSHENBUSH. And the other one, Fairfield Shipbuilding & Engineering Co., $8,169,000. That is again over $1,000,000 under.

Mr. BARDO. I think it would also be enlightening to the committee, if you understood something as between the difference that applies in building a ship in an English yard and what applies in building that same ship in an American yard.

Mr. RAUSHENBUSH. That is a long and complicated question, Mr. Bardo, and we expect to get back to it later.

Mr. BARDO. All right.

Mr. RAUSHENBUSH. But at the moment the point here is that the Government was given incorrect information. Mr. Sheedy was president of the United States Lines at that time, was he?

Mr. BARDO. No; I think he was the executive vice president. Mr. Chapman was president, as I recall it.

Mr. RAUSHENBUSH. The Government was given incorrect information on a bidding arrangement under which the American yards arrived at a very similar price in two cases and apparently expectation that that would influence the mail-contract rates, if the Shipping Board thought, or was told, that the British yards could build a great deal cheaper than they actually could.

Mr. BARDO. Of course, that is something which Mr. Sheedy can tell you. I could not answer that question.

SHIPBUILDERS AGREE ON MERCHANT WORK

Mr. RAUSHENBUSH. Here is a letter addressed by Robert Haig, of Sun Ship, to you, Mr. Bardo, on August 19, 1933, coming up to date a little bit, which reads:[1]

> DEAR C. L.: We are very keen to get this Gulf Pacific boat, as you know we have not one thing on the way.
>
> Mr. Roger Williams—

---

[1] See Hearings, Part XX, for Newport News Shipbuilding Co.'s testimony regarding above letter.

He is with Newport News Ship, is he not?

Mr. Bardo. Yes, sir.

Mr. Raushenbush (continuing reading):

> Korndorff—

He is connected with Federal, is he not?

Mr. Bardo. Yes, sir.

Mr. Raushenbush (continuing reading):

> And Wakeman—

He is connected with Bethlehem?

Mr. Bardo. Yes, sir.

Mr. Raushenbush (continuing reading):

> have promised to go along and I have been trying to get you yesterday and will call you again next week.
>
> Turn this over in your mind and I would like to get this work.

Do you remember anything about that?

Mr. Bardo. I do not.

Mr. Raushenbush. It certainly seems to be an indication that the Sun Co. was getting a promise from Newport News, Federal, and Bethlehem to go along on certain of the merchant-marine work?

Mr. Bardo. That may be true or it may not. I think you have got to find out either from them or Mr. Haig just what he was talking about.

Mr. Raushenbush. The letter was addressed to you. That was not very long ago. That was August 1933. Do you not remember what you replied to this?

Mr. Bardo. I do not remember the letter at all.

Mr. Raushenbush. I will show it to you a minute [handing paper to witness].

Mr. Bardo. Where did you get it?

Mr. Raushenbush. From the New York Ship file.

Mr. Bardo. This letter?

Mr. Raushenbush. Yes, sir.

Mr. Bardo. I do not think you did. You got that in the Sun files.

Mr. Raushenbush. We have not been in the Sun files, Mr. Bardo.

Mr. Bardo. You did not get it out of our files, I do not think.

Mr. Raushenbush. Where is the answer to that?

Mr. Bardo. There is not any answer. If there was an answer, it would be here.

Mr. Raushenbush. It might have been in your New York files.

Mr. Bardo. You went through the files. It was all there. You had free access to them.

The Chairman. What makes you think, Mr. Bardo, that this was not taken from the New York Ship files?

Mr. Bardo. Because I think the question was raised by some of the investigators there, and they said they found this letter in the Sun files, but did not find it in ours, and they wondered where it was. That is where I got my information from. It is a carbon.

Mr. Raushenbush. Was it our investigators or the Black committee investigators who were so informed?

Mr. Bardo. It is my recollection it was one of your investigators.

Mr. Raushenbush. I can assure you that we have not been in the Sun files at all.

The CHAIRMAN. The committee has had nothing to do with the Sun files.

Mr. BARDO. That is the information which came from one of the persons.

The CHAIRMAN. There is evidently confusion, and what you have in mind is that the Black committee investigators perhaps went into the Sun files.

Mr. BARDO. This is a carbon copy of the letter and not an original. My letter would be an original, and this is a carbon.

Mr. RAUSHENBUSH. Your own files would have, of course, had a carbon of your reply to Sun, if you had made a reply?

Mr. BARDO. Yes, sir; it would.

Mr. RAUSHENBUSH. And you do not remember replying to Sun over the telephone or any other way?

Mr. BARDO. Not in any way.

Mr. RAUSHENBUSH. When you left the company, Mr. Bardo, did you examine all your files before going?

Mr. BARDO. What files? The company files?

Mr. RAUSHENBUSH. Such files as you may have had in your own office.

Mr. BARDO. No, sir.

Mr. RAUSHENBUSH. You did not take anything with you at the time?

Mr. BARDO. Only my personal files. I took my personal files with me.

Mr. RAUSHENBUSH. This letter is labeled "personal and confidential."

Mr. BARDO. That did not go in my personal files. That has to do with the business of the company.

Mr. RAUSHENBUSH. Leaving that aside at the moment, it does seem to be the case that in shipbuilding you were trying to get Newport News, Federal, and Bethlehem, and not only trying to but did get them to promise to go along on certain bidding. You were not startled, were you, at this apparent agreement on the part of the four big companies, or startled on your part on being asked to be the fifth in that arrangement? It was not so unusual, was it, that you remembered it at all?

Mr. BARDO. I do not think I was asked. I am trying to make it perfectly plain to you that I do not think that letter reached me, if that letter was ever written. That is the point I am trying to make clear to the committee.

Mr. RAUSHENBUSH. This is the first time you ever saw this?

Mr. BARDO. This is the first time I ever saw that letter; yes, sir.

AGREEMENT ON 1927 CRUISERS AND DESIGN WORK

Mr. RAUSHENBUSH. Now, Mr. Bardo, we want to go into the question of the bidding further on the cruisers 26 to 31 class in 1927. Will you recall for us any meetings you had with other shipbuilders, the other members of the "Big Three" group, about this bidding by date and place and time?

Mr. BARDO. I recall no conferences we ever had as to the question of bidding. The invitations to bid on those ships specified a new requirement, and that is that a very large part of the propelling and auxiliary machinery of that type of ship was to be identical duplicates, which was the first time in the history of the industry that that sort of a provision had ever appeared in the inquiries for ships.

That immediately raised the question as to just how our engineering forces could be organized in order that we might carry out the requirements of the invitation to bid, or the requirements of the contract when it was finally executed.

We had a number of conferences about that. We had conferences with the admirals in charge of the Bureau of Construction and Repair and of Engineering, and I think it was Admiral Buret in charge of the Construction and Repair, and Admiral Halligan, in charge of Engineering. We had conferences with them in order that we could find an accommodation point between the Navy and the shipyards.

Senator VANDENBERG. Whom do you mean by "we"?

Mr. BARDO. The shipyards.

Senator VANDENBERG. All the shipyards?

Mr. BARDO. The shipyards who were interested and who were capable of building these two ships.

Senator VANDENBERG. Is that just the three big ones?

Mr. BARDO. Just the three yards.

Senator VANDENBERG. No conferences with Federal or Sun in this connection?

Mr. BARDO. No. Sun definitely was not interested in Navy business and Federal at that time was not.

So that the obligation really rested upon the three yards to find a way in which we could carry out these requirements.

Senator VANDENBERG. When you speak of "we", you are speaking of the three big yards?

Mr. BARDO. I am speaking of the three big yards. Yes, sir; to carry out this requirement. While the bids were being prepared, this matter was discussed, I do not know how many times, because it was a difficult thing to find a common denominator upon which the engineering forces of the three yards were inclined to agree to begin with.

As a matter of fact, I think it is only fair to say that the competition on this type of ship is competition in brains rather than in price. What the Navy Department wants all the time is the very best that they can get, the best performance for the least money. So that we had to harmonize those very difficult stituations with the engineering groups in the first place.

Senator VANDENBERG. The Navy Department does not possess this engineering capacity itself?

Mr. BARDO. They did not at that time.

Senator VANDENBERG. In other words, the Navy Department had to rely upon external cooperation?

Mr. BARDO. That is correct. They had to depend upon us, because they were not equipped to go on and carry through the intricate designs for a ship of this type.

I do not recall whether it was after the contracts were awarded or before, that as a result of these prior discussions, it was agreed that we would set up a separate engineering organization to handle the plans for all the yards.

We became rather involved in the question because the plan contemplated that Mr. Metten, who was our vice president in charge of engineering, was the man that was to head up as president the Marine

Engineering Corporation. That embarrassment to us was because of the fact that we had taken over the Cramp contract, and as that was taken over with the provision that Mr. Metten would stay with that job until it was finished because of the fact that he had originated it, it left us in a rather difficult situation. Because I could not release at all the endeavors that we were making to carry on the engineering required for the *Salt Lake City* and the machinery for the *Pensacola* and divert his abilities and his attention to another activity.

But we were finally able to work out that plan and organized the Marine Engineering Corporation and put Mr. Metten in charge. Mr. Freer, who was a retired naval constructor from the Bethlehem Co., was put in charge of the C. & R. work. We set up an independent organization in Philadelphia, and they furnished the plans for all the ships, both those which were built in the navy yards as well as those in the private yards.

Mr. RAUSHENBUSH. We had considerable testimony about the Marine Engineering Corporation the other day, when Mr. Metten was here, Mr. Bardo. Have you told us pretty fully about all the meetings and tried to place them in time and date as far as you could, that you had with the other shipbuilders during bidding on the 1927 cruisers?

Mr. BARDO. So far as I know, I have. If there is anything I have not, I would be glad to enlighten you, if I can.

Mr. RAUSHENBUSH. You have no diary or other information which would indicate that?

Mr. BARDO. No, sir.

Mr. RAUSHENBUSH. Did the Newport News Co. at any time in the late part of 1926 or the early part of 1927 suggest to your company that it might be well for you to compete on only one of the two ships which were called for?

Mr. BARDO. I do not recall that they did. In any event, if they did, my recollection is that we bid on two.

Mr. RAUSHENBUSH. Do you remember that you made no particular estimate for two ships?

Mr. BARDO. My recollection is that we did; that we not only made an estimate but that we bid on two.

Mr. RAUSHENBUSH. My point is about the estimate.

Mr. BARDO. If we made an estimate on one, that same estimate would carry for two, except there are some elements in there which would be divided by two instead of one.

Mr. RAUSHENBUSH. Did you have a normal percentage reduction there from one ship to two?

Mr. BARDO. It is not exactly normal. That, again, depends on just what duplication you might be able to work in.

Mr. RAUSHENBUSH. You say that you do not remember at all that Mr. Ferguson in any way took up with you the possibility of bidding on only one of the ships?

Mr. BARDO. I do not.

Mr. RAUSHENBUSH. About that time do you remember meeting with the others, late in 1926, when this cruiser program was first up—that is, do you remember meeting with the other representatives of the shipbuilders and going to the Secretary of the Navy and the President and fighting for the proposition that the private yards, rather than the navy yards, get these ships?

Mr. Bardo. We did.

Mr. Raushenbush. In that meeting and discussion did you talk over with the other shipbuilders at all, as to who would be getting these ships when they came along?

Mr. Bardo. No.

Mr. Raushenbush. Do you remember a meeting March 23, in the office of the Bethlehem Ship Corporation, concerning these ships, with the members of the other big shipbuilders and their attorneys?

Mr. Bardo. Yes; we had a number of meetings for the purpose of trying to arrange with the Department to change the form of the contract. The provisions of the contract we regarded as very onerous and unnecessarily so, and we discussed, a number of times, among ourselves and with the Secretary of the Navy, with Mr. Nagle, the Judge Advocate, what we could do, and we finally did succeed in getting the contract modified in some of its most punitive features.

Mr. Raushenbush. What, particularly, were you trying to modify in all these conferences?

Mr. Bardo. I do not know that I can distinctly recall what we were trying, but there was an old form of Navy contract that had been in use for many years, and our lawyers were very strongly of the opinion that we ought to try to see if it could not be modified so as not to convey quite such severe penalties as the old contract did. I cannot tell you the particular details now because that has escaped my mind.

Mr. Raushenbush. I offer for the record these two letters.

(The two letters referred to were marked, respectively, "Exhibits Nos. 1461 and 1462" and are included in the appendix on p. 4886.)

Mr. Raushenbush. That meeting on March 23, 1927, in the office of the Bethlehem Shipbuilding Corporation, is referred to there. You may look at them before they go in, Mr. Bardo, and make any comment upon them you may care to.

Mr. Bardo. That one there is in connection with the meeting (referring to Exhibit No. 1461) and I think both of those meetings probably were held in an effort to get the viewpoint of the legal departments of the three shipyards, to agree on just what form that revision would take.

Mr. Raushenbush. I show you a letter from yourself to Mr. Wilder, dated April 12, 1927, concerning a visit to the Navy, in which, on page 2, in the fifth paragraph, you inform the Bureaus of Construction and Repair and Engineering as follows [reading]:

> * * * that it would be the height of business folly in the present state of the shipbuilding industry with respect to work other than that of the Navy, to undertake a contract for either one of these cruisers or for the Cramp cruiser alone, as it would substantially commit the stockholders to the assumption of $2,000,000 of overhead in one case and $4,000,000 in another, over the 3-year period, and that I hoped they would give consideration to this phase of the matter in making their recommendations.

What you wanted the Navy to do at that time, Mr. Bardo, was to give you one of the Cramp ships and one of the new cruisers, was it not?

Mr. Bardo. Let me read the letter first and see what is in there.

Mr. Raushenbush. This is only one of a great many letters at the time——

Mr. Bardo. What particular paragraph do you refer to, Mr. Raushenbush?

Mr. RAUSHENBUSH. On page 2, the paragraph beginning—

> In discussing with the Bureaus at this conference * * *.

Mr. BARDO. All right. I do not know that I can enlighten you very much as to the import of that particular paragraph. I am of the opinion that this took place during the time that negotiations were under way, either with the Department or with the Cramp Co., with respect to our taking over the building of a cruiser on which they intended to default.

Mr. RAUSHENBUSH. Was it not a sort of——

Mr BARDO. May I finish?

Mr. RAUSHENBUSH. Go ahead.

Mr. BARDO (continuing). With one cruiser in the yard, and undertaking to absorb all of the overhead of the yard, amounting to something near $2,000,000 a year, on one cruiser, would simply mean that you would suffer a very great loss. And with two cruisers, why, it was barely possible that you might double that loss.

Mr. RAUSHENBUSH. And you had practically, or were in the process of making a bargain with the Navy that you would not take that Cramp cruiser unless they gave you one of the new scout cruisers. Is not that true?

Mr. BARDO. I would not go as far as that, because there was not such an understanding. The Navy were very greatly embarrassed by reason of the Cramp default. It was the first cruiser under their new program, and, as I recall it, neither Newport News nor Bethlehem would take over the contract. Finally, it rested in the discussion with us.

We finally reached a conclusion with the Cramp Co. and their sureties as to a basis upon which we could undertake the job.

I transmitted that to Secretary Wilbur, and he was very much pleased to know that the thing would be taken over and would be carried on and the Department would not be embarrassed by reason of this default.

I do not have any hesitancy in saying that I think that did have a very sudden effect, possibly, on the decision of the Department in the awarding of these contracts which came along, in awarding to us one of those, although I do not now recall what the relation to price was, that is, as between ourselves and the other yards. I do not recall that.

(The letter referred to was marked "Exhibit No. 1463" and is included in the appendix on p. 4886.)

Mr. RAUSHENBUSH. Then that practically was the situation, that the Navy, you say, was appreciative in the matter and had made an arrangement or an understanding by which you would get one of the new scout cruisers, the 26 to 31 series, in addition to the other one?

Mr. BARDO. No. I would not want the record to show that there was an understanding, because that is not so.

Mr. RAUSHENBUSH. Mr. Bardo, yesterday we put into the record a wire from the New York Shipbuilding Corporation to A. W. Mellon, Secretary of the Treasury, dated April 15, 1927. That wire read:

> On April 5 we submitted bids for two scout cruisers out of six to be constructed. The understanding was that this construction would be done by three remaining private yards. Acting in good faith and on this assumption we expended large sums of money in preparation for this work.

Unless you had had a definite understanding, Mr. Bardo, would you have expended large sums of money in advance of both awarding the bids for the 26 to 31 cruisers and in advance of the awarding of the Cramp contract?

Mr. Bardo. That understanding came out of what has been previously described this morning in the invitation to bid, and the discussions which necessarily followed as to the standardization of these ships.

Mr. Raushenbush. That is not quite responsive, Mr. Bardo. You apparently, according to this wire, had expended large sums of money in preparation for this work. Did not that have to do with the Cramp work which you were expecting to take over at that time?

Mr. Bardo. It would have something to do with it, but it also would have something to do with what we would expend in the way of rebuilding our facilities and fixing up our machinery and getting ready to do shipbuilding.

Mr. Raushenbush. That was also shortly after Mr. Humphreys had written you from Geneva that your company had nothing to worry about from the disarmament conference, and it felt free to go ahead with the building of ships, due to that understanding?

Mr. Bardo. What Mr. Humphreys wrote me from Geneva had nothing to do with it. We were dealing with a concrete thing in this country, an invitation to bid and an invitation to build ships for this Navy, and that is the thing which was immediately in front of us.

Mr. Raushenbush. No companies usually spend large sums of money before they get a particular award, do they?

Mr. Bardo. No, not generally; but there are a lot of things, if you are going to get ready and complete the ships within the contract time.

Mr. Raushenbush. Do you not suppose the other yards wanted the ships just as much as yourself?

Mr. Bardo. I would suspect so.

Mr. Raushenbush. Is it not a fact that Secretary Wilbur rebuked both Newport News and Bethlehem for not bidding on this Cramp contract and leaving it entirely to you?

Mr. Bardo. I do not know what right he would have to rebuke them.

Mr. Raushenbush. Were you not there when it happened?

Mr. Bardo. No.

Mr. Raushenbush. You do not remember anything about it?

Mr. Bardo. No, sir.

Mr. Raushenbush. Anyhow, you were the only bidder on this Cramp contract, were you not?

Mr. Bardo. I think that wants to be cleared up.

Mr. Raushenbush. All right.

Mr. Bardo. After we had made this agreement with the Cramp Co., which was approved by the Secretary of the Navy, it then became apparent, from a decision, I think, of the Judge Advocate General, that that contract could not be transferred and that, therefore, it would necessarily have to be rebid.

He said:

> In view of that, I shall have to ask for bids on this ship over.

And he asked for bids, and with a very short period, and we bid essentially the amount that we had agreed with him and with Cramps.

Mr. RAUSHENBUSH. Let me interrupt a moment. Before that short period was over, were there not several extensions over a period of many months, before that bid was finally given?

Mr. BARDO. No. As I recall it, they worked along after the agreement was reached, and, as quick as the Cramp Co. formally defaulted. Of course, the Secretary could do nothing until he had a formal default from the Cramp Co. As soon as he reported that, my recollection is that he acted very promptly and without any delay.

Mr. RAUSHENBUSH. I will be able to get the exact dates of these postponements in just a minute. Will you proceed?

Mr. BARDO. So that the Secretary advertised for bids, and we submitted the bid, as we had agreed, as I say, with the Cramp Co. and with the Secretary, that we would take it over on basis of the Cramp Ship to the Navy, and made a settlement between Cramp and ourselves as to what the sureties would pay us, in order that we would take over the contract.

Mr. RAUSHENBUSH. The net result was, however, that the other yards as much as they wanted ships, decided, apparently, not to bid, and did not bid?

Mr. BARDO. You will have to ask them about that. I cannot answer that question.

Mr. RAUSHENBUSH. Those are the facts in the case.

Now I will show you a letter and ask for an explanation of it, being a letter from Mr. Wilder to you, dated April 21, 1927, which seems to imply that there were a good many meetings about this scout cruiser business.

The letter reads:

> I had a very interesting discussion with Mr. Grace this afternoon, although very difficult to begin with.

Mr. Grace at that time was president of Bethlehem Ship, was he?

Mr. BARDO. Yes; I think he was. He was president of the Bethlehem Steel Co., which owns the Bethlehem Ship.

Mr. RAUSHENBUSH [reading]:

> Wylie——

Mr. Wylie is an official of the Bethlehem?

Mr. BARDO. I think he refers to Wakeman, whose first name is Wylie.

Senator VANDENBERG. What was Wakeman's position?

Mr. BARDO. He is vice president of the Bethlehem Shipbuilding Co.

Mr. RAUSHENBUSH [continuing reading]:

> Wylie, I think, is guilty of having put us in rather a nasty and untenable position with Mr. Grace as regards the outcome of our understanding at a meeting which I attended some time ago.

That seems to be a definite reference to an understanding, does it not?

Mr. BARDO. You will have to ask Mr. Wilder that.

Mr. RAUSHENBUSH. Let us see whether you cannot remember something about this, please, Mr. Bardo [continuing reading]:

> I wish you would send back to me the chart which I gave you on cross-section paper, as well as the details, particularly as to oil-consumption guaranties, which were finally presented by all three of us.

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. There was certainly some discussion about oil-consumption guaranties, was there not?

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. Which is a large part of the bidding, because the evaluation of the bids goes up or down according to the oil guarantees, does it not?

Mr. BARDO. That is right.

Mr. RAUSHENBUSH [continuing reading]:

> I am afraid when you talked to Wylie—

Mr. Wakeman—

> You were not well informed, as he has used what you said, i. e., that you had made a mistake and that you had correspondingly raised the price, as a serious argument not only against you but against the good faith of this company.

Meaning the good faith of this company as against the other two companies?

Mr. BARDO. That is right.

Mr. RAUSHENBUSH [continuing reading]:

> The center field figure for oil consumption at cruising speed was to have been within plus or minus 1 percent of 494.

By "center field" may we take it that is the middle bid?

Mr. BARDO. The oil consumption runs from 10 knots, 15, 18, 20, 24, and up to the top speed of the ship, and there are a number of spots on the chart which run through the list.

Mr. RAUSHENBUSH. It turned out later, did it not, that Bethlehem was the middle bidder, Newport News was the low bidder, so that Bethlehem was the middle or center field, and you were high?

Mr. BARDO. I do not recall the details.

Mr. RAUSHENBUSH. I will read off these figures which we put in the record yesterday:

Newport News bid $10,642,000, Bethlehem bid $10,675,000, and your bid was $10,815,000 for one ship.

So Bethlehem was center field, and supposedly Newport News were left field and you were right field on that, were you not? [continuing reading]:

> From report of your telephone conversation from Washington of April 5, I understand the figures submitted by the center field was 475 instead of this 494. If these facts are correct, you should have attacked rather than been on the defensive.
>
> I want to go over this matter with Mr. Grace and should, therefore, appreciate full detail.

I will offer that letter for the record as "Exhibit No. 1464".

(The letter referred to was marked "Exhibit No. 1464" and is included in the appendix on p. 4888.)

Mr. RAUSHENBUSH. This letter, Mr. Bardo, does refresh your memory, does it not, that you were in some of the conferences with the other shipbuilders at the time this bidding on certain matters involved came up?

Mr. BARDO. Mr. Wilder says he was.

Mr. RAUSHENBUSH. It also says that you were, does it not?

Mr. BARDO. No.

Mr. RAUSHENBUSH. Well, were you?

Mr. BARDO. I do not recall that I was.

Mr. RAUSHENBUSH. I show you a letter——

Mr. BARDO. I am not through with this yet.

Mr. RAUSHENBUSH. Before leaving that statement, are you sure you did not acknowledge that letter on the next day?

Mr. BARDO. Mr. Wilder's letter?

Mr. RAUSHENBUSH. Mr. Wilder's letter. You do not recall any session you had with the others on the matter?

Mr. BARDO. No, but that now refreshes my memory.

Senator BARBOUR. What is the date of this conference, Mr. Raushenbush?

Mr. RAUSHENBUSH. This is April 21, 1927, referring to the earlier discussions, apparently before bids were put in.

The CHAIRMAN. It seems to me it is about the time of year that the ball teams come out of their spring training, is it not? Is there anything to indicate where they trained that spring?

Mr. RAUSHENBUSH. Here is a letter of which we have only one copy, so that I will read it, being addressed to Mr. Wilder from Mr. Bardo, dated the next day, April 22, 1927, headed "Scout cruisers" [reading]:

> Your confidential memorandum from New York:
>
> The oil guarantees as submitted in the bids for the three companies were as follows:

Then you give, under "f", American Brown Boveri, 449, Bethlehem, 475, which is the figure mentioned in the earlier letter, and Newport News, 486.

> You were correct regarding the cruising radius guaranteed of 494 as discussed in our meeting in New York. This was later changed by a conversation which I had with Mr. Wakeman, to 475. There were one or two other changes in the upper part of the scale.

Mr. BARDO. That was a meeting with Mr. Wakeman.

Mr. RAUSHENBUSH. Do you remember that?

Mr. BARDO. I do remember that.

Mr. RAUSHENBUSH. Was he the only shipbuilder you talked to about this, Bethlehem?

Mr. BARDO. That is the only one.

Mr. RAUSHENBUSH (reading):

> The guarantee as submitted by Newport News was above the guarantee specified by the Department's general board, and it was my understanding that the guarantees in the new contract with the News will be modified downward.
>
> As a matter of fact, the guarantees submitted by the three companies in their proposal for these new cruisers has nad no bearing whatever on the decision of the Department in making the award, since the navy yards were without information as to the matter of guarantees. The Department could not evaluate price and the guarantees.

Let me stop there a minute. Were those bids made without guarantees published, or what does that sentence mean?

Mr. BARDO. No. My impression would be that the navy yard did not have it, and, therefore, they could not evaluate the Navy's estimate of what these ships would cost in the navy yards. I think that is what that is intended to mean. They would have to depend upon the private yards for the guarantees, and, therefore, until they had that, they could not make an evaluation bid or estimate, which the navy yard would submit as opposed to the same price in private yards.

Mr. RAUSHENBUSH. Your guaranties were in and the Navy knew them?

Mr. BARDO. Our guaranties were submitted with our bid.

Mr. RAUSHENBUSH. And as a result of this conference which you had had with the other shipbuilding companies, referred to in the earlier letter——

Mr. BARDO. No.

Mr. RAUSHENBUSH (continuing). In which Bethlehem Steel apparently thinks there has been some double crossing.

Mr. BARDO. I cannot help how they think. As a matter of fact, what we did was to submit the estimates of performance which were submitted to us by our engineering department. I disregarded entirely anything that had gone before in a way that might be interpreted as an agreement as to what guarantees we would submit. We submitted the very best guarantees that our engineering department were willing to support. That is the basis on which we submitted that bid.

Mr. RAUSHENBUSH. Then, how do you explain all this conversation between Mr. Wakeman, Mr. Grace, and Mr. Wilder, about apparent bad faith on the part of the "center field" or "right field", or whatever you were?

Mr. BARDO. I cannot explain anything that took place, for I was never a party in the matter.

Mr. RAUSHENBUSH. Were you not brought up to date on this? You seem to know enough about it to answer, right the following day.

Mr. BARDO. I knew exactly what happened. I knew exactly what we did, and I gave them the information.

Mr. RAUSHENBUSH. And exactly what you were expected to do, from your conversation?

Mr. BARDO. I was not expected to do anything except to submit a bid on the best information we had, as to what we could do in the way of guarantees. I was not going to surrender the benefit of the brains of my organization.

Mr. RAUSHENBUSH reading:

> The award of the cruisers has, therefore, been made, first, as a matter of price, to Newport News, and to Bethlehem for one ship, and the award to us, in my opinion—

You were high at that time—

> has been made in order that all of the yards might have some support in this cruiser-building program and that their organizations might be kept together for the benefit of future Navy work.
>
> There was no disposition on our part to take any advantage. As a matter of fact, upon a basis of evaluation, Bethlehem and ourselves were on a par as between one and two ships in so far as evaluated value applied.

Mr. BARDO. I think that is true.

(The letter referred to was marked "Exhibit No. 1465" and is included in the appendix on p. 4888.)

Mr. RAUSHENBUSH. The last statement, namely, "There was no disposition on our part to take any advantage", meant any advantage of Bethlehem by the fact that these oil guarantees were changed from the time that the conference with Mr. Wakeman had taken place, and the other guarantees had been fixed?

Mr. BARDO. I would rather state the advantage the other way. In other words, we were under no obligation to sacrifice, if you please, any engineering advantage that we might have for the benefit of anybody else.

That is exactly what we did.

Mr. RAUSHENBUSH. I also want to offer at this time as "Exhibit No. 1466" the report of the Bureaus to the Secretary of the Navy, containing a summary of the bids received from private yards at this time, which is certified to be a true copy.

(The report referred to was marked "Exhibit No. 1466" and is included in the appendix on p. 4889.)

Mr. RAUSHENBUSH. Does even this brief discussion, Mr. Bardo, bring to your mind further discussions that took place between the other shipbuilders and this company about these bids between the time they were prepared and the time they were finally awarded?

Mr. BARDO. There may have been discussions, and probably were—I would not say there were no discussions, because there probably were. Here was a new field and neither Bethlehem nor Newport News had built any cruisers for a long time, and we were new, and I was particularly new in the shipbuilding business. It is perfectly obvious that I would and did, no doubt, discuss with them a good many phases about this thing, for the purpose of educating myself so that I might more intelligently supervise the job I had to supervise, because I lost the benefit of the vice presidents who were there, and who had been familiar, and I lost the works manager, and I had a new organization practically from top to bottom, and I was new at the business myself.

Mr. RAUSHENBUSH. There is a letter here which I show you from Mr. E. W. Payne [handing paper to witness]. Was he connected with your organization?

Mr. BARDO. I think he was at one time my chief clerk.

Mr. RAUSHENBUSH. It is addressed to you, dated May 28, 1927, which I offer as "Exhibit No. 1467."

(The letter referred to was marked "Exhibit No. 1467" and is included in the appendix on p. 4892.)

Mr. RAUSHENBUSH. That reads:

> "I have notified Mr. Palen's home"—

That is Mr. Palen of Newport News, is it not?

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH (continuing reading):

> and wired Wakeman—

Mr. Wakeman is connected with the Bethlehem Co., is he not?

Mr. BARDO. Yes.

Mr. RAUSHENBUSH (continuing reading):

> that you would meet them at 9 Tuesday morning at the Biltmore. Mr. Palen's request was for 9 o'clock and I have therefore reserved your tickets for 7 o'clock daylight time, held in your name at Broad Street Station, seats 12, 14, car 1.
>
> Mr. Palen further stated, but asked me to not mention it in my wire, that he had some information for you on the Chesapeake steamer that you should have before the bid was presented; I have therefore asked Bob Workman to await instructions from you before putting in his bid.

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH (continuing reading):

> Mr. Hines has been advised that you will be there after your conference with Wakeman and Palen.

Who is Mr. Hines, by the way?

Mr. Bardo. He was the vice president of the electric department.

Mr. Raushenbush (continuing reading):

> He says Berdeau has all the information together and they will wait in readiness for you.

Mr. Bardo. That had to do with some dredge work, I think, which we were doing.

Mr. Raushenbush. What was the significance of this meeting between Newport News, Bethlehem officials, and yourself?

Mr. Bardo. I do not know that I recall. I know that Newport News built the ship, but I do not know that I recall any particular conversation that we had.

Mr. Raushenbush. That was before the awards were made on the cruisers, was it not?

Mr. Bardo. On the cruisers?

Mr. Raushenbush. Yes, sir.

Mr. Bardo. I do not recall the date of the award on cruisers. I do not recall that now.

Mr. Raushenbush. Mr. Bardo, did all of these meetings between the shipbuilders really take place without any discussion about the chances of one yard getting a ship as opposed to another yard? Is it just humanly likely that with these millions of dollars worth of work in the field and on the way, that there would not be at least some discussion about who was going to get them and who might get them?

Mr. Bardo. There was never any discussion as to who would get the jobs, because nobody knew who would get the jobs. The Secretary of the Navy always had the authority to award any of this work to anyone he wanted. The Navy might refuse all the bids and award it all to the navy yards, so that, as far as this agreement is concerned, as to who would or would not get these naval jobs, it was idle talk.

Later on the Comptroller General of the United States protested the award to you. Did you know that?

Mr. Bardo. I do not think I ever did.

Mr. Raushenbush. He protested it to the Secretary of the Navy on the ground that you were the highest bidder and under that clause should not have gotten one of the ships as you did get one. I offer the protest of the Comptroller General to the Secretary of the Navy for the record as "Exhibit No. 1468."

(The letter referred to was marked "Exhibit No. 1468" and appears in full in the text.)

Mr. Bardo. I never heard of it.

The Chairman. What is the date?

Mr. Raushenbush (reading):

Comptroller General of the United States,
Washington, April 17, 1928.

The honorable the Secretary of the Navy.

Sir: In connection with the preaudit of vouchers presented to this office to be certified for payment under Navy Department contracts for the construction of scout cruisers nos. 26, 27, 28, 29, 30, and 31, it has been brought to my attention (1) that the award of the contract no. NOd–67 for scout cruiser no. 27 was made to the American Brown Boveri Electrical Corporation, the third lowest bidder in price therefor; (2) that the award of the contract no. NOd–68 for scout cruiser no. 26 was made to the Bethlehem Shipbuilding Corporation, Ltd., the second lowest bidder in price therefor; (3) that the proposals for the contracts for the six scout cruisers numbered 26, 27, 28, 29, 30, and 31 limited the number of vessels to two to be constructed by any one bidder; and (4) the contract for only one of the vessels was awarded to the Bethlehem Shipbuilding Corporation, apparently the second lowest bidder in price for two of such vessels.

It is requested that there be furnished this office a report as to the facts involved, together with copies of related papers, relative to the awarding of the contracts for the six scout cruisers, and explanations as to why the awards were made to other than the lowest bidder; and why bidders were each limited to submitting bids on only two vessels.

Respectfully,

J. R. McCarl,
Comptroller General of the United States.

Mr. Bardo. May I ask if you have the Navy Department's reply to that?

Mr. Raushenbush. We are just putting it in. Then, on May 11, 1928, there is a summary here of the report from Construction and Repair and the Bureau of Engineering to the Judge Advocate General of the Navy, answering the Comptroller General, and which I offer for the record as "Exhibit No. 1469."

(The summary referred to was marked "Exhibit No. 1469" and is included in the appendix on p. 4892.)

Mr. Raushenbush. In that they say that actually the bids of the two companies evaluated were really very close on the two ships.

The Chairman. How long was that between the request made by the Comptroller General and the reply of the Secretary of the Navy?

Mr. Raushenbush. The Secretary of the Navy's letter, which I am now offering as "Exhibit No. 1470," was dated June 9, 1928, which was approximately 2 months afterward.

The Chairman. Does the letter indicate why there was such delay, that is, in the Secretary's response.?

Mr. Raushenbush. I do not find it there.

(The letter referred to was marked "Exhibit No. 1470" and is included in the appendix on p. 4893.)

Mr. Raushenbush. Coming to the actual bids themselves, you bid $10,815,000 for the cruiser and got one. Later the Navy asked you to make certain changes, which brought it down to $10,750,000. Is not that right, so far as your memory goes?

Mr. Bardo. I do not recall those things. There are changes constantly going on which you cannot keep track of.

Mr. Raushenbush. We had testimony the other day that bids from Bethlehem and Newport News were such-and-such figure, and Bethlehem was only $33,000 above Newport News. Is not that very close for a bid on a ship involving that figure, for one company to come within $33,000 of the other?

Mr. Bardo. Not necessarily so, when you are dealing with exactly the same factors. You are bidding on an identical ship.

Mr. Raushenbush. You think they can get that close, within a very small fraction of 1 percent?

Mr. Bardo. The facts seem to indicate that they did. I do not see any reason why they should widely differ.

Mr. Raushenbush. On two ships Newport News bid $10,480,000 and Bethlehem $10,540,000, and New York Ship bid $10,708,000, in which case Bethlehem got within $60,000 of Newport News and New York Ship got $168,000 above Bethlehem, still within 1 or 2 percent.

Mr. Bardo. That is for each of two?

Mr. Raushenbush. That is for each of two; yes, sir.

Mr. Bardo. That would depend altogether on what amount each yard applied to the cost of the first ship as covering the second ship.

Mr. Raushenbush. It ought to be noted here, Mr. Chairman, that in the bidding on two, Newport News came down a considerable amount more than the others, and that in its estimates of material and labor it dropped as much as $365,000. Bethlehem in its estimate for two dropped as much as $395,000. In other words, there could have been a saving to Bethlehem of $395,000 in the second ship, but instead of lowering its bid to get under the Newport News bid, it did not drop a large portion of that in savings, although it could easily be dropped as little as $193,000 and have gotten below Newport News on its bid for two cruisers, and, presumably, on that basis, have gotten it.

It did not do it, although it had a very wide margin. It had $395,000 saving estimated, and instead of doing that, it made a comparatively small reduction in its bid for two cruisers.

The estimates from Bethlehem and Newport News are in our possession and will be discussed more fully when they come in.

We did not find on your estimator's sheets yesterday, Mr. Bardo, any special estimate for two ships. Would the calculation of the estimate for those two ships be made by you or your estimating department?

Mr. Bardo. It would not be made by me. It would be made either by the estimating department, in consulation with the engineering and the yard, or could be made by Mr. Workman in consultation with the engineering and the yard as to just what economies they agreed would be effected in the building of 2 ships as compared with 1.

Mr. Raushenbush. Here was the situation, then. You had been in negotiation with the Navy about taking over the Cramp contracts, and had apparently been spending some considerable amount of money before the award of those contracts, and before the award of these scout cruisers contracts, and where Newport News was very definitely below you and Bethlehem on both 1 and 2 cruisers; for Bethlehem was referred to as "center field" before, it is in the middle, and apparently, on the face of it, a little before you on two, but not really as low as it might have been on the basis of its estimate, and where you put in the highest bid and had no particular estimate made out as to the other two companies, for the 2 cruisers and contract for 1 ship, which is protested by the Comptroller General as being high.

Now with all of those complicated elements entering into the situation, was there not any discussion between you and the others outside of those noted here as to the chances of one company or the other getting 1 or 2 cruisers?

Mr. Bardo. There was not. I want it perfectly clear as to that.

Mr. Raushenbush. So far as you know, there was none?

Mr. Bardo. Yes, sir.

Mr. Raushenbush. You were not in it, if there was any?

Mr. Bardo. Yes, sir.

Mr. Raushenbush. Is that what you mean?

Mr. Bardo. I do not know that there was. If there was, I think I would have been in, because it was my job.

Mr. Raushenbush. When they are discussing something as intimate as these oil guaranties, or something as important as the oil guaranties, which were finally the thing which gave the Navy a reason for telling the Comptroller General that your bid for 2 ships was really as low as the Bethlehem bid for 1, you were certainly dealing with matters that turned the award of that contract from one company to the other, were you not?

Mr. BARDO. I certainly was not.

Mr. RAUSHENBUSH. How else could one explain all this?

Mr. BARDO. I was dealing with the situation exactly as we developed it, with out own forces, our own technical crew, and our own estimators, and without regard to what anybody else might say or anybody else might do.

Mr. RAUSHENBUSH. How could the president of the company say " * * * is guilty of having put us in rather a nasty and untenable position with Mr. Grace" of Bethlehem?

Mr. BARDO. I do not know. You will have to find that out from him.

Mr. RAUSHENBUSH. All right. We will try.

(Continuing reading:)

> As regards the outcome of our understanding at a meeting which I attended some time ago.

It would seem that there was a pretty definite understanding on that, would it not?

Mr. BARDO. He evidently refers to the oil guaranties.

Mr. RAUSHENBUSH. The oil guaranties were what finally allowed the Secretary of the Navy to make an explanation that really saved your bid, although it was $100,000 higher, on the face of it, than the Bethlehem bid, and the two actually evaluated about the same, and made an excuse for giving the highest bidder one cruiser.

Mr. BARDO. I gave you the information that our oil estimates, Mr. Raushenbush, are the oil estimates that were developed by our scientific department, our engineering department, and which they submitted to me as the estimates which they were willing to stand behind, and those were the estimates used in our bid, regardless of any understanding or discussion there may have been with anybody else, as to what the oil guaranties were going to be. That is what I mean when I say that competition here is competition in brains more than in price.

Mr. RAUSHENBUSH. Competition in brains more than price, and yet you were pooling the brains at that time in the Marine Engineering Corporation, were you not?

Mr. BARDO. That was done because of the standardization required by the Navy Department.

Mr. RAUSHENBUSH. That kind of competition in price is interesting especially when you pooled the brains on the other side, but what was the purpose of having a meeting on these oil guaranties, in which certain arrangements or understandings can be made which can cause bad feelings of breach of faith, if it was not to deal very definitely with how these bids would be finally presented to the Navy Department? What point would there be at all in talking this over?

Mr. BARDO. I cannot answer that, because, regardless of whether there was an understanding or not, I want the record to be perfectly clear that it had no bearing on the guaranties which we submitted. We submitted the guaranties which our engineering department submitted to us, and we submitted them based on what our estimators gave us as the cost to build the ship.

Senator VANDENBERG. Mr. Bardo, 2 days ago there was a letter submitted here, which you wrote under date of November 21, 1927, "Exhibit No. 1427."[1] I do not know to whom it was addressed.

Mr. RAUSHENBUSH. I think it was addressed to Newport News.

Senator VANDENBERG. That is right. I read the following sentence from the letter, and this is Mr. Bardo speaking [reading]:

> The contract between the three shipyards which brought the Marine Engineering Corporation into existence contemplates, if it means anything, that Marine Engineering Corporation is to be the official mouthpiece of the three yards insofar as their relations with the Department for the cruiser's construction are concerned.

There seems to be no limitation upon the function to be served by this "official mouthpiece." Does not that letter indicate something more than a mere contact with respect to design?

Mr. BARDO. Let me see the rest of the letter, because I wrote a letter to Mr. Palen that I have some recollection of.

Senator VANDENBERG. You are complaining in this letter about a practice. I would be interested to know what it is you are complaining about.

Mr. BARDO. No; I think the genesis of that letter was this: Mr. Palen, who was the representative of Newport News, was a fellow who was inclined to start off—notwithstanding that we had executed a three-party agreement, covering the Marine Engineering—start off and begin to give instructions to Mr. Metten, without the knowledge of the other two yards. I know I called him on the phone about it, and I criticized him, and I said, "If this is a three-party agreement, it must be a three-party agreement. It cannot be a three-party agreement run by one party."

That letter, as I recall it, is what followed the discussion with Mr. Palen.

Senator VANDENBERG. In other words, you are asserting in the letter that Marine Engineering was to be your mouthpiece?

Mr. BARDO. That is right.

Senator VANDENBERG. And you wanted to be very sure that it was your mouthpiece?

Mr. BARDO. That is exactly so.

Senator VANDENBERG. And that everybody knows what everybody else knows? Does not that include in it the bids?

Mr. BARDO. That was purely an engineering matter to get plans for the building of the ships. The bids were all over with and awards made and pricing done, and the Marine Engineering Corporation had been organized, and, as I recall it, he had given Mr. Metten some instructions about some things without the knowledge of the other two, and certainly without my knowledge.

Senator VANDENBERG. Then you are complaining because this partnership seems to be violated, after the bids are let?

Mr. BARDO. This all took place after the awards were made.

Senator VANDENBERG. Did you ever find any breach of partnership before the bids were put in?

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[1] Entered as an Exhibit, during hearings of January 22, 1935, see supra p. 4571.

Mr. BARDO. What do you mean by "partnership"? We had no partnership.

Senator VANDENBERG. The thing you are speaking about. You discussed this three-way institution, that it was your mouthpiece in dealing with cruiser construction and not design.

Mr. BARDO. Of course; it had to do with construction and design. It carried both.

Senator VANDENBERG. Construction includes design and a lot of other things?

Mr. BARDO. Yes, sir.

Senator VANDENBERG. Did you ever have any occasion to complain prior to that time about any lack of exchange of information?

Mr. BARDO. We have not had anything before that, Senator. This Marine Engineering Corporation to which you refer came about as a result of the requirements of the Department to standardize these ships, and the difficulty was that we could not possibly standardize them if we made them from three different engineering organizations.

Senator VANDENBERG. I can understand that, Mr. Bardo. The thing which I want to know is whether your complaint against the failure to completely exchange information does not involve something more than design?

Mr. BARDO. No; not in this case.

Senator VANDENBERG. In any case.

Mr. BARDO. No; not in any case.

Senator VANDENBERG. Is this the only complaint you ever registered in respect to the interchange of information?

Mr. BARDO. No. I registered a number of complaints in the meeting of the board of directors of this organization respecting some things that one of the other yards was doing without keeping everybody informed, as to design and as to construction, through Mr. Metten.

Senator VANDENBERG. When you used this term in the letter—that if the three-way understanding means anything it means it is to be the mouthpiece for cruiser construction—you do not say "design."

Mr. BARDO. It includes design.

Senator VANDENBERG. Of course it includes design, but was it not more than design?

Mr. BARDO. No; because this was aimed particularly at the conversation which Palen had with Mr. Metten where he gave him some instructions. That was after the Marine Engineering Corporation was organized and after all the awards had been made.

Senator VANDENBERG. I understand.

Mr. BARDO. We were all at work getting the job done. Mr. Metten called me and said what had happened. I immediately called Mr. Palen on the telephone and said:

> This is a three-way agreement; and it will not be run by any one man, so far as I am concerned.

Senator VANDENBERG. There was a three-way agreement before the bids were opened, was there not?

Mr. BARDO. No, sir; there was not any three-way agreement. I had a letter on that.

Senator VANDENBERG. That is all.

Mr. RAUSHENBUSH. In this reply of yours to Mr. Wilder on April 22, 1927,[1] coming back to that a minute, the statement is made:

> The award of the cruisers has, therefore, been made first, as a matter of price, to Newport News and to Bethlehem for one ship; and the award to us, in my opinion, has been made in order that all of the yards might have some support in this cruiser-building program and that their organizations might be kept together for the benefit of future Navy work.

The accusation was made the day before by Mr. Wilder that Bethlehem thought there was bad faith between you and, apparently, the other two companies, or at least against Bethlehem; and in this letter of April 22 you used an interesting phrase, namely, "There was no disposition on our part to take any advantage."

That is certainly not what open, arms-length, competition bidding is supposed to be, is it? You are supposed to do everything you can to take advantage away from your competitors. Here you are being rebuked, or somebody is being rebuked, by the president of the company, on what seems to be a double cross of a supposed competitor and your reply was:

> There was no disposition on our part to take any advantage. As a matter of fact, upon a basis of evaluation, Bethlehem and ourselves were on a par as between 1 and 2 ships insofar as evaluated value applied.[2]

Mr. BARDO. By that sort of expression I should say what I meant to convey was this: That our bid was a bid which was made up as a result of the conferences of our men. It was based on our estimates of materials and labor, and upon the best estimate we could make as to what our overhead charges would be, and upon the basis of our guaranties, which our engineering department submitted to us. If I wanted to take advantage of them, of course—you would eliminate some of these items if you wanted to take advantage of your competitor. You would eliminate some of these items in the hope that you probably somewhere would find some way of escaping them later on. That is what I think I meant when making that statement.

Mr. RAUSHENBUSH. How can you eliminate items like that, Mr. Bardo? Are not they definite items? They are not purely fictitious items.

Mr. BARDO. Take the item of overhead—$2,000,000 a year on overhead—and you allocate your overhead on the basis of your productive labor as between the various jobs which you have got in the yard. You might say, "We can shift that one way or another." It is something which you have the right and the prerogative to do. But so far as I was concerned I was always guided entirely by the judgment of the group as to what allocation we ought to put in or how it should be distributed and how we could reasonably expect this work to run and the spread of it. I never undertook to figure, myself, as to what the cost of these jobs was.

I think if you will go through all the bids we have submitted, you will find they have been very consistent all the way.

Mr. RAUSHENBUSH. In what respect?

Mr. BARDO. One following the other.

Mr. RAUSHENBUSH. Is that your information?

Mr. BARDO. I am quite sure it is.

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[1] Entered as "Exhibit No. 1465", see p. 4652.

[2] Ibid.

Senator VANDENBERG. You mean consistent as between the "Big Three"?

Mr. BARDO. No; consistency of bids as we ran along over this cruiser program. We built the *Salt Lake City*, the *Chester*, the *Indianapolis*, and the *Tuscaloosa*, and the new ships.

Senator VANDENBERG. Do I understand that you say your yard never designed any?

Mr. BARDO. You are referring to the Marine Engineering Corporation?

Senator VANDENBERG. Yes.

Mr. BARDO. Yes.

Senator VANDENBERG. Did you not also have an agreement for the exchange of information regarding purchases and prices?

Mr. BARDO. Yes, sir. That was all done through the Marine Engineering Corporation.

Senator VANDENBERG. Precisely. Would not an exchange of views respecting purchases and prices, plus commonalty of design inevitably produce harmonious net results, just as 2 and 2 make 4?

Mr. BARDO. You are talking, Senator, about what happened after the Marine Engineering Corporation was organized, after those awards were all made, and after everybody was getting to work on the job. We took over, in the Marine Engineering Corporation, Mr. Gehr, who had been the purchasing agent for the Cramp Co. Then, in the interest of simplicity and to get that done, each of the three yards delegated to Mr. Gehr the authority to buy for each yard, because it was all duplicate equipment.

That followed after these awards were all made and after the job was under way.

Senator VANDENBERG. Before the awards were made was there no exchange of information regarding prices?

Mr. BARDO. There was not.

Senator VANDENBERG. Prices of material?

Mr. BARDO. Prices of material?

Senator VANDENBERG. Yes.

Mr. BARDO. Take the item of boilers. We might have had a price on boilers for three companies, and we may have asked one another what price was quoted, just to check up and see if we were all getting the same prices.

Senator VANDENBERG. Exactly.

Mr. BARDO. On the price of a particular big item.

Senator VANDENBERG. Exactly. You exchanged this information on everything up to the point of the bid, and at that point you stopped?

Mr. BARDO. Do not make that statement because it is not so.

Senator VANDENBERG. I do not want to make any misstatement.

Mr. BARDO. I do not want it to get in the record. We may have exchanged information. I do not say we did not, but we would get a price on 12 boilers, which is a big item, and I would get the price and I may ask the other fellow, "What price did he quote you?" and find out he quoted the same price. That is all there is to it.

Senator VANDENBERG. Did you have a regular system for the interchange of this information?

Mr. BARDO. No, sir.

Mr. RAUSHENBUSH. Coming back to your statement a moment ago, Mr. Bardo, that the additions which you made were always uniform—do you remeber the statement?

Mr. BARDO. I did not say they were uniform.

Mr. RAUSHENBUSH. Or consistent with each other. Was not that it?

Mr. BARDO. Yes. You are talking now about our bids?

Mr. RAUSHENBUSH. Yes, sir.

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. Always consistent with each other?

Mr. BARDO. I say relatively so.

Mr. RAUSHENBUSH. Let us look at the word "relatively." Here on the *Chester* in 1927, which we have been discussing, your estimate, referred to by Mr. Langell, was $7,950,180, and you added $2,854,820 and put in a bid.

Now in 1929, 2 years later, your estimate was way below your estimate on the *Chester*.

Mr. BARDO. Surely.

Mr. RAUSHENBUSH. This is the *Indianapolis*. It was $7,173,000. That is almost $700,000 lower.

Mr. BARDO. That is right.

Mr. RAUSHENBUSH. And yet, in that year, you added on $3,730,200.

Mr. BARDO. That is right.

Mr. RAUSHENBUSH. With an estimate down $700,000 you added on $900,000.

Mr. BARDO. That is right.

Mr. RAUSHENBUSH. A spread of $1,600,000.

Mr. BARDO. That is correct.

Mr. RAUSHENBUSH. What is there consistent in that?

Mr. BARDO. In one case—I do not recall the precise details—but I would say in one case we probably had 1 ship, and in another case we had 3 or 4 ships, or a lot of work in progress, over which we could allocate the overhead.

Mr. RAUSHENBUSH. In 1929, did you have a lot of other work in prospect?

Mr. BARDO. I think it was in 1929, some time in that year, that we took on the *Manhattan* and the *Washington;* I am not sure.

Mr. RAUSHENBUSH. It was not until 1930, was it, that the awards were made for the *Manhattan* and *Washington*?

Mr. BARDO. It may have been 1930. I would not be sure.

Mr. RAUSHENBUSH. You knew ahead of time that you were going to get the *Manhattan* and *Washington*?

Mr. BARDO. We did not know until the contract was awarded.

Mr. RAUSHENBUSH. We put in the bid of Bethlehem and Newport News $9,750,000 each in 1930, and your bid was below that. Now you come along with an explanation for an inconsistency of $1,600,000 between estimate and final bid on these 1929 cruisers on the ground that you knew ahead of time that your overhead was going to be lower during that period of construction. That all seems to work together, does it not, Mr. Bardo?

Mr. BARDO. Here are other factors. In 1929 we were on a rising flood. Prices, as I recall it, were going up, and likely to go, and we certainly knew that labor was dissatisfied. It was a contract running over a period of 3 years. You have got to make the best estimate and best guess you can as to what is going to happen to you in 3 years.

As to the particular details upon which that final plan was built up, I do not know that I could say now. I should have to go back and review, if they are available, the figures which were used at that time in setting it up.

Mr. RAUSHENBUSH. We are very much interested in that question, that is, how you do arrive at a figure, let us say in this case in 1929, for the *Indianapolis*, and jumped the bid almost $1,000,000 over the bid of 1927; and if you can enlighten us as to how you split that, what goes into taxes, what goes into bonds, interest, what goes into profits, and so forth, we would appreciate it. By the way, roughly, how much proportion of this differential between your estimate and your bid goes to profit?

Mr. BARDO. We never know until the job is all finished and is delivered and final acceptance 6 months later. We never know what we can figure on getting.

Mr. RAUSHENBUSH. Before putting in a bid, you make a calculation?

Mr. BARDO. We do. As I said before, there is a figure of 10 percent for profit.

Mr. RAUSHENBUSH. On what?

Mr. BARDO. On labor and material.

Mr. RAUSHENBUSH. On your estimators' estimate?

Mr. BARDO. Estimate of material and labor added together. I think there are certain parts or elements of the overhead added to that, and we take 10 percent of that.

Mr. RAUSHENBUSH. Which elements of the overhead?

Mr. BARDO. I think it was what you might call out-of-pocket elements of overhead.

Mr. RAUSHENBUSH. Taxes?

Mr. BARDO. No; taxes are not included.

Mr. RAUSHENBUSH. Officers' salaries?

Mr. BARDO. Officers' salaries and all that.

Mr. RAUSHENBUSH. Bond interest?

Mr. BARDO. Bond interest is included in our overhead.

Mr. RAUSHENBUSH. It is one of the items?

Mr. BARDO. It may not be any one of them but a combination of them. As I say, unless I could review that basis upon which we set up that, I could not answer the question in detail.

Mr. RAUSHENBUSH. How can we get it to review it? Where are the papers or the notes which you have made on it, if any?

Mr. BARDO. Usually we would discuss this question with the estimators' stuff in front of us.

Senator CLARK. Discuss which question, Mr. Bardo?

Mr. BARDO. Of what our final price would be.

Senator CLARK. You mean what your final bid would be?

Mr. BARDO. What our final bid would be.

Senator CLARK. I understood your estimator testified here the other day that he had nothing on earth to do with it.

Mr. BARDO. He does not, but I have his estimate in front of us and that is the base line from which we start to go.

Then we have the best information we could get on what the trends of labor, what they would be, and what the trend of prices was likely to be, and the trends of new business were likely to be, and what chances we have of getting it, if we get it at all.

It was with those combinations definitely in front of us at that time, that we set up what was finally our final bid,

Mr. Raushenbush. The 1929 bidding, in which you were able to jump $1,000,000 over your 1927 estimate, had this peculiar characteristic further about it, did it not, Mr. Bardo, that although the Navy had requested the shipbuilders to bid on one and two ships, they actually none of them did so? They only bid on one.

Mr. Bardo. Now, that may be. I would have to go back and refresh my memory a little as to that. I think it was in 1929 I had made a firm contract with the Dawson people to build five ships for them, contingent upon their being able to do certain financing, and I gave them, as I recall it—the contract was made possibly in April or May—and I gave them until August or it may have been later—I extended it once I know—to exercise their option on that building space. My recollection is that with that over our head, I could not afford to compete on more than one Navy ship, if I had the contract, if I had a firm contract to build five ships with relatively short deliveries.

Mr. Raushenbush. And then the *Manhattan* and *Washington* were also coming along?

Mr. Bardo. If they were not awarded until 1930, they were under discussion but I do not think they had gotten to any point where they were reasonably imminent.

Mr. Raushenbush. You testified a little while ago that you were expecting a very lowered overhead on that. Actually, by the way, I see, Mr. Bardo, in 1929, that you were expecting a lower overhead and the addition is a 52-percent increase over your estimate, where the addition for profit and overhead in 1927 is only 35 percent.

So that if you were expecting a decreased overhead, that excess which you were adding on to your 1929 bid leads to this question, Mr. Bardo, how could you have ventured to have added on that much unless you had had some conversations with Bethlehem and Newport News as to what they were going to bid?

Mr. Bardo. I want to make sure that we had no conversation with the Newport News or the Bethlehem as to what they were going to bid, and I want to make equally sure that they did not know what I was going to bid.

I want the record perfectly clear on that. As to that particular question, I could rather expect the situation was just the reverse from what you say it is, and that is that the outlook in 1929 for new business was very light, and that is one reason why we got the larger percentage of overhead applying to that particular business.

Mr. Raushenbush. It is contrary to what you said a little while ago, that you expected a lowered overhead on account of coming business. I said——

Mr. Bardo. I said we may have expected it. I would have to go back. My recollection is not keen enough to remember what particular things we discussed when giving that price.

The Chairman. I think in its present form the record rather indicates that this arrangement which found a right and a left and center, was between the big three in bidding is true as respects all of the bidding that was done by the so-called "Big Three." Is that the case?

Mr. RAUSHENBUSH. We have been trying to find out from the the witness about this matter, Mr. Chairman. There seem to be many indications leading in that direction, certainly in 1927 and 1929, the 2 years we have started on. We have not finished with 1929 at all.

The CHAIRMAN. Do you mean by that, that the positions occupied by the three companies were the same in all of those tests?

Mr. RAUSHENBUSH. No; in 1929, Bethlehem was low and New York Ship was second low. Both of those got cruisers in that year, and Newport News having gotten two in 1927, bid very high compared to its previous bids.

Senator BARBOUR. Mr. Raushenbush, in order to make sure that I am properly following the significance of this questioning, at the same time these ships were being constructed and sold to the Government by private yards, was the Government itself building ships of the same sort in the navy yards, or approximately the same type of ship?

Mr. RAUSHENBUSH. Yes, sir. But I believe, Senator, that in the class bid on in 1927, the 26 to 31 light cruisers, 2 ships went to the navy yards, and in 1929, if I remember correctly, the Dallinger amendment had been passed which made it obligatory for the Government to build an equal number of ships in navy yards, and at that time 3 ships were given to the navy yards.

Senator BARBOUR. That was my impression. I suppose we are chiefly concerned with the final cost of a ship to the Government?

Mr. RAUSHENBUSH. Yes, sir.

Senator BARBOUR. Was there a difference in prices between the cost to the Government in the cases of the navy-yard ships as may have been the case in the other instances to which you are referring?

Mr. RAUSHENBUSH. Sir, the information which was had by the Navy at the time of these bids was, of course, not final cost. That could not be determined until 3 years later, when the ship was finished, both for the private yards and the navy yards.

And at the time, as some of these reports which we have put in show, they had estimates from the navy yards which showed very considerably below the bids of the private yards.

Now the point is that those were not final costs.

Senator BARBOUR. My impression is that there was a great difference between the cost to the Government with respect to the different ships, and more or less the same type in the different navy yards.

Mr. RAUSHENBUSH. Between the different navy yards.

Senator BARBOUR. Yes, sir.

Mr. RAUSHENBUSH. I believe that is correct. Yes, sir.

Senator BARBOUR. That is all.

Senator Clark. That is the thing which caused some complaints to Secretary Mellon because the Navy awarded these ships to the navy yard on the Pacific coast.

Mr. RAUSHENBUSH. The only wire we have is when the bidding was still open and there was talk about it.

Senator CLARK. To make Mr. Mellon intercede in the matter.

Mr. RAUSHENBUSH. The New York Ship claimed to have already spent a considerable amount of money on the ground that there was an understanding that the private yards would get these ships. The point we were trying to make in the questioning was that there was also an understanding on the Cramp contract, that if New York Ship took that over, it would also get one of the scout cruisers.

Senator CLARK. And they were appealing to Secretary Mellon, the Secretary of the Treasury, to make the Navy Department respect that understanding which they had?

Mr. RAUSHENBUSH. That is the significance of it.

Senator BARBOUR. The point I am trying to make, Mr. Chairman, is the fact that even in the case of Government work, they had access to all the information in respect to all the yards, and there is a difference, a justified difference perhaps, in the cost of the manufacture of these ships. I think a study of the situation, as it affected by the Government's own manufacture, it is only fair with respect to a study against the same thing in connection with private manufacture.

Mr. RAUSHENBUSH. Would the Senator suggest that in order to have this information direct from the responsible heads of the navy yards, both as to the estimates they put in and as to the costs, that we ask the Secretary of the Navy to have those various admirals and commandants here?

Senator BARBOUR. So far as I am concerned, it seems to me to be quite as much a part of the picture as concentrating on the part of the manufacturer. I am not inferring that either or both of them have done anything that is improper in relation to the cost. What we are trying to get, apparently, is what these different ships would cost the United States, and I think in such a big undertaking there is bound to be room for a difference.

The CHAIRMAN. Let the committee take under advisement the method of procuring that information.

Mr. BARDO. Mr. Chairman——

The CHAIRMAN. Mr. Bardo.

Mr. BARDO. If I may say so, I have listened quite closely to the comments which have just been made by the other members of the group, and as I interpret that, the import of it is to put on the record a statement to the effect that there was an understanding on the part of the Navy Department with me that if we took over the Cramp cruiser, we would get consideration with respect to the award of additional cruisers.

Now, that is a very unfortunate conclusion; if that is the conclusion which is in the minds of the committee, and as one of the principals in the matter, I want to definitely put on the record that there was no such understanding.

Senator CLARK. There was an understanding, to which you referred in your telegram, Mr. Bardo.

Mr. BARDO. That was not to my understanding.

The CHAIRMAN. What was the understanding to which you referred?

Mr. BARDO. It was not to that understanding, and I want to be sure of it.

Senator CLARK. What was the kind of understanding to which you were appealing to Secretary Mellon to make the Navy Department refrain from giving the awards to the navy yards?

Mr. BARDO. I think that may have had its genesis more or less in the fact that the private yards had gone on their standardization of engineering in the organization of the Marine Engineering Corporation, and that on the things which we had done were entitled to get this work.

Senator CLARK. You say here:

> A. W. Mellon, Secretary of the Treasury Washington, D. C. (copy to Eighteenth Street and Massachusetts Avenue, Washington).
>
> On April 5 we submitted bid for 2 scout cruisers out of 6 to be constructed the understanding was that this construction would be done by three remaining private yards.

With whom did you have the understanding?

Mr. BARDO. If there was an understanding—and that may have been the unfortunate use of language——

Senator CLARK. I would say so, Mr. Bardo.

Mr. BARDO. I only want to clear up the point that you are trying to put something into their hands or into the Navy here, that would be unfortunate because I do not want that impression to prevail.

Senator CLARK. What impression do you intend to create on Secretary Mellon's mind by saying that the understanding was that this construction would be done by the three remaining yards?

Mr. BARDO. Because I think, that is probably an unfortunate use of certain language. I want to make clear that the Navy had nothing to do with it, so far as I am concerned.

Senator CLARK. You did have an understanding?

Mr. BARDO. I do not know just what that particular language means.

Senator CLARK. You go on and say:

> Acting in good faith and on this assumption we expended large sums of money in preparation for this work.

You must have relied on that understanding or you would not have spent large sums of money.

Mr. BARDO. We had to rehabilitate the yard, as it had gone down since that time.

Senator CLARK. You certainly must have known with whom the understanding was or you would not have spent the money.

Mr. BARDO. I want to make sure it was not with the Navy Department on the Cramp cruiser.

Senator CLARK. With whom was it?

Mr. BARDO. I cannot say whom it was with.

Senator CLARK. You were not in the habit of spending large sums of money on understandings when you did not know with whom the understanding was, were you?

Mr. BARDO. I will grant that is true, Senator. It is something that I do not want to misinterpret.

The CHAIRMAN. If the understanding was not with the Navy Department, was it with Mr. Mellon?

Mr. BARDO. No; I never talked to Mr. Mellon—I say I never did; I did just meet him once, incidentally.

The CHAIRMAN. Did Mr. Mellon reply to your telegram at all?

Mr. BARDO. I do not think he did.

Senator CLARK. Did you understand he had control over the Navy Department?

Mr. BARDO. No.

Mr. RAUSHENBUSH. But you did receive one cruiser and the other two yards did not bid on the Cramp cruiser. You got the one scout cruiser, although you were high and the other two yards did not bid on the Cramp cruiser.

Mr. BARDO. That is true. The record is clear, but I have no apologies to make on that.

Senator BARBOUR. What I have in mind is the fact that there is some discussion as to the differences in price which your yards charged for different ships, and I think there might be the same difference comparing it with the Government yards and the relations on which they bid.

Mr. BARDO. I think that is true, Senator.

I have reviewed the reports of the Navy Department and I think you will find there that in the cost of cruisers built in the navy yards that there is quite a fluctuation of cost.

Senator BARBOUR. That is the only thing involved in my observation.

Mr. BARDO. I think the records of the paymaster's department will disclose that.

The CHAIRMAN. Is Mr. Parker present?

Mr. PRUITT. He was excused until next Tuesday.

The CHAIRMAN. Who is there who can speak for the New York Shipbuilding Corporation here today?

Mr. PRUITT. About what, Senator?

The CHAIRMAN. Merely a request that the committee has for information that we would like to have gathered and brought to the committee.

Mr. PRUITT. I am here as their counsel. I would be glad to get whatever you want.

The CHAIRMAN. Senator Vandenberg has a request for information which the committee would like.

Senator VANDENBERG. I would like to have a statement showing the total insurance and the premiums upon that insurance placed by the New York Shipbuilding Corporation during the last 5 years, with what companies placed, and through what agents.[1]

Senator CLARK. I just want to ask one other question.

The CHAIRMAN. Go ahead.

Senator CLARK. Mr. Bardo, how did you happen to send this telegram to the Secretary of the Treasury instead of the Secretary of the Navy?

Mr. BARDO. I think largely on the fact that he was a member of the Cabinet and would probably have some influence and might be helpful.

Senator CLARK. Since he had formerly owned control in the New York Shipbuilding Corporation and was still also retaining bonds of it, did that have anything to do with your appealing to him?

Mr. BARDO. No; I do not think that was the answer.

Senator CLARK. You communicated with him because he was a member of the Cabinet and could discuss it in the Cabinet meeting rather than take it up with the Navy Department?

Mr. BARDO. I know I discussed it with the Navy.

Senator CLARK. Did you wire any other Cabinet members?

Mr. BARDO. No, sir; I did not wire any other Cabinet members.

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[1] Statement requested was supplied to committee on Feb. 16, 1935. See Hearings, Part XIX, p. 5081

Mr. Pruitt. Mr. Chairman, I believe you were about to adjourn, and, before doing so, in view of Mr. Bardo's refusal to sign the waiver, and in view of your statement that there were certain transactions after 1931 about which you do not wish to examine him, I have a very short statement I would like to make, on behalf of the Cord Co., the present owners of this company. May I do so?

The Chairman. You may.

Mr. Pruitt. Cord Corporation which controls New York Shipbuilding Corporation through stock ownership, has learned that C. L. Bardo, former president of the New York Shipbuilding Corporation, has refused to sign the waiver requested before testifying before the Senate Munitions Investigating Committee. In view of this situation, it is deemed necessary to explain that the present owners of the New York Shipbuilding Corporation have no control over or responsibilities for the actions of any former officers or directors of the New York Shipbuilding Corporation, nor for any transactions of the company which occurred prior to August 1933 when Cord Corporation's first purchase of New York Shipbuilding stock was made.

This stock was purchased as a business investment in the belief that the shipbuilding industry under existing conditions afforded an opportunity for profitable investment, as well as service to this country. No effort has been made or will be made to hamper the committee in carrying out its investigation, and we will approve any honest effort to bring about the adoption of legislation which in the event of another war will enable the Navy Department in its purchases of ships and equipment, to avoid the mistakes and costly errors of the past. All present officers and employees of New York Shipbuilding Corporation are ready and have been willing at all times to testify before your committee when properly requested to do so.

That is, as far as we are able to do so, we will bring them here and have them testify.

The Chairman. The committee will be in recess until 10 o'clock tomorrow morning.

(Thereupon, at 12:20 p. m., a recess was taken until tomorrow, Friday, Jan. 25, 1935, at 10 a. m.)

INVESTIGATION OF MUNITIONS INDUSTRY

FRIDAY, JANUARY 25, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m. in room 357 Senate Office Building, pursuant to the recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Bone, Pope, and Vandenberg.

Also present: Stephen Raushenbush, secretary to the committee.

The Chairman. The committee will be in order. Mr. William Calvin.

TESTIMONY OF W. A. CALVIN

FAILURE OF 1933 EMERGENCY EMPLOYMENT PROGRAM

(The witness was duly sworn by the chairman.)

The Chairman. Give your full name and your capacity.

Mr. Calvin. W. A. Calvin, secretary and treasurer Metal Trades Department, American Federation of Labor.

Mr. Raushenbush. Mr. Calvin, you were subpenaed to come before the committee today. Will you tell us of the events leading up to certain protests you addressed in regard to the matter of the shipbuilding program?

Mr. Calvin. To do that intelligently I believe it will be necessary to give a brief résumé of the naval-construction program of 1933 under the N. I. R. A.

A committee, representing organized labor, realizing the necessity for the construction of several naval vessels, ascertained from the Secretary of the Navy and from the White House that they would welcome a treaty-strength Navy. Consequently, organized labor—and I say that meaning the American Federation of Labor in cooperation with the Metal-Trades Department—gave its full support to legislation leading up to the treaty-strength Navy bill.

Senator Pope. That is the so-called "Vinson bill"?

Mr. Calvin. The Vinson bill, but prior to that in 1933 appropriations were obtained in the amount of $238,000,000 for the construction of naval vessels.

Mr. Raushenbush. Mr. Calvin, let me interrupt a moment. Was not that rather a change in the historic policy of the labor groups in regard to such matters?

Mr. Calvin. During recent years considerable attention has been given to the maintenance of an adequate national defense by the labor organizations. In bygone years they did not take a very active part in the preparation of naval and military defenses. But during more recent years, they have looked with favor upon the maintenance of an adequate national defense.

Mr. RAUSHENBUSH. Will you proceed.

Senator POPE. What sort of official action did you take to show that attitude or policy?

Mr. CALVIN. In conventions of the metal trades department, and more recently of the American Federation of Labor, we have approved of resolutions—this is before my time but I know of the action—we have approved of a resolution providing for an adequate national-defense system.

In 1933, when the National Industrial Recovery Act was adopted by the Congress, we were actuated by possibly selfish motives. We, representing labor, wanted to see as many of our workers placed at work as we could possibly obtain, and to do that, of course, we sponsored this naval construction program which would relieve the distressing unemployment conditions prevalent throughout the shipbuilding industry.

Senator POPE. Do you think that was the primary reason for it?

Mr. CALVIN. That was the selfish reason. Then, again, we were actuated by a desire to have an adequate Navy for defensive purposes.

Therefore, we did lend our full support to legislation leading up to the appropriation or earmarking of funds for naval construction.

The administration, being fully cognizant of the conditions of unemployment which contributed of course to the adoption of the National Industrial Recovery Act, acting in good faith, inserted in each and every contract provisions that all contractors would disregard the otherwise normal progress in the construction of ships and would exert themselves to restore and reemploy the largest number of men possible, especially during the first and second twelve-month periods of the contracts.

Therefore we assumed, owing to this language which I am quoting from the contract, that that would be done [reading]:

> Owing to the national emergency existing, making it imperative that the maximum number of men be returned to gainful employment without delay and to effectuate the purpose of the National Industrial Recovery Act, approved June 16, 1933, the contractor hereby expressly agrees that from the beginning he will prosecute the work with the utmost vigor and dispatch and will make every possible effort, without reference to the otherwise normal rate of progress, to accomplish the maximum amount of work within the first and second year thereof.

In addition to that language, which is admittedly strong, the contractors were requested by the Navy Department to estimate the degree of completion that would be accomplished on each and every vessel during the first and second years of the contracts.

Being aware of that, and being interested in restoring our men to gainful employment, I obtained copies of the progress reports of the Navy Department per month, and I could not help but notice that in no instance were the contractors meeting the estimated degree of completion. Consequently, I protested the delay in the construction of the naval vessels, because our members were still unemployed, both in private and navy yards. The navy yards, being dependent upon private yards for plans from which they might proceed with construction, had a large number of men on rotative leave and furlough.

Senator VANDENBERG. Mr. Calvin, do you consider that the navy yards are still dependent upon private contractors for designs?

Mr. CALVIN. The contracts for the preparation of the designs and engineering plans have been awarded to private contractors. That is not an evasive answer, but that is the best one that I can give at the present time.

Senator VANDENBERG. I wondered if you had any information on the subject. I am very much interested in this apparent inability of the Navy Department in the matter of construction of private design. I was wondering if you, from your general contact with the problem, can tell us whether it is your opinion that the Navy is dependent upon private designs?

Mr. CALVIN. I would assume that the Navy is dependent upon the private contractors for designs, in view of the fact that the new naval vessels are being constructed under designs prepared by private contractors and the ships being constructed in navy yards are built from those designs.

Senator VANDENBERG. Go ahead with your story, please.

Mr. CALVIN. In carrying our protest to the various people whom we contacted, and finally to the Metal Trades Department convention in San Francisco last September, I decided that to portray the picture in the most intelligent manner possible that it would be advisable to have a chart showing the exact conditions prevalent in the yards.[1] I have that chart and would be glad to display it, if the committee so desires.

Mr. RAUSHENBUSH. Let us look at it.

Mr. CALVIN. The difficulty is going to be in spreading this thing out. It is about 12 feet long.

Mr. RAUSHENBUSH. I will give you a hand with it.

Mr. CALVIN. This represents, as far as I am able to ascertain, the number of available shipbuilding ways in navy yards, and the number of contracts or orders in the navy yards, which indicates a considerable degree of congestion which may be prevalent in the yards. For instance, we have Puget Sound with the 1933 contracts and the 1934 contracts, which cannot go on until one ship at least is launched.

Mare Island is in the same condition. This "S. S." is a submarine. If you understand naval terminology, "S. S." is submarine. "C. L." light cruiser, "C. A." is armored cruiser, "D. D." is destroyer, "P. G." is gunboat, and "C. V." is aircraft carrier.

That is a submarine ordered in 1934 [indicating on chart]. Those 2 are destroyers, 1 partly completed and the other keel, I believe, is laid [indicating on chart]. The 1934 destroyer, the keel has not been laid.

Charleston, S. C., has 3 harbor cutters, being small cutters for the Coast Guard, 1 cruiser cutter, and 1 gunboat.

Norfolk, Va., with 2 large ways and 1 way too small to be serviceable, has contracts or orders for the construction of 5 destroyers and the keels for the 1933 destroyers have just been laid.

At Philadelphia contracts or orders are now on hand in the navy yard for a destroyer no. 372, Coast Guard no. 65, Coast Guard no. 68, light cruiser no. 41. This cruiser was ordered in August of 1933 and the keel has not yet been laid, and our men are walking the streets on rotative leave in many instances.

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[1] A chart similar to the one mentioned above by Mr. Calvin was entered into the record as "Exhibit No. 1471." See appendix, facing p. 4893.

Coast Guard no. 66 and Coast Guard no. 67, destroyer no. 373, cannot be on the ways until something is launched. And the armored cruiser no. 341 cannot get on the way until space is available. The New York Navy Yard has the light cruiser no. 40, awarded in August of 1933. The keel has not yet been laid. This is the cruiser for 1934 and the keel cannot be laid until some of these ways are cleared to put that keel down.

We have the destroyer 353, Coast Guard no. 70, gunboat no. 50, Coast Guard no. 69 there. On the light cruiser or two light cruisers, rather, keels have not been laid, and the keel has not been laid for Coast Guard cutter no. 69.

Mr. RAUSHENBUSH. Pardon, Mr. Calvin, a minute. You are speaking as of the progress reports as of August 1, 1934?

Mr. CALVIN. I am speaking as of the progress reports as of August 1, 1934; yes. This was prepared at the expiration of the first 12 months of the contracts.

We have the same conditions of congestion in the Boston yard. I think these 2 have been completed and launched [indicating] and 4 are yet to be constructed, all destroyers.

Portsmouth, N. H.: They are making rather splendid progress on the submarines of 1933, but there is another submarine which will have to be constructed after one is launched.

Now at the expiration of the first 12 months of the contracts in the private shipyards, we find Newport News with 2 aircraft carriers, and in 1934 they were awarded 1 light cruiser. There is no congestion in the Newport News shipyard. They have ample building ways for the construction of additional vessels. However, we are particularly regretful that they have not made more progress on the aircraft carriers, because the employees in that district have suffered terribly as a result of unemployment.

The New York Ship of Camden, N. J.: You can see the picture of a full yard at the expiration of the first 12 months of contract.

This "C. L." no. 43, the light cruiser no. 43, was awarded at the same time that the light cruiser no. 42 was awarded, and I am not positive, but I think the Navy progress report of January 10, 1935, indicates that the keel for the no. 43 here has not yet been laid. There are 4 heavy destroyers occupying 2 large ways, 2 destroyers on each way, and there are 2 tankers, occupying 2 ways, and I understand they are 42 or 41. I understand that one tanker has been launched, which will make it possible to lay the keel for the no. 43, and I assume that the other tanker, which was placed at the same time will also be launched, which will make it possible to lay the keel for the cruiser of 1934.

The United Drydocks has just room enough to handle all of their contracts but has fallen down on the degree of completion, as estimated.

The same is true of the Federal Shipbuilding Corporation. They have 4 ways and 4 contracts.

Bethlehem Ship has room enough for all the contracts, 2, 4, 6, 8 contracts, 2 cruisers and 6 destroyers.

Senator VANDENBERG. Can Federal Ship build a cruiser?

Mr. CALVIN. I assume that they could, if they are capable of building Government destroyers, flotilla leaders, 1,850-ton destroyers and have the proper personnel, I assume they can construct a cruiser. The only difference in the ships is that one is a larger ship than the other.

Bethlehem is full. Bethlehem estimated 26.6 percent degree of completion in the first 12 months, and they have made very good progress. They have 21.7 percent accomplished at the expiration of the first 12 months.

Electric Boat has made very splendid progress on her submarines of 1933. They are preparing plans for the 1934 submarines, and have made considerable progress on the submarines of 1933, and were awarded three more in 1934.

The Bath Iron Works of Bath, Maine, has 4 ways and 2 destroyers, 1933 destroyers. They estimated 15.5 percent in the first 12 months and actually accomplished 8.4 percent according to the progress report.

Senator VANDENBERG. That all represents contracts?

Mr. CALVIN. On all this side represents the contracts to private shipbuilders [indicating], and on this side it represents the navy yard orders.

Senator VANDENBERG. And appropriations were allocated in each instance for all of these ships?

Mr. CALVIN. Oh, yes.

Mr. RAUSHENBUSH. Mr. Calvin, before you take that chart down, could you explain the column which you have over there on the right?

Mr. CALVIN. This, of course, is rather ancient now. This was at the expiration of the year. This is the first 12 months of construction progress in the 1934 program.

Mr. RAUSHENBUSH. You mean up to August 1, 1934?

Mr. CALVIN. Yes; for the 1933 contracts up to August 1, 1934. Contracts are shown for 2 aircraft carriers, 2 heavy cruisers, 2 light cruisers, 8 one-thousand-eight-hundred-and-fifty-ton destroyers, 6 fifteen-hundred-ton destroyers, and 2 submarines, and the total of 21 keels were laid except the keel of the "C. L." 43.

The percentage of completion, for the average of all yards, promised which might better be termed "estimated", for the first 12 months is 22.2 percent, actually accomplished 12.8 percent.

Mr. RAUSHENBUSH. Let me interrupt there a minute, Mr. Calvin. When you say "promised" or "estimated", you mean when the bids were put in with the Navy, they say they are going to be done in 24, 36, or 45 months. Is that what you base that on?

Mr. CALVIN. In my previous statement I said that in addition to the language which I read from the contract form that on each and every contract the contractor was required to estimate the degree of completion that would be accomplished in the first and second 12 months' periods of the contracts. So that there estimations were very high.

The time required to complete the 1933 contracts, at the rate of progress made during the first 12 months' period of the contract, would be 7 years, and on the left with reference to navy yards, due again to their dependence on private yards for engineering plans and designs, we find that at the expiration of the first 12 months of contracts, while 14 ships were ordered for construction in the navy yards, in August 1933 only 2 keels had been laid at the expiration of a year. That is why we complained. Our men were not going to work, and they were hungry, and their dependents were hungry.

The percentage of completion in all navy yards during that 12-months period was only 4.6 percent, and the time required to complete all contracts of 1933 at the rate of progress accomplished within the first year would be 20 years.

Senator VANDENBERG. Mr. Calvin, will you say it again, why you think the progress in the navy yards is so much slower than in the private yards?

Mr. CALVIN. It is a personal opinion, that it is due to the dependence of the navy yards on the private yards for engineering plans and designs.

Senator VANDENBERG. Exactly.

Mr. RAUSHENBUSH. Are you through with the chart?

Mr. CALVIN. Yes, sir; Thank you so much.

I want to submit for the record a copy of the progress report issued by the Navy Department as of January 10, 1935. This is official, showing the number of contracts on hand in each private yard, also the orders on hand in navy yards.

Mr. RAUSHENBUSH. Mr. Chairman, I think we can take that as an exhibit. We have the same thing here, and for the information of the committee we have prepared this chart, to which I call your attention, dated January 1, 1935, which differs to some extent from the chart which you have just seen. The number of ways is not put in there, but it is marked in one different way. The ships having dots show the ships for which P. W. A. money was given, and that is a correct report based on that exhibit.

The CHAIRMAN. Then let the exhibit which has just been handed to the chair be identified for the record.

(The Progress Chart for Naval Shipbuilding referred to was marked "Exhibit No. 1471" and is included in the appendix, facing p. 4893.)

Senator VANDENBERG. Mr. Calvin, referring again to this delay caused by reliance upon the designs of private yards, what, in your opinion, is the reason that private yards are unable to facilitate the designs for the navy yards? Is it due to the fact that they have not the adequate capacity, or that they subordinate the Navy necessities to their own, or what is the cause in your opinion?

Mr. CALVIN. Senator, I do not think I can answer that question.

Senator VANDENBERG. I thought perhaps you might have an opinion. I know you are not a technician.

Mr. CALVIN. I am really not familiar enough to say. It is not that I have any hesitancy in answering the question you propounded, to the best of my ability, but I know that there is an abundance of competent draftsmen and designers who would be only too glad to have employment. It is certainly not on account of securing employees or potential employees, because there is an abundance of these draftsmen, marine draftsmen and architects, who would be delighted to have work.

Senator BONE. Mr. Calvin, do you have any studies indicating the tonnage now on the ways in private yards and navy yards?

Mr. CALVIN. I think possibly I have. Yes; I will submit this for the record [producing paper].

(The data referred to was marked "Exhibit No. 1472" and is included in the appendix on p. 4894.)

Mr. CALVIN. Necessary to build up to Navy strength: Airplane carriers, three; tons, 55,000. According to the award of August of 1933, two were awarded in the amount of 40,000 tons.

Senator BONE. You mean 40,000 tons?

Mr. CALVIN. 40,000 tons. Leaving one airplane carrier still to be constructed, a 15,200-ton vessel.

Cruisers B, necessary to attain treaty strength, are seven of 73,000 tons. Four have been awarded up to August 1933, of 40,000 tons, leaving three of 33,000 tons yet to attain treaty strength.

Senator BONE. I do not know yet whether you understood my question. I am talking of the allocations, where made to the Government yards and the private yards. Have you any figures indicating what proportion is going to each of the yards? I do not mean in category of vessels but in tonnage.

Mr. CALVIN. On a tonnage basis, in 1933, the navy yards came out very light. Of course there was no application of the tons of the Dallinger amendment in 1933. Twenty-one vessels went to private yards and fourteen to navy yards, which according to the chart practically filled the yards.

But on a tonnage basis, the heavier ships went to the private yards. For instance, in 1933 the navy yards' heaviest ships were the light cruisers—10,000-ton cruiser. The rest, and most of the navy yard awards in 1933, were submarines and 1,500-ton destroyers. They did not get any of the flotilla leaders, the 1,850-ton destroyers. So that on a tonnage basis the navy yards were considerably below the private yards.

The CHAIRMAN. Mr. Calvin, there has been large appropriation of Public Works funds, has there not, for this building program?

Mr. CALVIN. Yes, sir.

The CHAIRMAN. What advantage lies in that, so far as the Government yards are concerned? Are they making use of the Public Works money?

Mr. CALVIN. Senator, in the navy yards many of those have been placed, but unfortunately the progress on those for construction has been very unsatisfactory, so far as labor is concerned. We still have navy-yard employees on rotative leave and furlough. Seventeen months after these orders for ships have been placed in navy yards, the work has not started, and our men are walking the street destitute.

Senator BONE. Is it because the slips are full and the facilities are all being used, or what is the reason in that case?

Mr. CALVIN. The work in many instances has not started. For instance, in Philadelphia the C. L. No. 40, the light cruiser No. 40, was awarded to that yard in August of 1933. The keel has not been laid for that ship. Certainly the mechanics cannot go to work until they are prepared to lay keels and start the work on the hull and frame.

The CHAIRMAN. Mr. Calvin, coming back to my question, are the moneys which were appropriated out of Public Works funds being expended at this time?

Mr. CALVIN. The money is being expended, but so far the benefits to navy-yard employees have not been very great. I understand that a lot of equipment is being purchased, machinery must be purchased for the vessels which are to be constructed, various naval vessels appurtenances must be purchased, which, of course, does call for the expenditure of huge sums of money.

The CHAIRMAN. But have not appropriations been made for that direction?

Mr. CALVIN. Oh, yes; the money has been appropriated.

The CHAIRMAN. How long is it going to take before there is need for the moneys which have been appropriated from the Public Works fund for this naval-construction program?

Mr. CALVIN. A lot of that money, as I say, has been expended for steel, for equipment, and for component parts of vessels.

Our complaint is that the membership of the shipbuilding organizations and shipyard mechanics and navy-yard mechanics, are not deriving benefit in sufficient proportion to what they should be getting since the program for the construction of a treaty strength Navy has been adopted. I want to submit for the record this indication of tonnage now ordered and awarded by contract and order, and the tonnage still necessary to attain treaty strength.

Mr. RAUSHENBUSH. Is that an official preparation, or what is it?

Mr. CALVIN. This is taken and copied from the Navies of the World comparative statistical data for the Committee on Naval Affairs, December 31, 1932.

(The statement referred to was marked "Exhibit No. 1473" and is included in the appendix on p. 4894.)

Senator VANDENBERG. Mr. Calvin, would it be a fair interpretation of your charts, which interest me tremendously, that for some reason, work in the navy yards appears to be either less efficient or less expeditious than in the private yards? Is that a conclusion to be drawn from your charts?

Mr. CALVIN. On account of my familiarity with the navy yards and the personnel in the navy yards, I would hesitate to say that they were less efficient, because some of the best mechanics obtainable, the best supervisors obtainable, are employed in navy yards.

Senator VANDENBERG. Then it is not a matter of efficiency. Is it solely this matter of design and the necessity for relying externally for design?

Mr. CALVIN. It would be rather difficult for me to say what it is. I would suggest that someone representing the navy yards be summoned before this committee to explain, if they can explain, why this work has been delayed to such an extent that this protest was entered.

Senator VANDENBERG. That is what I am trying to get at. It is obvious that there is some factor which holds things up in the navy yards as compared with the private yards.

Mr. CALVIN. Very obviously; yes, sir.

Senator VANDENBERG. You do not think that it is a greater efficiency, but it is some other kind of a factor?

Mr. CALVIN. Exactly. I will say that the navy yard civilian personnel are as efficient, certainly so far as mechanics are concerned, as any employees anywhere.

Senator VANDENBERG. Have you ever heard the suggestion that in connection with this necessity for external design that it might be to the interests of the private shipyards to retard the expedition which is accomplished in the navy yards?

Mr. CALVIN. I have heard a lot of things like that, Senator, but it is just hearsay, somebody talking about why we were not working, and all that sort of thing. Naturally, when a man is unemployed and his dependents are looking to him for support, and he cannot obtain support, he has a lot of queer notions from time to time.

Senator VANDENBERG. You have no information?

Mr. CALVIN. No positive information; no, sir.

Senator VANDENBERG. If we could identify this factor which retards the navy yards' progress, we would largely answer the problem which you have in mind?

Mr. CALVIN. You would, and I would welcome such an identification.

I am now submitting for the record, analysis of the progress report of January 10, 1935, indicating the degree of work estimated or the degree of completion estimated by the private shipbuilders during the first and second 12-month periods of their contracts, then reduced to 17 months on their own figures, indicating the degree of completion which would have been accomplished had they lived up to their estimated progress, the degree of actual completion, and the default over their own estimates.

I submit that for the record.

(The statement referred to was marked "Exhibit No. 1474" and is included in the appendix on p. 4894.)

Mr. RAUSHENBUSH. Mr. Calvin, on that matter, did I gather from your testimony that they were asked in some way to speed up on this matter, and then made new estimates as to how fast they could complete the work?

Mr. CALVIN. To expedite the reemployment of many thousands of men.

Mr. RAUSHENBUSH. Was that done in connection with the P. W. A. funds?

Mr. CALVIN. It was; yes, sir.

For the committee's information, you can obtain copies of the contract form signed by the contractor and by Navy Department officials, showing the degree of completion promised on each ship.

They are obtainable at Ninth and F, at the Old Patent Office.

I would also submit the progress report of January 10, 1935, some notations of my own on the right-hand side showing the accomplishment and the estimated accomplishment.

(The document above referred to was marked "Exhibit No. 1475" and is included in the appendix on p. 4896.)

Mr. CALVIN. I also wish to submit for the record the official statement as to the number of shipbuilding ways in navy yards and their present condition.

(The statement referred to was marked "Exhibit No. 1476" and is included in the appendix on p. 4899.)

The CHAIRMAN. Mr. Calvin, when there is agitation this winter, as there will be, and as there has been each winter, for larger construction of our naval requirements in the Government yards, is it not obvious that the answer is going to be that the navy yards are not able to take care of what has already been allotted to them?

Mr. Calvin. Certainly. The indication is that the 1935 and 1936 naval building programs, assuming that there will be such programs, will be said to be such that the congestion will obviate the possibility of division of ships between the navy yards and private yards on numerical divisional basis.

That, of course, is caused by the fact that the Navy Department only had, according to a statement I received last summer, 13 serviceable ways. Many of the ways, you understand, are large enough to accommodate 2 to 3 vessels and a graving dock can take 4 vessels.

The Chairman. What are the costs, roughly, Mr. Calvin, of building these ways? Let us say an additional way at Norfolk, what would it cost?

Mr. Calvin. I am not entirely clear on that, but I understand a temporary way, capable of holding a destroyer, can be constructed for approximately $30,000, but I am not sure of that. It seems that someone told me that temporary ways could be constructed for that.

Senator Bone. Have you had occasion to look over these various Government yards?

Mr. Calvin. Pardon?

Senator Bone. Have you ever, in your experience, looked over these Government yards?

Mr. Calvin. It is necessary, as a representative of the Metal Trades Department, that I visit certain yards from time to time. I have visited several navy yards.

Senator Bone. It is quite possible to expand their size, is it not, in the matter of slips and so forth?

Mr. Calvin. Yes, sir; that is possible.

Senator Bone. That was testified to by one of the admirals in hearings before the Naval Affairs Committee.

Mr. Calvin. I think it is always possible to do it everywhere.

Senator Vandenberg. It will not do any good to expand the navy yards, as long as they are tied down by this external design.

Mr. Calvin. We would be delighted if the navy yards were operating at their full capacity now, sir.

There is one other thing, gentlemen of the committee, that I would like to mention, and I consider that of vital importance, and that is the construction necessary to attain treaty strength. Now I am informed that to attain treaty strength, 146 new naval vessels must be constructed, ranging in type from submarines to aircraft carriers. But during the next 2 years of our present fleet of 377 vessels, 291 will become over-age and consequently obsolete. An over-age naval vessel is not a modern vessel and we have practiced limit armaments in this country to an almost dangerous degree, while other nations have been building right up to treaty strength.

I want to impress this fact upon you in the most forceful manner possible: That from 1922 to 1933, the United States laid keels for 44 naval vessels, while Great Britain laid keels for 151, Japan 153, Italy 140, and France 145.

Therefore, to attain treaty strength, we not only have to build 146 vessels, to attain our quota as provided for in the naval treaties, but we also must replace 291 vessels which will become over age and obsolete.

Senator BONE. How much do you suppose it would cost to build those 291 vessels at present-day prices?

Mr. CALVIN. That is rather a difficult thing to estimate, because the prices fluctuate. Destroyers and submarines cost in the neighborhood of $3,000,000 plus.

Senator POPE. These over-age vessels could be modernized?

Mr. CALVIN. They are modernizing some of our dreadnaughts from time to time. It will cost approximately $10,000,000 to modernize a superdreadnaught. Then our destroyers cost approximately 3½ million dollars, we will say, it may be a little more or maybe a little less. Cruisers are now running in the neighborhood of 11½ million dollars, or 11 million dollars plus.

Mr. RAUSHENBUSH. That is without armament, is it not, Mr. Calvin?

Mr. CALVIN. Yes, sir.

Senator VANDENBERG. The cruiser neighborhood is a pretty big neighborhood, is it not?

Mr. CALVIN. Yes, sir. Aircraft carriers, of course, are a much larger ship and they cost considerably more.

Senator BONE. The figures which you are employing are based on what? Some calculations of 2 years ago, or present calculations?

Mr. CALVIN. Predicated upon the contract prices of 1933 and 1934.

Senator BONE. You are aware, are you not, that bid prices on certain types of cruisers have gone up 100 percent in the last 2 years?

Mr. CALVIN. I was aware of a rather tremendous increase, but I did not know exactly what the percentage was.

The CHAIRMAN. Do you know, Mr. Calvin, the comparative costs as involved in British construction and our own?

Mr. CALVIN. No; I am not familiar with that, Senator.

The CHAIRMAN. Have you made any recent study on it?

Mr. CALVIN. No. But possibly I am American-egotistical enough to believe that we can construct ships as cheaply in this country and as efficiently as they can be constructed in any country in the world.

The CHAIRMAN. While even paying a little better wage to the workers than they do abroad?

Mr. CALVIN. It just happens that I spent approximately 5 years on the other side during the war. Naturally, an American shipbuilder and boilermaker, on my furloughs I would visit the plants of the shipbuilders and fraternize with the shipbuilders along the Clyde. And regardless of the fact that the American workman may receive a higher wage rate per hour, that does not mean anything because on the productivity, you will find the productivity per man-hour and per mechanic in the United States to run all the way from 25 to 50 percent, and in some instances up to 75 percent higher than that of his competitive European workman.

Senator POPE. That applies generally to industry, does it not?

Mr. CALVIN. That applies generally, not only to shipbuilding but to any industry you can name.

Senator BONE. You do not find the shipbuilding industry agreeing with you on that theory, do you?

Mr. CALVIN. I have not had an opportunity of discussing that with very many of the shipbuilding industry.

Senator BONE. That is not their argument.

Mr. Calvin. I possibly am a little bit fanatical on that one subject, because I have heard so much discussion, so much argument, about the cheaper European labor, and I am so familiar with the European labor, that I realize that the hourly cost means nothing. You have to predicate any estimation of that on the productivity of your mechanical personnel.

Senator Clark. In other words, it is your contention that the greater efficiency of our labor makes up for higher price in the cost of the product?

Mr. Calvin. Certainly; and it does.

Senator Vandenberg. Mr. Calvin, would you be able to state in a general way what the percentage of increase in American labor costs was between January 1933 and August 1934? That is a spread of about 18 months.

Mr. Calvin. The percentage of increase?

Senator Vandenberg. Yes.

Mr. Calvin. In wages of mechanics?

Senator Vandenberg. Yes.

Mr. Calvin. That would be rather difficult for anyone to say. We are not able to obtain the wage rates from the various yards, and if we do, we find so many sidetracks and deviations. For instance, a basic rate will be established and then possibly a bonus system will be established. Then there will be a classification of the men above and below that rate. For instance, they will say machinists, first-class, second-class, third-class, handyman helper.

So that it would be very difficult for me to say what increase has been made.

Senator Pope. Can you give a general answer?

Mr. Calvin. I know since 1933 there has been an increase in wage rates, but prior to 1933, and in many instances as late as March and April 1933, wages were reduced.

Senator Bone. Let us take a Government navy yard as an example, if you are unable to determine it in a private yard. Based on your experience and your knowledge as an officer of the American Federation of Labor, would you tell us what the increase, if any, or decrease, if any, has been in the Government navy yards on all this kind of work?

Mr. Calvin. I can answer that. The hourly wage rate in navy yards has remained stationary since 1929, but I would prefer that the president of the Metal Trades Department who is subpenaed to appear before your committee—Mr. John P. Frey, to answer the question with reference to navy-yard wage rates, because he is a member of the wage board, and he can answer it much more intelligently than I can.

The Chairman. Mr. Frey.

TESTIMONY OF JOHN P. FREY

NAVAL OFFICERS FAVOR LONGER WORK WEEK AT N. R. A. CODE HEARING

(Witness was duly sworn by the chairman.)

The Chairman. Mr. Frey, what is your official connection?

Mr. Frey. I am president of the Metal Trades Department of the American Federation of Labor.

The CHAIRMAN. You are as intimate, are you not, as any one connected with the labor cause with activities in the navy yards?

Mr. FREY. I believe I am.

The CHAIRMAN. All right, Mr. Raushenbush.

Mr. RAUSHENBUSH. Mr. Frey, are you also a lieutenant colonel in the Reserves?

Mr. FREY. I am.

Mr. RAUSHENBUSH. Will you tell us fully about your connections with the ship-building code and problem in 1933 and 1934? We want the whole connection dealing with the various protests that were put in.

Mr. FREY. When the ship-building code came for a public hearing, the metal working international unions, who comprise the metal trades department, were vitally interested, and I was selected as one of those to look after the interests of these international metal working unions, and to appear before the hearings.

I was also at that time a member of the Labor Advisory Board of the N. R. A., so that I had a dual interest in seeing that an appropriate code for the ship-building industry was entered into.

At the first public hearing the question of the hours of labor was raised prominently. We desired a 32-hour week, for the purpose of placing as many metal-working mechanics at work as possible. The shipbuilders were opposed to that and desired a 40-hour week. I was astounded to have two naval officers appear before the Deputy Administrator in charge of the hearings, Admiral Land and Captain Wyman. Both of them made a very strong argument in favor of a 40-hour week. In other words, they supported the arguments presented by the private shipbuilders.

I objected very strongly to one department of the Government at that time endeavoring to secure longer hours of labor than seemed to be necessary.

Senator CLARK. May I inquire what reasons these naval officers assigned for entering into the controversy on behalf of the private shipbuilders, if any?

Mr. FREY. One of their arguments was that if the shipbuilders were given a 40-hour week, it would put more mechanics to work than if the hours of labor per week were less.

Senator CLARK. In other words, it was their contention that more men would be employed at 40 hours than 32 hours?

Mr. FREY. That was their argument, or 36 hours. They also argued that it was impossible to carry on satisfactory production in a shipyard under less than a 40-hour week.

I asked Admiral Land whether he spoke as a representative of the Navy Department, and he said that he did, that he was there carrying out instructions.

I then prepared a statement in reply to the admiral's position at the hearing, and I took a transcript of his testimony and that of Captain Wyman's, and of the brief which I prepared, and made a formal protest to the Navy Department because of their appearance and the position they had taken.

To be certain that it was known that this protest was not a mere wave of the hand, I filed a record——

Mr. RAUSHENBUSH. With whom, Mr. Frey?

Mr. FREY. With the White House.

Mr. RAUSHENBUSH. That was a protest specifically against what?

Mr. FREY. It was a protest against the Navy Department participating in the question of the labor provisions of a code, and particularly advocating the 40-hour week at a time when the available statistics indicated that labor was employed on an average less than 32 hours a week.

Senator VANDENBERG. Mr. Frey, would the navy yards necessarily have had to operate on precisely the same schedule that the code developed for private yards?

Mr. FREY. No; the hours in the navy yards were at 40. That was the result of those regulations that they placed on the Navy Wage Review Board through act of Congress. The hours of labor in navy yards are fixed by act of Congress.

Senator VANDENBERG. And there is no relationship between the working conditions which a code might establish in a private yard and the conditions which subsequently would naturally develop in the navy yards?

Mr. FREY. I do not understand, Senator, what you mean by relations.

Senator VANDENBERG. I mean if the code established a 30-hour week in the private yard, would the navy yard continue to operate 40 hours or would it have been forced to 32 hours?

Mr. FREY. No, they would have continued to operate 40 hours. The shipowner, that is, the shipyard management, contended that that would be unfair competition with them.

Our position was that there was no competition at all as between navy yards and private shipyards, because Congress, in making appropriations since the 15-cruiser bill, has generally allocated so many ships to navy yards and so many to private yards, and, therefore, there was none of that competitive condition that exists where a governmental department endeavors to produce work at a lower price than private industry.

Senator VANDENBERG. Is there a further differential as between hours of labor in the private yard and the navy yard, in that the navy-yard employee has a substantial vacation with pay in the course of the year?

Mr. FREY. There is that distinction, of course, because, until the Economy Act, navy-yard employees received 30 days per annum with pay.

Senator VANDENBERG. That would make a very substantial offset?

Mr. FREY. A very substantial offset, one-twelfth.

Mr. RAUSHENBUSH. Did you receive replies to these protests of yours, Mr. Frey?

Mr. FREY. They were acknowledged. They were discussed with the Navy Department, but the only official reply I received was an acknowledgment of their receipt.

Mr. RAUSHENBUSH. Later on, when the code was in operation, did you find the question of wages under the code coming up at all?

Mr. FREY. The question of wages in the private shipyards had come to the surface a number of times, but that was not the most prominent question which came up under the code.

Mr. RAUSHENBUSH. What was the most prominent question?

Mr. FREY. The refusal, from our point of view, by the shipyards to recognize labor's rights under the code, particularly section 7a. The larger yards, that are known as the "Big Three", had either embryo company unions or some other shop organization which they had built up. When the code was approved by President Roosevelt, these organizations were revived. They were given——

Senator CLARK. You mean company organizations?

Mr. FREY. The company unions, yes, sir. And perhaps one of our most difficult problems, industrial problems, since the code was signed by the President is by the attitude of all of the private shipyards toward the right of their employees to voluntarily organize, as they might desire, or to choose representatives to speak for them.

Mr. RAUSHENBUSH. Are you implying, Mr. Frey, that there was a sort of combined labor policy of the "Big Three"?

Mr. FREY. I have no knowledge as to a combined policy, but had they been combined they could not have acted differently from what they did. There was one general policy that we encountered at all of the private shipyards, that is, all the large private shipyards, those which were building vessels for the Government.

Senator VANDENBERG. Was there a different attitude on the part of the private shipyards which were not building ships for the Government?

Mr. FREY. There have been some yards who have had most friendly relations with their employees, but our experience has been that it is difficult, if not impossible, for them to secure contracts from the Government.

Senator VANDENBERG. So that you are speaking chiefly of the "Big Three" in this discussion?

Mr. FREY. Yes, and if the committee desired, I could easily give you a definite illustration of the experience of a smaller yard, with friendly relationship with its employees, in securing Government contracts.

Mr. RAUSHENBUSH. What yard is that, Mr. Frey?

Mr. FREY. The Albina Iron Works, of Portland, Oreg., some 5 years ago bid for three lightships. The Bureau of Lighthouses—and something else which I cannot recall—failed to give them the contract, although they were the lowest bidder.

I took up the matter with the Chief of the Bureau, and he said the contract had not been awarded because the firm was not capable of building those ships at that price without very serious loss, and the Bureau did not intend to give contracts to individuals when it meant their bankruptcy.

I pressed the case and I was finally told that a naval officer had been detailed to inspect this yard, to determine whether it was competent to build lightships. His report was that the yard was not competent to build lightships.

I thought by this time I had better see the Senators from Oregon, and I did. After seeing them, the Bureau informed me that they would give the Albina Iron Works, of Portland, Oreg., one of the lightships, but they certainly would not give them the other two. I learned by this time that the Albina Iron Works intended to build the three lightships on one way; that they expected to lose money in the construction of the first, but with all the preparation required to build that one, they then expected to derive a substantial profit from the other two. Eventually, they secured the contract for the three lightships.

They informed me, after it was over, that they had made a very satisfactory profit.

They employ union men and have for many years, and have agreements with them.

Some year or so afterward, the Government desired three more lightships. No private yard on the Pacific coast was requested to submit bids. The Albina Iron Works did not know that estimates had been called for until 4 days before the bids were opened in Washington.

Senator CLARK. Who were requested to submit bids? Do you know?

Mr. FREY. Yards along the Atlantic coast.

Senator CLARK. The "Big Three"?

Mr. FREY. I could not answer that.

The Albina Iron Works immediately telegraphed its bid. Its bid again was lower than that of any of the other yards, but the bid was thrown out on the technicality that it was not accompanied by a satisfactory bond. It was impossible for the firm in Portland, Oreg., within 4 days, to secure a satisfactory bond and have it in the Department's hands in Washington.

And so on the second occasion they lost out, and the contract went to the Atlantic seaboard yards.

Senator CLARK. They require a bid bond as well as a performance bond in those contracts, do they not?

Mr. FREY. I do not know.

Senator CLARK. So that if they had not had notice of the letting of the contracts, it would have been impossible, naturally, for them to have secured a bid bond, in any event, in time to comply with such technical requirements?

Mr. FREY. What interested the Metal Trades Department was that that yard was paying better wages than the private yards along the Atlantic coast, and on the second occasion it failed to get anything.

Senator CLARK. What interests me is that they did not notify these people of the letting, and made it impossible for them technically to comply with the requirements for a bid bond.

Mr. RAUSHENBUSH. Coming back a minute to the code matters, Mr. Frey, you say the Navy entered into the situation on the question of hours. Did it enter in in any other way?

Mr. FREY. Merely to the extent of the general statement as to wages, that the deputy administrator hearing the code must keep in mind the fact that if the minimum wage in the code was placed too high, it would place an unjustifiable burden on the taxpayers, but that was merely a general statement and not specific.

NAVAL OFFICERS OPPOSE EXPANSION OF SHIPYARD FACILITIES AT N. R. A. CODE HEARING

Mr. RAUSHENBUSH. Did it enter into the situation at all with regard to the extension of the yard facilities to get some of these ships built and finished?

Mr. FREY. At that time the question did not come up.

Mr. RAUSHENBUSH. When did it come up?

Mr. Frey. That came up very shortly after the code had been signed by the President.

The Chairman. That is in the summer of 1933?

Mr. Frey. That is in the summer of 1933.

Mr. Raushenbush. Will you tell us about that, please?

Mr. Frey. I have only a general recollection. It was that the general principle established by the Dallinger amendment in the 15-cruiser bill some years ago should be carried out. In other words, that there would be an equitable distribution of these vessels between navy yards and shipyards.

Mr. Raushenbush. My question was directed to the clause that the shipbuilders apparently wanted to put in at the time, that no further shipbuilding facilities be allowed.

Mr. Frey. Oh, yes. The shipbuilders argued in favor of a provision in the code which would prevent the construction of any more ways in any shipyards in the United States. It would limit the number of ways to those already in existence.

Mr. Raushenbush. Did the Navy enter into that situation at all?

Mr. Frey. They expressed no opinion that I remember.

The Chairman. Did Admiral Land inject himself into that controversy at all?

Mr. Frey. Yes.

The Chairman. In what direction?

Mr. Frey. I would have to have the transcript of that hearing to be accurate. As my memory serves me, he expressed the opinion that the number of ways in existence in navy yards and in private yards was ample to meet the national requirements.

The Chairman. Meaning, then, that he was opposed to the building of additional facilities in the Government yards?

Mr. Frey. Yes. It would imply that, but I would like to have the transcript of that hearing before me, because on that point I just have a recollection and not a positive one.

The Chairman. How far did they get with their effort to include such a clause in the code? Was there great danger that it might be included?

Mr. Frey. Oh, yes.

The Chairman. What finally prevailed that caused its rejection?

Mr. Frey. I do not recall, Senator. I assumed that so far as the shipbuilding code was concerned, that there were consultations between the Navy Department and General Johnson, because what was involved in that code was the building of naval vessels, among other things. And the Navy Department at all times had a representative of the Navy on the ground. As a matter of fact, Captain Williams, I believe, worked with the Code Authority. He may be working with them now. I know he did until recently. That was because of the Navy's legitimate interest in the building of naval vessels.

The Chairman. During that controversy did the Navy, or any of its officials at any time, indicate a desire to eliminate that clause?

Mr. Frey. I cannot answer that question. I do not know.

Mr. Raushenbush. Was it your opinion, Mr. Frey, that such a clause would even tighten further the custom which seemed to have grown up of only the "Big Three" yards getting the ships?

Mr. Frey. That was my opinion, and it is still my opinion, but it is merely an opinion.

Mr. Raushenbush. When were the bids on the 1933 ships opened?

Mr. Frey. In August 1933.

Mr. Raushenbush. Early in August?

Mr. Frey. If my memory serves me correctly, yes. One reason for rushing through the shipbuilding code was to enable the Navy Department to secure contracts and immediately begin the construction of the vessels.

Mr. Raushenbush. Did you have any reason to believe that there had been any agreements between the shipbuilders before the bids were put in for the 1933 ships?

Mr. Frey. I had reason to believe that that was a possible condition.

Mr. Raushenbush. Did your reasons for believing that as a possible condition lead you to discuss the matter with the N. R. A. Administrator, who was General Johnson at the time?

Mr. Frey. Yes.

Mr. Raushenbush. Will you relate to the committee your conversation?

Mr. Frey. A former president of a New York shipbuilding company visited the office of the Metal Trades Department——

The Chairman. Who was this?

Mr. Frey. Mr. Wilder. He seemed to be interested in the efforts that the Metal Trades Department had made to secure the earmarking of the $238,000,000 in the Public Works.

Senator Clark. You mean the Public Works funds?

Mr. Frey. The Public Works funds. Mr. Calvin has already gone over that. The department launched that effort on official assurances that it was welcome or acceptable to the administration, and then took it to the American Federation of Labor for the approval of the executive council, and then came to the Capitol and worked for it.

Senator Clark. How many keels have ever been laid under that allotment, Mr. Frey?

Mr. Frey. Mr. Calvin, in his chart, gave you all the keels that have been laid, and explained that 2 of the light cruisers that have to be built in the Philadelphia yard, and 1 at the Brooklyn Navy Yard, had not had their keels laid down, although the contracts were entered into 17 months ago, for the reason that the Navy Department had contracted with the New York Shipbuilding Co. to prepare the designs for these cruisers, and they had not yet completed the designs.

Senator Clark. Do you know whether there is any prospect that they ever will complete them?

Mr. Frey. Yes, I assume so.

Senator Bone. You think they will eventually get around to it in a tired, languid sort of fashion?

Mr. Frey. I have reason to believe since last summer the Navy Department has brought as strong pressure as it could upon the New York Shipbuilding Co. to supply it with the designs which it contracted for.

The Chairman. What evidence is there that that effort has accomplished any results?

Mr. Frey. Statements which the New York Shipbuilding Co. have made to the Navy Department on the progress of completing these designs. That is all I know of it.

Senator Clark. Is it a fact that the Navy is totally incapable of preparing its own plans for vessels of war, and must depend upon the engineering forces of this so-called "Big Three" for those plans?

Mr. Frey. That is wholly a matter of opinion. My opinion is, from contact with naval officers over a long period of years, that no nation has a more competent set of naval officers in design and technical work than the officers in our Navy.

Senator Clark. It is a fact that in practice the plans for these various vessels which are authorized by Congress are not constructed in the Navy Department, but are constructed by the engineering department of these "Big Three", is it not?

Mr. Frey. That is a fact.

Senator Bone. What sort of pressure do you think the Navy brought, or attempts to bring on this company to expedite preparation of the plans? You spoke of their putting pressure on the New York Shipbuilding Co. What might that pressure consist of?

Mr. Frey. In calling attention to the contract which they had with the company, and the delay in laying down the keels of these two cruisers, that has resulted in the company's failure to supply designs in time.

Senator Bone. In other words, just a polite request to expedite the thing?

Mr. Frey. No, I doubt whether it was a polite request. The Metal Trades Department—and by that I mean the international unions of metal workers, those men who are employed in navy yards—became seriously disturbed early in the year over the failure of this work, that is the placing of men at work on these ships which had been contracted for. As a result, there was a conference in the Navy Department early in May, at which we laid before the Assistant Secretary of the Navy all of the data which Mr. Calvin has placed before you this morning, and with the statement that we did not know whether our data was accurate. I had copies of it and gave a copy to the Assistant Secretary and to the admirals, chiefs of bureaus, who were at the conference.

I said, "Now, we do not know whether these are accurate or not. We merely assume that they are. If they are, however, then we have something to say."

They admitted that they were substantially accurate. And that led us to point out that unless rapid progress was made during the summer and fall, there would be many thousands of metal workers who would not be able to secure work on these ships.

Senator Clark. That is just what I was coming to, Mr. Frey, on the question which I asked you a moment or so ago. Congress in May or June 1933 made the most extraordinary appropriation ever made in the history of the world, not for the purpose of constructing warships but for the purpose of providing employment for American workmen who were unemployed.

Mr. Frey. Yes, sir.

Senator Clark. Your organization and the Navy Department, and several other organizations, as I understand it, working in combination, secured an authorization to apply some $238,000,000 of that fund to the construction of naval vessels. That is correct, is it not?

Mr. FREY. Yes, sir.

Senator CLARK. How many men have been put to work in that period under this arrangement of having the "Big Three" construct the naval plans? How many men have been put to work, if you have any information on it, under that allotment of $238,000,000? [1]

Mr. FREY. I can supply the committee with the exact figures, but I did not assume that that question would be asked and I did not bring the data with me.

Senator CLARK. We would be glad to have it.

The CHAIRMAN. Can you supply it now?

Mr. FREY. No, sir.

Senator CLARK. Because, as I say, the purpose of that appropriation was not for the purpose of making a war appropriation, but for the purpose of securing employment.

Mr. FREY. I do not remember the exact figures, Senator, but I will file them with your committee.

The CHAIRMAN. Has there been some increase in employment?

Mr. FREY. There has been some increase in employment, both in the navy yards and the shipyards.

Senator BONE. Then, Mr. Frey, you want to give us the impression, I take it, which seems to be a fact, that this whole program must pass through this bottle neck created by the "Big Three" in the matter of designing and drafting?

Mr. FREY. Yes, sir; as far as the light cruisers are concerned.

The CHAIRMAN. Is not the light cruiser the large part of our program?

Mr. FREY. No, it is a material part. The heavy cruisers and the aircraft carriers and the submarines and destroyers are quite a large part of the whole program.

Senator CLARK. What proportion of the employment which was contemplated to be established by this allotment of $238,000,000 was represented by the work on which the plans were to be drawn by the "Big Three"? [1]

Mr. FREY. I could not answer that without going over all the ships and making an estimate.

Senator CLARK. Will you supply us with that information?

Mr. FREY. That will be supplied.

Senator CLARK. We would be glad to have it, if you will.

Mr. FREY. I would like to add now, so that there will be no misapprehension, that until May of last year, the Metal Trades Department was of the opinion that the Navy Department was not pressing the construction work and pressing for the designs from the New York Shipbuilding Co. as actively as it might. I have no reason to feel that the Navy Department, since then, has not done all that it could.

Senator CLARK. What do you mean by "doing all that it could", Mr. Frey? Do you mean to say that the Navy Department is absolutely at the mercy of the New York Shipbuilding Co. to supply it with plans, whenever it chooses, and withhold them as long as they please?

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[1] Figures concerning employment were supplied later by Mr. Frey and entered into the record as "Exhibit No. 1480". See appendix, p. 4915.

Mr. Frey. My understanding is that the contract with the New York Shipbuilding Co. included supplying the Navy with the designs for the light cruisers.

Senator Clark. Was there any time stipulation in there?

Mr. Frey. I believe there was no time stipulation in there.

Senator Clark. In other words, the Government obligated itself to accept these plans whenever the New York Shipbuilding Co. chose to supply them, without any limitation of time whatsoever?

Mr. Frey. If it is so that there was no time limitation for the plans in the contract.

Senator Bone. Mr. Chairman, may we have that table of figures which Mr. Frey says he will supply put in the record at this point, so that the record will run smoothly? [1]

The Chairman. The reporter will make a note of that.

Senator Bone. Mr. Frey, do you have a copy of the agreement between the Navy Department and the private ship building companies to supply plans?

Mr. Frey. No; I have not.

Mr. Raushenbush. We can probably get that from the Navy Department, Senator.

Senator Bone. May we have that put in the record at this point, so that the record will read smoothly?

The Chairman. Yes, sir.

(The contract referred to was marked "Exhibit No. 1478" and is included in the appendix on p. 4900.) [2]

ADVANCE KNOWLEDGE OF 1933 AWARDS

Mr. Raushenbush. Mr. Frey, before the question got back to the P. W. A. funds, you were asked whether you had any reason to believe that there had been an agreement among the shipbuilders as to the prices which would be bid on the 1933 program, and you had begun to relate your conversation with General Johnson on that subject. Will you please continue on that point?

Mr. Frey. When Mr. Wilder was at my office, some 10 or 12 days before the bids were opened, he made the statement that he could give the names of the yards who would be the lowest bidders on all of the category of ships to be contracted for.

I told him that that was interesting. I had heard so many rumors about various things since I had been in Washington, that I had to have something more substantial than that before I would give it any consideration. He said, "I will give it to you now, and I will seal it."

So that on my desk——

Mr. Raushenbush. Just a minute. Let me interrupt you a minute, Mr. Frey. How many days was this before the bids were opened?

Mr. Frey. Ten or twelve days before the bids were opened.

Mr. Raushenbush. That placed the date somewhere in July 1933?

Mr. Frey. It would.

Mr. Raushenbush. And that was in your office?

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[1] See footnote on page 4690.

[2] There was no Exhibit marked "No. 1477".

Mr. Frey. That was in my office.

Mr. Raushenbush. Where?

Mr. Frey. In the presence of my associate, Mr. Calvin.

Mr. Raushenbush. Mr. Calvin was also present when this happened?

Mr. Frey. He was present when this took place.

Mr. Raushenbush. Will you continue, please?

Mr. Frey. Mr. Wilder then wrote out the names of the shipyards who he held would be the lowest bidders on all of the categories of ships. I handed him an envelop and he sealed the envelop.

Some 3 days before the bids were opened, I was with General Johnson, in connection with the shipbuilding code, and my personal thought as to the intention of some of the shipyards to live up to their own code, and I finally said, "Well, it is my opinion that there is going to be collusive bidding, and I have in my pocket a sealed envelop which purports to contain the names of the shipyards who will be the lowest bidders."

Senator Clark. This was 3 or 4 days before the bids were opened?

Mr. Frey. Yes.

The Chairman. Let the record be clear. The sealed information was given 10 days before?

Mr. Frey. Yes; about 10 days or 12 days before. Three days before the bids were opened I was in General Johnson's office, discussing the ship-building code and my own impression as to the intentions of the shipbuilders, and I said, "They are all in collusion." I was talking then about the code. I said, "I think they are also in collusion so far as the bids for these new vessels are concerned."

I said, "I have had given to me a list of names of the shipyards who would be the lowest bidders for one type of vessel."

I said, "It is here in my pocket", and I took it out and I said, "Here, you take this. This will be interesting to you."

Johnson said, "That is too hot. I am not going to get mixed up in anything of that kind. I have got troubles enough of my own."

And General Johnson refused to take the sealed envelop. A great deal was going on at that time to occupy my interest, and I put the envelop in my desk. The day after the bids were opened and the bids published in the daily press, I called Mr. Calvin into my office and said, "Let us find out whether Wilder was filled with hot air or whether he really knew what he was talking about."

We opened the envelop and we checked them off and Mr. Wilder was accurate in every instance. He had named the lowest bidders.

Senator Vandenberg. Who were the three lowest bidders?

Mr. Frey. There were submarines to be built, and destroyers to be built, and light cruisers, and armored cruisers, and aircraft carriers.

Senator Vandenberg. Who were the successful bidders which Mr. Wilder identified?

Mr. Frey. There I have to depend on memory. I believe that the Bath Iron Works, the Bethlehem Shipbuilding Co., the New York Shipbuilding Co., the Newport News Shipbuilding & Dry Dock Co., and I think there may have been one other.

In any event, as we checked up, we find that the statement which Mr. Wilder had given to me 10 days before was right.

Senator Vandenberg. Did you mention Bethlehem?

Mr. Frey. Yes. Afterward I asked Mr. Wilder how he could give us so accurately the information, and his reply was perhaps characteristic. He said, "I have been in the game myself."

He was president of the New York Shipbuilding Co. for a while.

Senator Vandenberg. How many ships were involved in this contract letting?

Mr. Frey. All of the ships that were contracted for under the original $238,000,000 appropriation.

Senator Vandenberg. It was a large number of ships?

Mr. Frey. Yes.

Senator Vandenburg. Thirty-odd ships?

Mr. Frey. Yes, sir.

Senator Vandenberg. In various tonnage categories?

Mr. Frey. Yes, sir; from submarines to aircraft carriers.

Senator Clark. The Bath Iron Works got one or two, Mr. Frey?

Mr. Frey. I think they secured two.

Senator Clark. A very small proportion of the whole?

Mr. Frey. Yes.

Senator Vandenberg. And with respect to all this diversified contractual structure, all of these various types of ships, Mr. Wilder's estimate as to the prophecy of who was to get the same, made 10 days before the bids were opened, proved scrupulously accurate in every respect?

Mr. Frey. In every instance. I forgot to mention that—and Mr. Calvin has refreshed my memory on this—that the Federal Ship Yard and the United Dry Docks were also bidders and also secured contracts at that time.

The Chairman. While Mr. Calvin is forward here, I should like to ask him a question. Have you heard Mr. Frey's testimony?

Mr. Calvin. I have.

The Chairman. Concerning this sealed statement as to what was going to happen?

Mr. Calvin. I have.

The Chairman. Has his statement been true and correct to your knowledge?

Mr. Calvin. So far as any reference to conferring with me is concerned, it is absolutely correct. I was not with him when he attempted to convey the information to General Johnson.

The Chairman. As he referred to your connection with it, it was entirely correct?

Mr. Calvin. Indisputably correct; yes, sir

Senator Vandenberg. You saw him open the envelop and you saw the list, and you know it is accurate?

Mr. Calvin. I was in his office and checked the list against the awards of the bids.

Senator Clark. You were also there when that list was sealed up in the envelop, I understood you to say, Mr. Calvin?

Mr. Calvin. Yes, sir.

Senator Clark. You saw the list put in the envelop and saw it taken out?

Mr. Calvin. Correct.

The Chairman. Did the committee understand you still have that statement, Mr. Frey?

Mr. FREY. I do not know, Senator. We were receiving truckloads of material in our headquarters at that time, in connection with all the codes, and I am quite certain that it must be somewhere in my files. I have had my private secretary, since I was subpenaed to appear before you, go through the files, and we have not yet located it. I believe it will be.

The CHAIRMAN. Mr. Frey, did you not speak to some Members of Congress, perhaps in a rather casual way, about this at the time?

Mr. FREY. At the time, Senator, I informed everyone that cared to talk about it.

The CHAIRMAN. It seems to me that I rather vividly recall your having spoken to me about it at that time.

Mr. FREY. Yes, I spoke to you about it at that time. You bring that to my memory.

Senator CLARK. Mr. Frey, there was a total in this program of 21 vessels, as I understand it.

Mr. FREY. Yes.

Senator CLARK. And Mr. Wilder, 10 days before the opening of the bids, or the letting of the awards, called the turn on every one of the 21 vessels?

Mr. FREY. On every one.

Senator VANDENBERG. Did you talk to General Johnson about it afterward?

Mr. FREY. Yes.

Senator VANDENBERG. What did you tell him? That he was right?

Mr. FREY. I told him that the statement I had in the sealed envelop had turned out to be 100 percent accurate.

The CHAIRMAN. As Senator Vandenberg suggests, it was as hot as he thought it might be?

Mr. FREY. It was.

Senator VANDENBERG. What was his further comment on it?

Mr. FREY. I do not think there was any. The General was having difficulties of another kind with the shipbuilding industry just then, and his comment was about that and the methods the shipbuilders were adopting in endeavoring to force his hand against his judgment.

Mr. RAUSHENBUSH. Mr. Frey, will you explain once more in what connection you mentioned this matter to General Johnson originally and offered him this envelop? What connection with any possible agreements between shipbuilders as to who were to get ships would there be with the code matter? Were you trying to prove that they were together on the labor policy, or other things, or what was the purpose?

Mr. FREY. I was trying to convey to the general my belief that as far as the code was concerned, that they were acting as a unit. I believe that they were, because I had found them acting as a unit in the past. My personal experience had been that in matters affecting their interests, so far as the Navy Department was concerned, that they took an official interest in the fixing of the wage scales for the employees in the navy yards. For a number of years, in fact, at the present time, I am the lay member of the Navy Wage Review Board, which makes recommendations to the Secretary of the Navy, fixing the scale for wages.

During the period that I have been a member of that Naval Wage Review Board, which consists of two representatives of the Navy and one of the American Federation of Labor, the National Council of American Shipbuilders has every time officially objected to the Navy Department giving any advance in wages.

In 1929 their president, and other representatives, appeared before the wage board—not at a public hearing; they asked for a private hearing, and the public hearing was over, and it was granted—and they insisted that the Navy must not increase the wages of employees in the navy yards because, if it did, it would be competing with them in securing competent mechanics.

Senator VANDENBERG. Mr. Frey, was the code in operation at the time of this contract letting?

Mr. FREY. Yes.

Senator VANDENBERG. Could it be pleaded that the code in any way required or invited or justified collusion on this bidding?

Mr. FREY. I know of no reason why that could be inferred, any more than you would infer that there would be collusive bidding because any of them, at any particular time, would have to pay the market price for pig iron or for steel or for any other material. All the code did was to say what the minimum wage rate should be, and what the hours of labor should be.

Mr. RAUSHENBUSH. Mr. Frey, when you examined the reports in the newspapers, you did not find the prices on the bids all the same, did you?

Mr. FREY. No; they were not. There was quite a variation.

Mr. RAUSHENBUSH. This letter, I understand, simply mentioned who was going to be the lowest bidder?

Mr. FREY. That is all, the lowest bidder.

Mr. RAUSHENBUSH. Were you taking up with General Johnson and the N. R. A., generally, the question of observance of section 7a?

Mr. FREY. Yes; the Department took that up with General Johnson and with every other authority under N. R. A.

Mr. RAUSHENBUSH. Did we understand you correctly in your earlier testimony to say that there was a good deal of trouble about that in the shipyards?

Mr. FREY. At the present time there is not one of the big three—I take that back. At the present time the Newport News Shipbuilding & Drydock Co. and the Bethlehem Shipbuilding Co., at its plant in Quincy, Mass., and at its plant in San Francisco, are still refusing to carry out the provisions of section 7a.

Senator CLARK. What was that company in Massachusetts?

Mr. FREY. The Bethlehem Shipbuilding Co., at its Fore River plant.

Senator CLARK. That is the Bethlehem Steel Co.?

Mr. FREY. That is a subsidiary company of the Bethlehem Steel.

Senator CLARK. And the United Drydock is controlled by the United States Steel Corporation?

Mr. FREY. I do not know. The same is true of the Bethlehem Shipbuilding Co.'s plant at San Francisco.

Mr. RAUSHENBUSH. Mr. Frey, this is somewhat interesting because of evidence put in in December, when the question of war-industries plans for a future war was discussed, as to the extent of observance of Government regulations one might expect from the various companies during the pressure of a war. You are saying, if I understand your testimony correctly, that even in peacetimes you are having a great deal of trouble in getting enforcement of certain governmental provisions, 7a. Is it correct that there is trouble about that today?

Mr. FREY. Yes; it is impossible for us to have section 7a carried out, and the Government or N. R. A. have made their efforts to prevail upon the shipyards to observe section 7a and those that I named are now not observing it.

Mr. RAUSHENBUSH. Where is your appeal in a case like that, where you find Bethlehem or somebody not observing it? Where do you appeal in that case?

Mr. FREY. There has been set up, under the code, and with the approval of the President, an industrial relations board for the shipbuilding industry. It was provided for in October 1933. Because of the shipbuilders' opposition it was not given an official status until August of last year. Mr. Calvin is one of the labor members of that board. It now has official sanction. It seems to be operating, and we are in hopes that this industrial relations board for the industry will be able to work out the problems which, up to the present, have not been worked out.

Mr. RAUSHENBUSH. Let us get this straight. How is this Board constituted?

Mr. FREY. It consists of 3 representatives of the shipbuilding industry, selected by the industry, and of 3 representatives of labor who were nominated by the Labor Advisory Board of N. R. A., and who were then appointed by President Johnson—I mean General Johnson.

Senator VANDENBERG. "President" Johnson was not far from it. You refer to ex-President Johnson.

Mr. RAUSHENBUSH. You were being troubled with the provisions of N. R. A. in August 1933 and July 1933, as I understand it?

Mr. FREY. Yes, sir.

Mr. RAUSHENBUSH. And you had no appeal to a board of your own until August or September of this year?

Mr. FREY. September of this last year; yes, sir.

Mr. RAUSHENBUSH. A whole year intervened there?

Mr. FREY. Yes, sir.

Mr. RAUSHENBUSH. Are your complaints in this matter before that Board?

Mr. FREY. Some of them are and others will be brought there.

Mr. RAUSHENBUSH. That is a 50–50 board. Suppose they split 50–50 in the matter of interpretation? Where is your appeal from there?

Mr. FREY. That is a question. General Johnson desired to have the board composed of an independent chairman and three representatives on each side. I was strongly opposed to that set-up. I told him that if he named a seventh man, we would then have the atmosphere of a court room, with opposing counsel endeavoring to influence him very much. Instead of having three men of each group endeavoring to find a solution for the question before them, we would have those three men planning the best campaign to influence the odd man, and that I felt that until there was a break-down, a complete break-down of that equal number of men on each side, to adjust the questions that would arise, I was opposed to the appointing of a seventh man.

I presume that if there was a seventh man, and his decision was seriously unsatisfactory to one or the other of the groups, that there would be an effort to appeal. I presume that they might appeal to the National Labor Relations Board, or they might carry their appeal to the highest authority in N. R. A., or they might place their problem before the President of the United States.

Mr. RAUSHENBUSH. Let us get down to that exactly. Here it has taken a year, on certain matters, in which you think that the shipbuilding companies have not been observing the laws of the country. There was a year before your authority was officially sanctioned as a labor relations board for the industry.

Presumably, the other day, the President took away from the National Labor Relations Board the authority to hear specific complaints, where industries have their own labor boards.

Mr. FREY. Yes.

Mr. RAUSHENBUSH. That being the situation, where are you going to from your 50–50 board in case the decision, as it may very well, I suppose, split on a 50–50 basis? Just as a matter of routine, of getting things done, of getting them settled one way or the other, how are you going to act, or where can you go under such circumstances?

Mr. FREY. I assume that the President's opinion would be based upon information and advice given to him by a legal adviser who has been active in N. R. A. affairs, because the President's position was similar to the one which Mr. Donald Richberg took when the Jennings case, to which you referred, was first handed down. After the National Labor Relations Board had made its decision, Mr. Richberg went before the Board and told them that they were without authority to make any such decision.

And, if my memory serves me, he requested the Board to surrender any jurisdiction in the case, and the National Labor Relations Board refused to do so, and if the point which the White House announced the other day is on all fours with that which Mr. Donald Richberg took some time before, I would be inclined to think that Mr. Richberg gave the President the reasons why he thought that was necessary. I do not know what we can do.

I have had some experience with industrial relations for many years.

I believe the present method of setting up in an industry an industrial relations board is the most practical one. I would assume that if any dispute in the shipbuilding industrial relations board reached a deadlock, that the case then could be naturally carried to the National Labor Relations Board.

Mr. RAUSHENBUSH. As I understand it, the letter from the President, that would depend upon the desire of that Labor Relations Board for any particular industry, whether it is publishing or coal or shipbuilding, or whatever it was, to have its board vote it up, to go up to the National Labor Relations Board. That would take a vote which would carry, and you have only a 50-50 board.

That is important to us, Mr. Frey, let me say again, on the questions raised during December, whether during a war there would be any chance of having the matter enforced. Now, there may be very nice plans, but will they be enforced?

Therefore, this peace-time proposition of yours is very much in point.

Then we got an agreement of something similar to the National Labor Relations Board, with respect to labor provisions, and setting it up so that nobody should reject the findings of that board, and it should not go to the N. R. A. or anybody else.

The President's order of the other day, as I understand it, cancelled that. So that you are here in a situation where you cannot appeal to the National Labor Relations Board, because you need a majority vote to do it, and you have not got anybody else to go to.

Is it not a fair inference that, in addition to the year or year and a half which has already elapsed, that another year is going to elapse before you can carry that out, with all the desire in the world, and get that up as far as the President? You have no board to go to, have you?

Mr. Frey. My answer is this: Since we have begun to—I was going to say operate; since we have tried to operate under N. I. R. A., innumerable decisions have been made by highest authority, and when it was found that the result of that decision interfered with the adjustment of questions, why, new decisions have been made. In other words, it has been recognized by those active under N. R. A. that it was something novel and new. It was an experiment; that it would be impossible at any one stage to lay down an inflexible rule as to some of them which would govern the processes by which we would adjust ourselves under codes. The experimental feature of it has been recognized. So, when either side feels that it has been done an injury, and makes its protest, secures its hearing, ways have been found which, while not wholly satisfactory, indicate, at least, that it is not a cast-iron system that we are under, but a flexible one.

Mr. Raushenbush. There is one other question. In your earlier testimony you wanted put before you the transcript of Admiral Land's statement at the P. W. A. hearings on the code. Do you recall these statements here with regard to that question of whether the Navy Department was for or against the further expansion of industry [handing document to witness]?

Mr. Frey. Yes; that is it.

Mr. Raushenbush. Do you recognize this sentence of Admiral Land's testimony beginning:

> The Navy Department is of the opinion that some provision should be included in the code such that it will avoid establishment of new shipbuilding yards, reopening of those long since inoperative, or expansion of small yards and repair plants for shipbuilding purposes.

Did you hear that?

Mr. Frey. Yes; I heard that.

Mr. Raushenbush. Do you recognize hearing this statement there at the same time. [Reading:]

> On that basis I have no hesitancy in saying that the present existing, growing shipbuilding facilities of the country are more than ample to take care of the Navy program, any prospective Navy program, and, so far as my knowledge goes any merchant-marine program.

Mr. FREY. That refreshes my recollection. I testified that it was my recollection that a statement of that kind had been made.

Now, I have the transcript to refresh my memory.

Mr. RAUSHENBUSH. In view of the incompletion record on these boats, do you think it was an accurate statement on the part of the Admiral?

Mr. FREY. No; I think it was a most inaccurate statement.

Senator VANDENBERG. Mr. Frey, can you state, in a general way, what the increase, if any, in shipbuilding-labor wages was between January 1933 and August 1934, a period of about 18 months?

Mr. FREY. What the changes were?

Senator VANDENBERG. Yes, sir.

Mr. FREY. Senator, it is impossible to secure that information from The Navy Department, in its efforts to secure wages paid in private industry, so that the Naval Wage Review Board could prepare a schedule of wages for navy yards, has never been able to get accurate information.

It would require not only expert bookkeepers, but require experts in industry to discover just exactly what the private shipyards pay.

The only study that has been made of one pay roll was made by the Deputy Administrator for the Shipbuilding Code, and included the Newport News Shipbuilding & Drydock Co. They did not keep these lists of machinists—I am thinking of one trade—as a whole, but the number of machinists employed in each of the shops where machinsists worked.

I checked up 19 different wage rates for machinists, and then discovered that they had a class of "handyman", who were not competent mechanics, who were listed as receiving higher wages than the machinists were, or than many of them were.

Then to that basis of wage there are bonuses and premiums, and piecework rates paid.

So that it would be a tremendous task to discover just what wages were being paid, for the reason that I gave, that, in addition to that base rate, there are all of those variations.

Senator VANDENBERG. I can understand the difficulty in arriving at an accurate conclusion.

Mr. FREY. Yes, sir.

Senator VANDENBERG. But can you state in a general way whether there was any substantial increase in labor pay scales in shipyards during that period?

Mr. FREY. It is my information—I have not the data—that it was part of the information—that the private shipyards did give an advance in wages about the time the code went into effect.

Senator BONE. How much in percentage?

Senator VANDENBERG. About how much?

Mr. FREY. I was told in some cases it amounted to 25 percent.

Senator VANDENBERG. That is the most you ever heard?

Mr. FREY. Yes; but even that, unless it was—and I hesitated to say that I had heard the amount or any amount—but even that could be very largely dissipated by the way the work was done.

I want to illustrate that and give you in one shipyard—I do not care to name this yard and I do not think that the committee will insist that I do because I do not think it is necessary—just what the picture is. This yard has a number of competent mechanics. They advanced their wages. They also had an apprentice school. Now, my information is that they laid off mechanics and the instructors of apprentices, brought the apprentices into the shops to do the work, and brought helpers into the shops to do the work that these mechanics had formerly done.

Now supposing the record indicated that these mechanics had received a 10, 15, or 25 or 50 percent advance in wages, and then we found that they had been displaced by apprentices and helpers, working under the instructions of the apprentice school instructors, you see you would have a factor coming in there which would wipe out the advance in wages entirely.

Senator BONE. Mr. Frey, how long has this method of paying men in private yards been going on?

Mr. FREY. I presume almost from the beginning of the building of iron ships.

Senator BONE. Is there any way of allocating wage costs to tonnage?

Mr. FREY. I presume that every shipyard has a very accurate record of the labor cost for ship construction.

Senator BONE. Do you know whether the Navy Department has ever shown any break-down of wages, costs, in the private shipbuilding yards?

Mr. FREY. I do not know. I have not knowledge on that point.

Senator BONE. Over the years you have never had any information?

Mr. FREY. No.

Senator BONE. One other question that I have in mind. How many keels of cruisers have been laid down in public yards, in Government navy yards, since this $238,000,000 program was launched with P. W. A. funds, on plans supplied by the private shipbuilding companies?

Mr. FREY. I would have to have the records here to give that accurately.

Senator BONE. Can you supply that information?

Mr. FREY. My associate probably has that here.

Mr. CALVIN. The navy yards, in no case.

Senator BONE. This outfit which supplies these plans for cruisers has not supplied one of them to a Government navy yard; is that right?

Mr. CALVIN. The company which is under contract to provide plans for the construction of light cruisers started construction some time ago on one light cruiser, in their own plant, for the navy yard, but has not laid down keels for either the C. L. no. 42 or 40 or 43, whatever it was. One is known as the "*Brooklyn*" and the other one is the "*Philadelphia*", built in the respective yards.

Senator BONE. Which is that?

Mr. CALVIN. That is the light cruiser. The Bethlehem laid down the keel for an armored cruiser, and New York Ship has laid the keel for a light cruiser, and, so far as my information goes, I think that is about all. I do not think the new keels have been laid. Possibly some keels have been laid for the 1934 ships, but I seriously doubt that.

The CHAIRMAN. Mr. Frey, we have had, this morning, and have listened to certain information concerning the allotment of Public

Works funds. How largely are these funds being used today in the naval construction program?

Mr. FREY. They are being used in some yards, largely the Washington yard, in the manufacture of guns and turrets and other equipment that goes into cruisers. This yard has been kept very busy within recent months. In fact, this yard is working three shifts, whereas, in some yards of the, they are furloughing men, rotating them, because there is no work.

The CHAIRMAN. Have the appropriations or has the allotment of something like $238,000,000, been used in its entirety? Do you know?

Mr. FREY. Oh, my, no.

The CHAIRMAN. How long is it going to take to use it?

Mr. FREY. I wish I could answer that question.

The CHAIRMAN. At the present rate.

Mr. FREY. At the rate of progress that was made up to June of last year, it would take about 20 years.

The CHAIRMAN. About 20 years to use this allotment?

Mr. FREY. At the rate of progress going on then, but I think there has been an improvement since that time.

The CHAIRMAN. And yet these funds were allotted for the purpose of affording employment in this emergency?

Mr. FREY. That was one of the principal reasons that the American Federation of Labor and the Metal Trades Department offered for the earmarking of that enormous sum.

Senator BONE. Do you recall, Mr. Frey, any ships of war built on the Pacific coast in private yards in the last 15 years?

Mr. FREY. Private yards; no. There may have been, but I cannot recall any.

Senator BONE. Has there been a warship built out there since 1917 or 1918, in the private yards?

Mr. FREY. Not that I recall.

The CHAIRMAN. What do you see that might be done to expedite the utility of this Public Works money that has already been allotted?

Mr. FREY. That is a difficult question, Senator. If the Navy Department now should undertake to prepare the designs for these light cruisers, they would have to start all over again, or largely all over, and it might take 6 months or 9 months additional delay before they would have plans.

Senator BONE. What do you mean by starting all over? They have the plans available, have they not?

Mr. FREY. No, they would be laying down the keels for these cruisers if they had the plans which the Government contracted for with the New York Shipbuilding Co.

Senator BONE. Are they building these cruisers under those plans in private yards?

Mr. FREY. Yes.

Senator BONE. Why are not those plans available to the Government?

Mr. FREY. I cannot say.

Senator BONE. In a preparedness program to get ready for war, why are not those plans available to the Government?

Mr. FREY. I do not know.

Senator BONE. You do not know?

Mr. FREY. No.

Senator Bone. Is there anything in the law which precludes the Government using those in its own yards in a program of national defense?

Mr. Frey. I cannot answer that, Senator. I am not a lawyer.

Senator Bone. Do you know of any reason why this Government should not use those plans? Is there anything sacred about them? Do they belong to anyone?

Mr. Frey. No. I presume that if their plans were completed for the two light cruisers to be built in navy yards, the Navy Department or Government would have begun construction some time ago.

Senator Bone. You understand, do you not, that the Government pays for those plans?

Mr. Frey. Oh, yes.

Senator Bone. Then why cannot it use them in its own yards and go ahead with this program?

Mr. Frey. I understand that the plans are not completed for these light cruisers, if they were to be built in navy yards.

The Chairman. The cruisers to be built in the navy yards could not be built, then, upon the same plans that the larger cruisers in the private yards are being built on?

Mr. Frey. Oh, no. Every type of ship has to have its own design.

Senator Bone. Then it is your understanding that the Government waits upon these private companies to create the plans for these ships, and has no planning board of its own at all?

Mr. Frey. So far as my testimony goes, it has indicated that the reason that these light cruisers have not been laid down in navy yards is because the Navy Department contracted 17 months ago with the New York Shipbuilding Co. for designs, and has not received them yet.

Senator Bone. Seventeen months ago?

Mr. Frey. Yes, sir.

Senator Bone. Can you, from your experience, tell us how long it takes to create a set of plans of that type?

Mr. Frey. No.

Senator Bone. What would we do in case of war, if we had to have plans. We could not wait 17 months.

Mr. Frey. I made the statement, Senator, that it was my opinion, from long contact with chiefs of bureaus in the Navy Department, that the American Navy has as competent designers and constructors as any Navy in the world.

Senator Bone. Does the Navy Department agree with you in that connection?

Mr. Frey. It would all depend on what question would be up.

Senator Bone. Did you ever put it up to them squarely?

Mr. Frey. Yes, I have.

Senator Bone. What was the answer?

Mr. Frey. The answer was that certain designers in private industry had been giving so much more of their time to designing that their helpfulness was necessary. They also said that it was necessary to have a certain number of private designers occupied so that if there ever came a national emergency, it would not be necessary for the Navy to depend wholly upon its own technical staff.

The Chairman. Mr. Frey, do you know emphatically that the plans are not now in the navy yards?

Mr. FREY. I know emphatically that they were not a few weeks ago.

The CHAIRMAN. You know that?

Mr. FREY. When I was discussing the question with the Navy Department, they were not?

The CHAIRMAN. If they are there, they have come in in recent days?

Mr. FREY. They have come in in the last few days.

The CHAIRMAN. What is the total of P. W. A. moneys now alloted to the Navy?

Mr. FREY. I have not those records here either.

The CHAIRMAN. We have been referring to a figure this morning of approximately $238,000,000, but it is considerably more than that, is it not?

Mr. CALVIN. The $238,000,000, Senator, was for 35 vessels, to be known as the 1933 program. In 1934 funds were appropriated for the construction of 24 additional vessels, and I am not sure of the exact amount of that money. It would, of course, amount to several more millions of dollars.

The CHAIRMAN. The committee plans to hear Secretary Ickes next week upon the matter, so that I suppose it is not material that we have that in detail now.

Do you have anything more you want to develop from Mr. Frey, Mr. Raushenbush?

Mr. RAUSHENBUSH. No, sir.

The CHAIRMAN. We thank you, Mr. Frey, and you, too, Mr. Calvin.

The CHAIRMAN. Mr. Bardo, when the committee recesses today, it will be recessing until probably Tuesday. It is not now evident that we shall want you Tuesday. In all probability we will not, but we will advise you when next week we would like to have you return.

Mr. BARDO. I shall be available at any time.

The CHAIRMAN. Thank you, Mr. Bardo.

The committee stands in recess until call of the Chair.

(Thereupon, at 12:12 p. m., the committee recessed until call of the Chair.)

INVESTIGATION OF MUNITIONS INDUSTRY

TUESDAY, JANUARY 29, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m. in room 357, Senate Office Building, pursuant to the call of the chair, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee, and F. W. LaRouche, investigator.

The Chairman. The committee will be in order. Admiral Land, if you will come forward and be sworn.

TESTIMONY OF REAR ADMIRAL E. S. LAND[1]

DELAY IN 1933 SHIP DESIGN PROGRAM

(The witness was duly sworn by the chairman.)

The Chairman. Admiral, be seated. Give the committee your full name and connection with the Navy Department.

Admiral Land. Rear Admiral E. S. Land, Construction Corps, United States Navy, Chief of the Bureau of Construction and Repair.

Mr. Raushenbush. Admiral Land, on Friday of last week, evidence was given before the committee concerning what seemed to be the very considerable delay in the construction of the 1933 cruiser program, and one of the witnesses stated that to the best of his knowledge and belief, a large part of that delay was presumably due to the fact that the designing and working plans had been contracted out to the New York Shipbuilding Corporation, and that that corporation had not made substantial progress with those plans and with those working drawings, with the result that the cruisers, both in the navy yards and in the other private shipbuilding yards, were far more retarded than they should be.

May we ask at the moment about how many working plans are usually involved in the construction of a cruiser?

Admiral Land. The total number of plans involved in the construction of a cruiser varies from 5,000 to 7,000 plans. It may be broken down into contract plans and plans made by the firms or by the Bureau, and there are, in addition, subcontractors' plans of an unknown number.

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[1] A letter from Admiral Land to the committee regarding his testimony was introduced as "Exhibit No. 1668" during hearings of Mar. 12, 1935.

On a destroyer there are at least 1,500 and on a cruiser there would be more of these subcontractor plans. That is a varying number, depending upon the type and nature of the design.

Mr. Raushenbush. In the case of these 1933 cruiser designs, how many working plans did you expect to get roughly from New York Ship?

Admiral Land. I cannot give you an answer in numbers. I can give you an answer in percentage of where they stand as of January 1.[1]

Mr. Raushenbush. I would like to get a rough number first, if you could approximate it.

Admiral Land. I have not that data with me, the number of plans, but only the percentage taken from curves that they keep and check curves that we keep.

Mr. Raushenbush. Is it impossible for us to find out roughly how many drawings they were expected to turn over?

Admiral Land. No; it is not. I think I can get that data for you.

Mr. Raushenbush. Was it about 2,500 for the hull and 1,780 for the machinery? Is that roughly right?

Admiral Land. It is about 4,000 plans in all; yes.

Mr. Raushenbush. About how many of them were turned over a year after those contracts were let, about August 1934? [1]

Admiral Land. I cannot answer that question as to numbers now. I can give you the data.

Mr. Raushenbush. You mean later?

Admiral Land. Yes.

Mr. Raushenbush. When these working plans are turned over to the Navy, does the Navy frequently disapprove them?

Admiral Land. I would not say "frequently." The Navy criticizes the plans. They less frequently disapprove them, but they nearly always criticize them and require modifications.

Mr. Raushenbush. And alterations?

Admiral Land. Yes, sir.

Mr. Raushenbush. And then the plans would go back to the shipbuilding yard that had the contract for them, and they would have to do them over again, would they not?

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[1] Under date of Jan. 31, 1935, Admiral Land submitted the following tabulation relative to the total number of plans to be prepared by the New York Shipbuilding Co. in connection with the construction of light cruisers and the progress on same on certain specified dates:

LIGHT CRUISERS NOS. 40-43.—*Status of plan work, New York Shipbuilding Corporation*

	Construction and repair	Engineering
Number of plans required	[1] 1,470	1,900
Number of plans approved Aug. 1, 1944	274	169
Percentage of drafting completed Aug. 1, 1934	28	22
Number of plans issued and approved Sept. 1, 1934	358	180
Percentage of drafting completed Sept. 1, 1934	30	24
Number of plans approved Jan. 1, 1935	547	996
Percentage of drafting completed Jan. 1, 1935	51	52

[1] Does not include development plans, sketches, etc. (about 400), nor subcontractor's plans.

Admiral LAND. That is correct.

Mr. RAUSHENBUSH. When was the design work on the 1933 cruisers let to New York Ship?

Admiral LAND. The 1933 program under discussion covers four light cruisers, the *Brooklyn*, at the New York yard, the *Philadelphia*, at Philadelphia, the *Nashville* and *Savannah* at New York Ship. The contract with the New York Ship was let on August 3, 1933. On the same date allocations were made to New York and Philadelphia. The contract plans were not drawn for these light cruisers by the Navy Department, as is its custom, owing to the fact that this large program consisted of seven new designs, a greater number than had ever before obtained in the history of the Navy Department.

Three sets of contract plans were contracted for, namely, carriers, Newport News, light cruisers, at New York Ship, and heavy destroyers at New York Ship.

The other four sets were prepared by the Navy Department with some major assistance on submarine plans from the Electric Boat Co.

The contract plans for these light cruisers at New York Ship were materially delayed, behind the date of contract award, due to the fact that they had to be prepared by contract, and they were signed in December 1933 by the Secretary of the Navy. I think the date was December 15, but I am not positive of that date. The time elapsed from August 3 to December 15 in preparation of contract plans.

Mr. RAUSHENBUSH. In preparation of the contract about the plans, you mean, do you not?

Admiral LAND. I mean the preparation of contract plans.

Mr. RAUSHENBUSH. Then, in December the contract was signed, do I understand you correctly to say, concerning the plans?

Admiral LAND. No, sir; the contract plans were signed in December. The contract was awarded on August 3 and executed at some subsequent date. I am drawing a distinction between contract and contract plans.

Mr. RAUSHENBUSH. Then, you can give us the progress of those plans up to date as working plans?

Admiral LAND. January 1 these plans were 50.9 completed.

The CHAIRMAN. That is January 1 of this year?

Admiral LAND. Yes, sir. On January 1, 1935, C and R plans were 50.9 percent completed, and the engineering plans were 52.4 percent completed.[1]

Mr. RAUSHENBUSH. And are those percentages now in the hands of the Department?

Admiral LAND. Yes, sir.

Mr. RAUSHENBUSH. Is it possible for the men in the navy yards to proceed in all this building without the remainder of the plans, or do they have to wait until all the plans are completed before they can go ahead?

Admiral LAND. No; they can proceed with what plans they have. Plans are progressive. Starting in with merely hull plans, after the lines are laid down in the mold loft floor, then they progressively come out as hull and structural plans, following along in due course with engineering plans, for machinery installations, piping, wiring, and so forth. It is a progressive matter, and just as a matter of actual fact, plans of a ship practically are never completed until the ship is scrapped and off the Navy list, because we keep running plans from the time that the contract plans are prepared, and we keep booklet plans and all kinds of alteration plans on all ships in the bureaus and in the home yards, as well as on board ship, so that actually the plans are never entirely completed until the ship demises.

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[1] See footnote on preceding page.

Mr. Raushenbush. Can men work on the machinery before all the hull plans are in?

Admiral Land. In some respects; yes. Admiral Robinson can give you a better answer to that than I can. But certain machinery plans can be proceeded with before certain hull plans are finished.

Mr. Raushenbush. Has there been a great rush of these plans in after the Secretary of the Navy reproved New York Ship for its delay as to the speed of getting in those plans in the last few months?

Admiral Land. We have been endeavoring to speed up plans from October 1933 until to date, and the Secretary and Assistant Secretary have written letters to various contractors, endeavoring to expedite not only plan work but all work, and the Chief of the Bureau of Engineering and myself have constant pressure on the superintendent of construction and the inspector of machinery, to do the same, as well as putting all the pressure we know how on everybody in the respective companies from the president down.[1]

Mr. Raushenbush. We have a letter here from the Secretary of the Navy to the New York Ship., dated September 22, 1934, which I show you, and which you will probably recognize [handing paper to witness].

On the second page of that letter it states:

> The Department has not been satisfied with the progress made at your plant with particular reference to the light cruisers. The situation with regard to plans is clearly understood, but it is a matter of vital importance that all practicable pressure be brought to bear on this plan situation in order that it

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[1] Under date of Jan. 31, 1935, Admiral Land submitted the following data in connection with the steps taken by the Navy Department to prosecute the shipbuilding program as expeditiously as possible in order to relieve unemployment and prevent discharges:

Seven new designs were involved in this program. This is a greater number of designs than ever before obtained at any time in the history of the Navy.

The preparation of contract plans for 3 of the designs was allocated to 3 different private yards best able to undertake the work. By this action it was possible to utilize the best design talent in the United States familiar with combatant-ship design. A "traveling design staff" was organized and sent "on the road" in order to expedite action on plans.

Special clauses were incorporated in the contracts with private yards requiring them to do everything practicable to relieve unemployment and in general to expedite work during the first and second years of the life of the contract. The design bureaus not only permitted but required unusual and unprecedented procedures, particularly with regard to plans and various short cuts were authorized and directed in order to expedite the work. Private yards, navy yards, and the Bureaus concerned made special efforts along procurement lines, even though the material would not be needed for a year or two.

A special letter was written by the Secretary of the Navy in August 1933 to all private shipbuilders.

A special letter was written by the Secretary of the Navy in August 1933 to all commandants having new construction at their yards.

A weekly report was made to the Secretary of the Navy and to the Assistant Secretary of the Navy relative to progress being made.

A special follow-up letter to all private shipyards and all commandants was sent by the Assistant Secretary of the Navy in January 1934 to check up on progress being made and to urge greater efforts on the part of all hands.

During this year's construction period several strikes occurred; one in particular was of such long duration as to seriously retard the work on this program. The Department used its best endeavors to assist in the settlement of these strikes.

A special letter was sent out by the Secretary of the Navy Jan. 17, 1935.

> may be practicable to put men to work, not only in your plant, but also in the two Navy yards which are building cruisers from the plans prepared by your company.

Admiral LAND. Yes, sir; I am familiar with that letter.

Mr. RAUSHENBUSH. The letter continues:

> A resurvey of the situation will undoubtedly indicate to you ways and means for more thoroughly carrying out the spirit and letter of the contract requirements and it is hoped that you will see your way clear to make this resurvey in order that the 1933 program may be more rapidly advanced as well as making as rapid progress as possible on the light cruiser awarded to you under the 1934 program.

I offer that for the record.

(The letter referred to was marked "Exhibit No. 1479" and is included in the appendix on p. 4915.)

Mr. RAUSHENBUSH. The question there was whether within the date after September 22, 1934, when an official reprimand was addressed to the company for the delay, the plans came speeding in after that time?

Admiral LAND. There has been a material improvement, and constant pressure is being applied by the Navy Department to make that improvement greater.

Mr. RAUSHENBUSH. Can you give us the status of the plans, either in numbers or percentages, about that time when this reprimand was addressed to the company?

Admiral LAND. I can furnish it for the record. I have not it with me.

Mr. RAUSHENBUSH. We have here a document from the files of the New York Shipbuilding Corporation which I would like to read and ask you as to its correctness. It is dated May 15, 1934.

After pointing out the clauses in the New York Shipbuilding Corporation's contracts, urging speeding up, it says:

> This clause applies with equal force to the contract to supply the design for the vessels and to the contract for the construction of vessels; New York Ship offered in its bid for this work, to have the *Savannah* 30 percent complete at the end of the first year and the *Nashville* 20 percent complete 1 year after the award of the contract. On May 1, 1934, or 9 months after the award, the Navy progress reports indicate that the New York Ship has defaulted on its contract. The figures are as follows:

It goes on and shows that the *Savannah* was supposed to be 30 percent complete and the first hull is 1.9 percent and the machinery 3.5 percent completed, in comparison with 30 percent promised.

On the *Nashville*, where they promised 20 percent in the first 12 months, the first hull is 1.9 percent and the machinery 2.9 percent.

And on the *Brooklyn*, the first hull is 1.5 percent and 0.1 percent on the machinery. [Continuing reading:]

> All of these vessels are in the early design stage. No material for their construction can yet be safely fabricated in the shipyards or elsewhere until the main designs are completed. The only men now employed are those working on the design in the New York Ship drafting room.
>
> On May 12, 1934, New York Ship had completed the following drawings:

It gives the total number of drawings required, hull, 2,500, machinery, 1,780, and as compared with that the total number of drawings completed of 25. That is 1 percent. And it shows the machinery with the total number of drawings completed of 40 out of 1,780.

Is that approximately the situation as you remember it as of the middle of May 1934?

Admiral LAND. That reference to the contract is entirely in error.

Mr. RAUSHENBUSH. What reference was that?

Admiral LAND. The reference about being a certain percent completed at a certain time. There is no such clause in the contract.

Mr. RAUSHENBUSH. They were not supposed, under this special arrangement for getting men back to gainful employment in the use of P. W. A. funds and the like, and they did not make any promises that the plans for the vessels would be 30 percent completed?

Admiral LAND. There is nothing in the contract which requires that. There is a clause requiring extraordinary effort in the first and second year, but it does not require specification of completion.

Mr. RAUSHENBUSH. Is that in the bid, that they expected those percentages of completion?

Admiral LAND. I do not know. I will find out.

Mr. RAUSHENBUSH. I think that would be pertinent to have at this moment.

The memorandum goes on to state:

> In the week of May 5, 1934, the Navy Department is reported to have rejected New York Ship's design for the machinery pieces of these vessels.

Do you remember that?

Admiral LAND. There were some parts of some plans which were not approved about that time. It would not be a rejection in our sense of the word. We do not use that term. We approve or disapprove. We modify and we alter. The basic is merely redrawn.

Mr. RAUSHENBUSH. You would call those alterations which took place?

Admiral LAND. In this case it would be a modification, something that they proposed which we did not approve.

Mr. RAUSHENBUSH. That memorandum then goes on to say:

> Change in this fundamental design will dictate changes in the design of the entire vessel and makes all former detailed plans worthless. Progress reports for May 12, 1934, should therefore be amended to read:

	Hull	Machinery
C. L. Savannah	0	0
C. L. Nashville	0	0
C. L. Brooklyn	0	0
C. L. Philadelphia	0	0

Admiral LAND. I do not recognize that letter. There are a lot of things there that I do not know what they are talking about. Certainly the statement that they made that all these plans are worthless is incorrect.

Mr. RAUSHENBUSH. They only apparently turned over at that time 25 drawings on the hull and 40 on the machinery, in May 1934, according to this memorandum.

Admiral LAND. I do not recognize that memorandum. Has that ever been given to the Navy Department?

Mr. RAUSHENBUSH. It is from the files of the New York Ship.

Admiral LAND. I know nothing about their files.

Mr. **Raushenbush**. The memorandum continues:

> No men can be put to work in the New York and Philadelphia Navy Yards on the cruiser construction assigned to them, until after designs have been received by the Navy Department from the New York Ship acceptable to the Department. Nor can these vessels be designed by the navy yards themselves, as they lack the necessary skilled and experienced design personnel.
>
> Failure of New York Ship to live up to its contracts is not only causing delay in the building of the vessels, but delay in the reemployment in its own yard, and in the two most important navy yards dependent on it for design.
>
> The causes for this inexcusable delay in cruiser design are in no way related to the shipbuilders' strike just settled at New York Ship, as their draftsmen did not leave their work. The delay is due primarily to New York Ship's having too much design work on hand, and its contractual obligation to get out certain private contract work ahead of the cruisers.

Let me interrupt there a minute, Admiral Land. Do you know how much outside non-Navy work the New York Shipbuilding Corporation had at this time?

Admiral **Land**. They had two tankers.

Mr. **Raushenbush**. And were they also drawing designs for Brazilian ships they expected to get?

Admiral **Land**. I do not know. That was in the picture, but what they did I do not know.

Mr. **Raushenbush**. Did each of those two tankers for Standard Oil take up one each of their ways?

Admiral **Land**. Yes. When the keels were laid, they each took up one way.

Mr. **Raushenbush**. How many active ways are there at New York Ship?

Admiral **Land**. I am not sure when you say "active ways" what you mean. I have the data. I would have to look it up, though, because I do not remember offhand. I have got it in the ship's data book and I have also got it in another form. I will have to put it in because I cannot tell from memory as to "active ways."

Mr. **Raushenbush**. All right. I was simply making this point: Here is the picture of the New York Ship industry from the progress report of the Navy, dated January 1, 1935, showing a very considerable degree of incompletion on the 1933 and 1934 cruisers; and, in addition to that, the picture should really include two tankers more, which would crowd their ways to that extent.

Admiral **Land**. You know that New York Ship has three sets of ways. They have the north plant and the south plant and the old war plant. The old war plant is in no way active.

Mr. **Raushenbush**. The south yard is not being used?

Admiral **Land**. Not in any way, so far as I know.

Mr. **Raushenbush**. Not since the war?

Admiral **Land**. No; not since the war.

Mr. **Raushenbush**. So that we can talk about the north yard and the five active ways there.

The memorandum goes on to state:

> The Navy itself furnished rather complete designs and specifications for the destroyers awarded New York Ship, but a sketch design only for the cruisers. It is therefore necessary for the New York Ship engineers to work up the fundamentals involved in the cruiser design, such as space and weight to be allocated to boilers, machinery, ammunition, supplies, and having made such allocation, determine the dimensions and strength of the hull. All of this must be checked and approved by the Navy Department before detail

> design work can commence in the drawing rooms, as any change in any one of the above fundamentals would necessitate change in design throughout the vessel, and each detail design must be approved by the Navy Department before it can be sent to mold loft.

The comment here, as I take it, Admiral Land, is that a change in any one of the fundamentals of those designs would necessitate change in the design throughout all the others. Is that approximately correct?

Admiral LAND. If you and I understand the term "fundamentals" the same way; yes, that is correct.

Mr. RAUSHENBUSH. Then it talks about having an exception in the code for the draftsmen but even then they would not work them full time.

Then, do we gather roughly the picture that when contract for the light cruisers was signed—and I show you numbers 41 and 42, and here is 43—it says on the second page, article 4:

> Time being of the essence of the contract, it is agreed that plans submitted to the Department will be acted on and returned to the contractor as promptly as possible—

and so forth.

Does the Navy feel at all that there has been undue delay on the part of New York Ship in supplying those working plans?

Admiral LAND. We feel there has been delay. I would not state undue delay. They are behind. They have been behind. Their present progress is between 4 and 5 percent behind the check curve which we have. It is not as good as we would like. And it is not as good as we had hoped for. But it is a fair approximation to what was anticipated, but not what we would like to have.

Senator VANDENBERG. Admiral, if that is a fair anticipation of what you expected, how could you have hoped to use P.W.A. money for the purpose it was intended, namely, to create immediate employment?

Admiral LAND. Senator, we actually did relieve unemployment outside the shipyards and the navy yards, and, more important, we kept people who were employed from being let out by virtue of this program.

Senator VANDENBERG. How?

Admiral LAND. By the construction of this program.

Senator VANDENBERG. How much money did you get from P. W. A.?

Admiral LAND. $238,000,000.

Senator VANDENBERG. How much of that money do you think actually went into unemployment relief?

Admiral LAND. I know how much we spent the first contract year.

Senator VANDENBERG. How much?

Admiral LAND. We estimated $46,000,000, and including both of these 32 ships and the 5 increased Navy which were let at the same time, we spent $47,000,000 the first contract year on construction.

Senator CLARK. That was for both wages and materials?

Admiral LAND. That is everything which was spent out of the Treasury.

Senator CLARK. Total expenditure for that year?

Admiral LAND. Out of the Treasury; yes, sir.

Senator CLARK. $47,000,000, Admiral?

Admiral LAND. $47,000,000 plus. Our own private estimate was about $43,400,000 on these ships, and we spent about 43,700,000 on the 32 ships. The $47,000,000 covers the 37 ships.

Senator VANDENBERG. Your own estimate was that you were going to expend $43,000,000, as I understand it.

Admiral LAND. On the 32 ships.

Senator VANDENBERG. Out of $238,000,000.

Admiral LAND. The first year of construction.

Senator VANDENBERG. Was not the $238,000,000, so far as the P. W. A. was concerned, in contemplation of complete expenditure in 1933?

Admiral LAND. No, sir; it is not my understanding. The law extends for 2 years, and by interpretation of the authorities, the funds are available under our contracts until expended.[1]

Senator VANDENBERG. But the P. W. A. money was not for the purpose of building battleships?

Admiral LAND. No, sir.

Senator VANDENBERG. It was for the purpose of creating immediate employment, was it not?

Admiral LAND. Yes, sir; as I understand it; but it was 2 years. I am not sure. You know more about that than I do. I think it was 2 years.

Senator VANDENBERG. Let us say 2 years. How much out of the $238,000,000 would you spend in 2 years?

Admiral LAND. I can give you a pretty accurate estimate of that. I cannot do it now because the end of the 2 years is not yet.

Senator VANDENBERG. In general.

Admiral LAND. The last figure we had was something like $87,000,000 up to around the first of January, and the average expenditure is running anywhere from $7,000,000 to $9,000,000 a month, with very much of an upgrade as to expenditures.

Senator VANDENBERG. You made your total estimate for 2 years?

Admiral LAND. Yes, sir; for the first 2 years of construction. I would be glad to submit that.

Senator VANDENBERG. Can you not make an estimate now just broadly? Our governmental practice now is so loose in handling millions that we will not hold you down very closely on your estimate.

Admiral LAND. I think around $150,000,000.

Senator VANDENBERG. $150,000,000. That would be $70,000,000 more than you have spent up to date?

Admiral LAND. Yes, sir; in the first 2 years of contractual construction.

Senator VANDENBERG. And you have no information as to whether or not the P.W.A. thought you were going to use the $238,000,000 in 1 year to serve the unemployment problem for which the P.W.A. was created?

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[1] Under date of Jan. 31, 1935, Admiral Land submitted the following information regarding the time element relative to contracts incurred under N. I. R. A.:

(*a*) Appropriations are available after the close of the year for which made for the payment of contracts properly made during the year (sec. 3690, Revised Statutes).

(*b*) Available for 2 years after the year for which made for settlement of obligations properly incurred during the year, including contracts (sec. 3691, Revised Statutes).

(*c*) Orders placed with Government-owned establishments for work or material considered as obligations in the same manner as provided for similar orders or contracts placed with private contractors and appropriations will remain available accordingly (Naval appropriation for the fiscal year 1923, approved July 1, 1922).

(*d*) Decision of Comptroller General Jan. 9, 1935, A–59268.

Admiral LAND. I do not believe I can answer that question, Senator.

Senator VANDENBERG. Probably you cannot. You can see what challenges my interest.

Admiral LAND. Yes, sir.

Senator VANDENBERG. The Congress provides for unemployment relief and the P.W.A. administers it and gives you $238,000,000 to build battlehips, justifiable only on the theory that it is creating employment.

Senator CLARK. Immediate employment?

Senator VANDENBERG. Immediate employment, and, as I understand it, it is employment within the 1933 program. Yet up to date you have only spent $87,000,000 of the $238,000,000, so that obviously you have not served the purpose of the creation of the P.W.A.

Admiral LAND. You do not expect me to agree with that conclusion, do you, sir, because I do not?

Senator VANDENBERG. I would be happy to know where you disagree. You do not think that the P.W.A. funds are appropriate to be used on a naval program, unless that program creates immediate employment, do you?

Admiral LAND. We have employed and kept employed out of this fund somewhere in the neighborhood of 50,000 men. That is made up of some accurate figures of the men at the site and some estimated figures of men away from the site.

P.W.A. NAVAL ALLOTMENT IN 1933

The CHAIRMAN. Admiral, did you have any hand in the request that was made of the P.W.A. for these funds?

Admiral LAND. Senator, we, all of us in the Navy Department, had a hand in endeavoring to get a shipbuilding program, which we had been working on for years, and this specific program dates back to about 1930. As an assistant to Admiral Pratt, in Operations at that time, one of my jobs was to work as liaison between him and the General Board in the preparation of a shipbuilding program.

The CHAIRMAN. How was the request of the Public Works Administration initiated?

Admiral LAND. I am not sure. I think it was initiated by the Secretary of the Navy.

Senator CLARK. Admiral, do I understand you correctly to say that this building program had been prepared and was in existence some years before, without any reference to the P.W.A. matter at all?

Admiral LAND. Not the P.W.A. program; no, sir. I did not say that. We had a building program, of which it now turns out that this P.W.A. program incorporated certain parts of the Navy building program.

The CHAIRMAN. Had there been no Public Works program, ought the committee to understand that the requested appropriations by the Navy Department would have been larger than were those directly requested by appropriation?

Admiral LAND. I cannot answer that question directly because at that time there were two steps required by law and by the Congress to obtain a Navy program: (1), authorization, and (2), appropriations. One affects, as you know, the Naval Affairs Committee of both Houses, and the other affects an entirely different committee, the Appropriations Committee.

The CHAIRMAN. Did you have the authorization in 1930?

Admiral LAND. No, sir; excuse me, I do not want to answer that incorrectly. We had some authorization, namely, the cruiser law of 1929.

The CHAIRMAN. You did not have the authorization for the work that is under way at the present time, did you?

Admiral LAND. Only part thereof.

The CHAIRMAN. What was your first knowledge of the effort to obtain allotment from the Public Works funds?

Admiral LAND. I cannot remember the first time we made that, Senator. It is over 2 years ago.

The CHAIRMAN. Forgetting the time, who first acquainted you with the effort that was to be made to get these P.W.A. funds?

Admiral LAND. I think the matter was initiated when it appeared probable that an N.R.A. program with P.W.A. subsection in the bill was being considered by the Congress. I feel quite sure that that was about the time those officials of the Navy Department charged with these matters took very keen interest in what was being done, with the hope that some allocation might be made for a shipbuilding program.

The CHAIRMAN. In requesting the allocation, did you have any hand in shaping the plans or amounts that were to be requested?

Admiral LAND. Yes, sir.

The CHAIRMAN. Upon what was their request based?

Admiral LAND. It was based on estimated costs of each program as laid down in the General Board's annual program for shipbuilding.

Senator CLARK. How much did you ask for?

Admiral LAND. To the best of my recollection, we asked for the sum that we got, $238,000,000.

The CHAIRMAN. Were you estimating at the time how long you would be in expending this money?

Admiral LAND. Absolutely. We knew pretty closely how long it takes to build each class of ship in this country except in war time. We have ample data on peace time construction.

Senator CLARK. Was your information furnished to the P.W.A. Board in requesting this allocation as to the length of time in which it would be spent?

Admiral LAND. I do not know, sir, specifically.

Senator CLARK. You do not know whether the P.W.A. ever requested the information, or whether they simply allocated 100 cents on the dollar what you asked for?

Admiral LAND. I think you gentleman know better than I do how this $238,000,000 was allocated. As to the questions with regard to time, as to whether they were asked or answered, I do not know, but those cognizant of Navy shipbuilding in this country knew about what length of time it required.

The CHAIRMAN. Admiral, did the New York Shipbuilding yards indicate to you that the Navy ought to make part of these Public Works funds available to them?

Admiral LAND. Not to my knowledge, not as far as I recollect.

Senator VANDENBERG. The $238,000,000 was established as a figure from the viewpoint of the naval program rather than from the viewpoint of the employment needs of P.W.A., was it not?

Admiral LAND. I cannot answer that, sir.

Senator VANDENBERG. What was Admiral Peoples' status at this time?

Admiral LAND. When this P.W.A. matter came up?

Senator VANDENBERG. Yes.

Admiral LAND. I am not sure that Admiral Peoples was here at all at that time. I would have to check up from the Navy Register when he was appointed Chief of the Bureau of Supplies and Accounts, but to the best of my recollection, he had no active part in the matter at that time, that is, in the spring of 1933. May I ask Admiral Robinson?

Senator VANDENBERG. Yes.

Admiral LAND. Was Peoples here in the spring of 1933?

Admiral ROBINSON. I do not remember. He came along about that time, but the exact date I do not remember. He did not have anything to do with this program, if that is the answer.

Senator VANDENBERG. That is what I was inquiring about.

Admiral LAND. That is what I wanted to say but I wanted to be sure, because I do not want to give you gentlemen any misinformation that I would have to correct. I do not think that he was here, and I do not think that he had anything to do with the program.

The CHAIRMAN. Admiral, would you like to have Admiral Robinson up here at the table this morning? Might he have information which we are asking for which you cannot furnish?

Admiral LAND. We have worked jointly on this thing since it started.

The CHAIRMAN. I would suggest that Admiral Robinson come forward and be sworn.

TESTIMONY OF REAR ADMIRAL S. M. ROBINSON

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Give the committee your full name, Admiral.

Admiral ROBINSON. Rear Admiral S. M. Robinson, Engineer in Chief, Chief of the Bureau of Engineering.

Senator VANDENBERG. Admiral Land, who in the Navy Department would be the appropriate witness to testify for the Navy Department as to how this figure of $238,000,000 was arrived at, and why?[1]

Admiral LAND. The Secretary and Assistant Secretary, and Chief of Naval Operations, and I suppose the president of the general board, and Admiral Robinson and myself. Is that about it?

Admiral ROBINSON. Yes. They all had a hand in it.

Admiral LAND. We were all concerned in it.

Senator CLARK. Admiral, a moment ago you asked Admiral Robinson whether Admiral Peoples was here when this program was prepared in 1932. Do I understand that this program was prepared then in 1932?

Admiral LAND. It was discussed in the fall of 1932 and the spring of 1933.

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[1] In connection with this question see statement of Admiral Land, appendix, p. 4956.

Senator CLARK. But the P.W.A. program was not enacted into law until June 1933.

Admiral LAND. When I said "this program", I am talking about the Navy building program.

Senator CLARK. That is exactly what I am trying to get at, Admiral, whether this program was prepared actually to accomplish an ordinary program of building warships, or whether it was prepared with special reference to P.W.A. purposes of putting men to work?

Admiral LAND. The program was prepared originally as part of the Navy Department's building program.

Senator CLARK. In other words, it was for naval purposes, rather than for reemployment?

Admiral LAND. Originally; yes, sir.

Senator CLARK. That is what I was trying to get at.

Mr. RAUSHENBUSH. Admiral, was there not more than $238,000,000 allocated to the Navy?

Admiral LAND. Not for ships.

Mr. RAUSHENBUSH. What was the rest of it allocated for?

Admiral LAND. I do not know.

Mr. RAUSHENBUSH. You think that is the total figure?

Admiral LAND. That is for ships in 1933.

Mr. RAUSHENBUSH. We, somewhere, ran across a figure of another $40,000,000. Was that for something else?

Admiral LAND. Are you speaking of 1934?

Mr. RAUSHENBUSH. Yes, sir; I think so.

Admiral LAND. That is the 1934 allocation.

Mr. RAUSHENBUSH. How much was that?

Admiral LAND. It is $40,000,000 plus, which was allocated in what was known as "increase of the Navy emergency construction." Of that sum, $25,000,000 plus was allocated for ships in 1934. This was done by the Administration through the Treasury to the Navy Department.[1]

Mr. RAUSHENBUSH. So when we are talking about P.W.A. funds, altogether, we have a total of somewhere around $278,000,000 to talk about. Is that correct?

Admiral LAND. I am not able to confirm that or deny that because I do not know about the P.W.A. connection with the increased Navy emergency construction.

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[1] Under date of Jan. 31, 1935, Admiral Land submitted the following information regarding the 1934 building program and the $40,000,000 allotment to the Navy:

(*a*) $40,661,905 were allotted to the Navy Department June 29, 1934.

(*b*) $25,050,333 of this amount was reallocated by the Secretary of the Navy for ship work Aug. 23, 1934.

(*c*) This amount covers the first year's estimated expenditures for 6 submarines and 14 destroyers.

(*d*) This matter was thoroughly discussed before the Deficiency Appropriation Committee of the 73d Cong., 2d sess., on p. 275, etc., of their hearings entitled "Additional Appropriations for Emergency Purposes", dated May 22, 1934.

The National Industrial Recovery Act, which became law on June 15, 1933, indicates what is included in public works. Ships and aircraft are included (National Industrial Recovery Act, sec. 202, p. 8).

Public works are defined in Public, No. 2, Seventy-third Congress, "credit bill", approved Mar. 20, 1933, p. 7, sec. 4, subpar. 2, from which the following is quoted:

"'Public works' as used in this section shall comprise all projects falling in the general classes enumerated in Budget Statement No. 9, pages A177 to A182, inclusive, of the Budget for the fiscal year 1934, and shall also include the procurement of new airplanes and the construction of vessels under appropriations for 'Increase of the Navy.' The interpretation by the Director of the Bureau of the Budget, or by the President in the cases of the War Department and the Navy Department, of 'public works' as defined and designated herein shall be conclusive."

Mr. Raushenbush. You were testifying a few minutes ago to the effect, if I understood you correctly, that $42,000,000 or $43,000,000 of P.W.A. funds had been spent. Is that correct?

Admiral Land. During the first construction year, of the 1933 program, on the N.R.A. program $43,000,000 plus, or on the total program $47,000,000 plus was spent out of the Treasury.

Mr. Raushenbush. How much of that went to machinery?

Admiral Land. I do not know.

Mr. Raushenbush. Did not the bulk of it go to machinery?

Admiral Land. I should very much doubt that. You could break that down. I think, on the contrary, probably more went to hulls, merely because hulls are usually in advance, in the early stages, particularly, of machinery, because you have to have a hull in which to put your machinery. That I am not able to answer correctly.

Mr. Raushenbush. Would Admiral Robinson be able to answer that?

Admiral Robinson. From the percentages of the completion of the ships, it is obvious that a considerable more portion of it was spent on the hulls than on the machinery.

Mr. Raushenbush. About how does the proportion run?

Admiral Robinson. On the *Brooklyn* the hull is 17.6 percent completed and the machinery is 4 percent completed. On the *Philadelphia* the hull is 15 percent completed and the machinery 2.5 percent completed. On the *Savannah* the hull was 15.5 percent completed and the machinery 18.5 percent completed. On the *Nashville* the hull was 14.5 percent completed and the machinery was 18.5 percent completed.

Mr. Raushenbush. 14.5 percent on the hull and 18.5 percent on the machinery on the *Nashville* would look like a large part of it had been spent on machinery.

Admiral Robinson. On that particular ship. I thought you were referring to all of the ships. Some have a little bit more on the hull than on the machinery, and some have a little bit more on the machinery than on the hull.

Senator Vandenberg. Admiral Robinson, you cannot translate that for us into dollars and cents, in a general estimate as to how much of the $47,000,000 probably went for labor and how much for materials?

Admiral Robinson. We have a figure which we use for estimating labor and material which is, as I remember it, about 70–30, 70 labor and 30 materials. That is a rough figure which we use for covering all our work. It is fairly accurate.

Senator Vandenberg. Seventy percent of $47,000,000 is about $34,000,000?

Admiral Robinson. That is about right; yes, sir.

Senator Vandenberg. That would be the outside figure on labor, would it not?

Admiral Robinson. I think it is just about the correct figure.

Senator Vandenberg. $34,000,000 out of $238,000,000 was spent for labor the first year in round numbers?

Admiral Robinson. Yes, sir; about that.

Senator Clark. Admiral Land, did I understand you to say a moment ago that after the first allotment of $238,000,000 of P. W. A.

funds, then in 1934 they got an allotment of $40,000,000 from P.W.A. funds?

Admiral Land. No, sir; I did not say that. I am unable to differentiate accurately as to just what the second allotment means or its source. I know what we call it. It covers new ships. It covers 20 new ships. It is not the same program at all but an entirely different program.

Senator Clark. I am speaking of the program. You do not know where you got the money?

Admiral Land. Yes, I know where we got it, but I do not know how it is allocated.

Senator Clark. Was it authorized in any act of Congress and appropriated for in an appropriation bill?

Admiral Land. Not under increase of the Navy; no, sir.

Senator Clark. If you only spent $87,000,000 out of the $238,000,000 during the first year, what was the cause for granting an additional $40,000,000?

Admiral Land. A new program.

Senator Clark. A new program. Did that put additional men to work?

Admiral Land. Yes, sir.

Senator Clark. How many?

Admiral Land. I cannot answer that accurately. I can give you general information that 80 to 85 percent of any appropriation so far as shipbuilding is concerned goes to labor.

Mr. Raushenbush. How do you arrive at that figure, Admiral? I ask the question because in the estimates of the company introduced so far, they allocated about 50–50 to labor and materials. That ran on a cruiser roughly $4,000,000 for labor, $4,000,000 for material.

Admiral Land. That is at the site. I have a complete break-down of that with percentages, which has never been challenged, and which was given to the Naval Affairs Committee last year, and I would be glad to resubmit it, an actual break-down of that 85 percent labor.[1]

Mr. Raushenbush. I think we ought to have that, Mr. Chairman.

Admiral Land. All right; I will be glad to submit it.

Senator Vandenberg. You said that the $40,000,000 was for a new program?

Admiral Land. Yes, sir.

Senator Vandenberg. You mean a new Navy program?

Admiral Land. A new Navy program, of which $25,000,000 was allocated to ships, 20 ships, in the 1934 Navy shipbuilding program.

Senator Clark. What I am getting at, so far as the reemployment is concerned, Admiral, was in spite of the fact that you were only able to spend for that purpose in the first year $87,000,000, and had approximately $150,000,000 unexpended in the first allocation, why you came back and got another $40,000,000 in the second year.

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[1] Under date of Jan. 31, 1935, Admiral Land submitted the following analysis and break-down regarding his statement about the percentage of labor in shipbuilding costs:

Shipbuilding costs are made up approximately as follows: 40 percent labor plus 40 percent material plus 20 percent overhead equals 100 percent. About 40 percent of the cost of building a ship goes to labor at the site. Of the 40 percent cost of material about 70 percent goes to labor away from the site, namely, in the field, all the way back to the forest and the mines; 70 percent of the 40 percent equals 28 percent. Of the overhead cost about 80 percent goes to labor; 80 percent of 20 percent equals 16 percent. Therefore, we have 40 percent plus 28 percent plus 16 percent equals 84 percent which goes to labor in the shipbuilding industry.

Admiral Land. That is what we got.

Senator Vandenberg. Have you an application with them for further allocation for the coming year?

Admiral Land. We have a bill before the Congress for increase of the Navy under the present appropriation bill of 24 ships. That is all.

Senator Vandenberg. Have you an application with the P.W.A.?

Admiral Land. Not for ships, so far as I know.

Senator Vandenberg. Have you an application with the P.W.A. for anything?

Admiral Land. I expect so. I think so.

Senator Vandenberg. Do you recall what it is?

Admiral Land. No, sir. It is not in my province.

Senator Vandenberg. Is not the Navy asking for $100,000,000 more from P.W.A.?

Admiral Land. I do not know.

Senator Vandenberg. You have not heard that was the figure?

Admiral Land. I have not heard that figure. I know the Navy is asking for something, and I have seen the break-down of the items, but it comes more directly under the Bureau of Yards and Docks, that is the public-works part of the Navy Department.

Senator Vandenberg. I am not quarreling with you, Admiral, or with the Navy, but I am trying to discover whether P.W.A. money is being spent for P.W.A. purposes or Navy purposes.

Mr. Raushenbush. In that connection, Admiral Land, what effect did the code for shipbuilding have on the number of hours worked? Let us say before June 1933 the men were working longer time than after that, were they not?

Admiral Land. Yes, sir.

Mr. Raushenbush. About what reduction was there in hours weekly?

Admiral Land. That is a variable quantity as to shipbuilders. After the code went into effect for private shipbuilders it was 32 hours, which was subsequently changed to 36 hours, where it now stands.

Mr. Raushenbush. Before then how long were they working?

Admiral Land. That is dependent entirely on the shipyard.

Senator Clark. Admiral, you estimated a while ago that the authorities hold that you can use this $238,000,000 until it is expended, no matter how long that may take. What authorities made such a ruling as to that?

Admiral Land. I think the bill itself and the Comptroller General.

Senator Clark. The Comptroller General passed on that?

Admiral Land. I am not sure of that, but my understanding is that the bill itself permits a given contract to remain in force until expended.

Senator Clark. So that as soon as you lay down the keels on this program for Public Works, it is necessarily not of any great moment to the Navy Department when they are completed, because you have got control of the funds to complete them, no matter how long it may take?

Admiral Land. No, sir.

Senator Clark. Then you can turn around on the reemployment business and ask for an additional appropriation in the next year?

Admiral Land. That is not correct, sir. It is of the greatest interest to us to complete those ships as efficiently and economically and at the earliest possible date.

Senator Clark. What steps have the Navy Department taken with the New York Shipbuilding Corporation to get these plans for light cruisers?

Admiral Land. We have taken extraordinary steps, all of which are listed here, and I would be glad to furnish them step by step.[1]

Senator Clark. We certainly would be glad to have them.

Admiral Land. It is all available, sir, and I have it in the testimony I gave last week to Mr. Vinson's committee in the House, and I would be very glad to submit it here.

Senator Clark. Is there any specification in your contract with the New York Shipbuilding Co. as to when those plans would be completed?

Admiral Land. Not as to date; no, sir. There are clauses, or, rather, the contract clause requires the ship to be completed on a given date, under penalty.

Senator Clark. I am speaking of the plans which they were preparing for ships to be constructed by the Navy.

Admiral Land. It is the same thing. They have got to get their plans to build their own ship. I can give you very briefly just what happened to those plans. As a matter of fact, we get the plans from them sometimes before they actually get them around their own plant.

Senator Clark. What I am trying to get at, Admiral, is as to whether there was any provision in the contract which required the New York Shipbuilding Corporation to have those plans prepared at a certain time.

Admiral Land. No, sir.

Senator Clark. In other words, taking your previous statement as to the ruling of the Comptroller General that these funds were available to the Navy Department until expended, and putting it together with the statement that there was no provision in the contract with the New York Shipbuilding Corporation, the New York Shipbuilding Corporation might have delayed 10 years in preparing the plans, and therefore the P.W.A. funds would still be available to the Navy Department.

Admiral Land. No, sir; they cannot do that, unless they want to bankrupt themselves, because there are very severe penalties in the contract about the time of building the vessels.

Senator Clark. They were not building the vessels about which I am speaking, but the plans for constructing the vessels in the navy yards.

Admiral Land. It is the same thing. We get the plans and approve them. There are plans and we get them at the navy yard just as soon as they get them at their own plant, after approval.

Admiral Robinson. May I say a word, Senator?

Senator Clark. Yes, sir; certainly.

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[1] See footnote on p. 4708.

Admiral Robinson. The plans to which you are referring are exactly the same for the navy yard ships as the New York Shipbuilding Corporation. When they get some plans ready, after we put them into form for our own yards, they are ready for us; they are the same plans, and the plans have to be completed. There was no time given, because no time is included in the contract time for the ship.

EMPLOYMENT RESULTING FROM P.W.A. FUNDS

The Chairman. Admiral Land, are you undertaking at all this morning to estimate how many men this Public Works money has afforded employment for?

Admiral Land. So far as our N.R.A. program is concerned, I have reasonably accurate figures which I have already given, and I am trusting a little bit to memory here, but, roughly, it is about 39.000 plus at the sites, and at least 15,000 away from the sites. My estimate is around 50,000 men, both at the sites and away from the sites.

The Chairman. What has contributed to that employment? Has it been the Public Works funds that have been allotted to you, or has it been the new hours of employment that have been called for under the codes of the N.R.A.?

Admiral Land. I think it has been the funds which have been allotted. I am not capable of stating an answer to the second part of your question.

Mr. Raushenbush. Mr. Chairman, a witness on Friday, Mr. John Frey, was called upon by one of the Senators to furnish that information, and he secured it from the Chief Clerk of the Navy Department, and I have it before me.

The Chairman. Let it be read.

Mr. Raushenbush. Employment in navy yards, June 30, 1933, total number of employees in navy yards, on both coasts, 30.224; December 31, 1934, 37,294.

Now, the question which I was getting at a moment ago, Admiral Land, was this: If the hours in the shipyards before the codes, back in June, were 48 hours, and they were cut down to 36 hours, that would be a 25-percent cut in hours. That would supposedly give work to that many more men. Now, here we find a change of about 20 percent, less than the 25 percent, 20 percent between June 30, 1933, and December 31, 1934, when supposedly the program was humming along, just about 22 percent.

Now, would it not be a fairly correct deduction from that that the bulk of the employment was due to changes in hours rather than P. W. A. funds?

Let me show you those figures [handing "Exhibit No. 1480" to witness].

Senator Vandenberg. Do I understand, Mr. Raushenbush, that these figures indicate an increase in employment of only 7,000 men from June 30, 1933, to December 31, 1934?

Mr. Raushenbush. Yes, sir; 7,070 men. It is also given on the exhibit which are the east-coast figures, which show that the bulk of the additional amount was on the east coast and almost nothing on the west coast.

Senator VANDENBERG. How do you reconcile that, Admiral Land, with your statement about 50,000 men? Is there some other employment which you have in mind?

Admiral LAND. If there had been no P.W.A. allotment, there would have been no employment for the people who got this money. That is just axiomatic. To differentiate there between the number of hours, I cannot do it; but I gave my estimate of the situation, which is that the P.W.A. allotment permitted an increase of employment, other than that which would have obtained, of about 50,000 men.

Senator VANDENBERG. I want to be sure I understand you. Fifty thousand men for a week, or a month, or a year, or what?

Admiral LAND. It commenced from zero and worked up to that, and is on the increase.

Mr. RAUSHENBUSH. Fifty thousand in addition to the 22,000 employed?

Admiral LAND. I did not say that at all.

Mr. RAUSHENBUSH. I did not understand. I am sorry. You mean an addition between that figure of 30,000 and 50,000 would be an additional 20,000? Did I understand that?

Admiral LAND. No; that is not what I stated.

The CHAIRMAN. Let us get that clear. What is the 30,000 estimated to be, Mr. Raushenbush? What is it the total of?

Mr. RAUSHENBUSH. These figures were supposedly obtained from the Chief Clerk of the Navy Department just the other day, after that request was put in, and they are supposed to show the total number of employees in navy yards on both coasts as of June 30, 1933.

Admiral LAND. Mr. Chairman, these data are probably correct. It has nothing to do with what I am talking about; that is, navy yards.

Mr. RAUSHENBUSH. That is navy yards.

Admiral LAND. I am talking about the whole principle. I cannot compare those figures with my figures.

Senator VANDENBERG. In other words, the difference between these figures and yours would be taken up in the construction in the private yards?

Admiral LAND. Yes, sir; and in the subcontractors' plants, all the way back to the forests and mines.

Mr. RAUSHENBUSH. So far as you know, those figures represent about the situation as it exists in the navy yards?

Admiral LAND. If they were given you by the Chief Clerk, I feel they are quite correct.

(Statement referred to was marked "Exhibit No. 1480" and is included in the appendix on p. 4915.)

Mr. RAUSHENBUSH. In the private yards, in addition to these changes which may or may not be due to the hourly changes, you stated how many men had been given work; that was due not to any changes in hours, but just due to P. W. A. money.

Admiral LAND. That was the knowledge that I have, and I stated very definitely that it was made up of two parts; that is, retention of employees and reemployment.

Senator VANDENBERG. Admiral Land, when you allocated this $238,000,000 to the various ships to be constructed, did you allocate the complete cost of the ship, or did you divide the $238,000,000 among a considerably larger number of ships than the $238,000,000 would pay for in total?

Admiral **Land.** No, sir; this was a specific sum, for a specific number of ships which were advertised for, and contracts awarded to private yards, the remainder being allocated to navy yards.

Senator **Vandenberg.** Do you mean that $238,000,000 would pay the full bill for all the ships that were started under the allocation?

Admiral **Land.** Thirty-two ships. That was our estimate.

Mr. **LaRouche.** Admiral, I believe I can throw a little light on that. I think that what the Senator has in mind is that these ships will not be completed on this money, exactly as in the past ships have been completed under increases in the Navy. In other words, are there not some extras which are considered an essential part of that, which are not provided on these ships?

Admiral **Land.** That is probably correct. These were estimates based on ships complete and ready for sea, and there will be some reserves, particularly ordnance reserves, that we will have to get, probably get additional funds for. Also, conditions have very materially changed since the estimates were made. We all know that prices have gone up since that time, and they may go up further, so that no one can give you an accurate estimate as to the final cost of these 32 ships at this time.

Senator **Vandenberg.** Could you give me a general idea of how much more than $238,000,000 is necessary to finish the one job which was started with the $238,000,000? [1]

Admiral **Land.** Yes, sir; somewhere between 40 and 55 million dollars is the estimate as of today. That includes, as I say, all reserves which were not originally estimated on.

The **Chairman.** That will complete the job for which the Public Works funds were allotted?

Admiral **Land.** Yes, sir.

NAVY'S ABILITY TO DESIGN

Senator **Vandenberg.** May I ask Admiral Land whether the Navy is equipped to completely design a cruiser within its own engineering facilities?

Admiral **Land.** Yes; that is not only possible but probable. We are not fully equipped to do it in any rapid length of time, because we have insufficient personnel to do all the design work that is involved in a combatant ship of the type of a cruiser. It can be done, but we could not do it particularly expeditiously with our present set-up.

Senator **Clark.** How long has it been since the Navy actually did design a cruiser, Admiral?

Admiral **Land.** We make contract plans, which are proper to design the ship, but when we get into 5 to 7 thousand plans, we do not make them; we do not make the largest percentage of them. They are made by the successful contractor, and they are made by the subcontractors, all the way back to the men who build a pump or a blower or a motor. We could do it, but it would not be economical and would not be efficient with our present set-up. It would take a great many more men under Admiral Robinson and myself, and it would take more men in the navy yards to make a complete design to include every contract plan and working plan down to the last detail in the construction of a man-of-war.

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[1] Under date of Feb. 27, 1935, the Secretary of the Navy informed the committee that up to that time no additional allocation from any source had been received for the 32 vessels building under the N. R. A. Act. In hearings of January 1935 before the Committee on Naval Affairs of the House of Representatives the statement was made that an estimated $55,000,000 additional would be required to finish the 32 vessels. The greatest part of the deficit being accounted for by ordnance reserves not included in the original estimate. See "Exhibit No. 1669" in hearings of Mar. 12, 1935.

Senator CLARK. The Navy formerly did that work, Admiral, did it not?

Admiral LAND. Not to my knowledge. It never has. I can go back about 35 years.

Senator CLARK. Do you consider it an economical practice, Admiral, to have the plans drawn by the contractors themselves?

Admiral LAND. It has been established over a long period of years, and over long experience, that it is the most economical way to do it, because we have not had a regular shipbuilding program in this man's Navy of ours. We have humps and hollows. When you have a hump, why, we can employ and keep busy a large number of high-class technical men. When we have a hollow, we cannot, and they like to get fixed employment, where they are somewhat assured. Also, we are a training school, to a large degree, and I say " we " meaning particularly Admiral Robinson and myself, as we lose our expert men from time to time to go to outside concerns. That is not true only of the shipbuilding industry but elsewhere.

The CHAIRMAN. How does the private industry take care of humps and peaks?

Admiral LAND. They have other sources than Navy shipbuilding. They have merchant shipbuilding. Some of them are in the manufacturing business, some of them build boilers, some of them build turbines, and some of them build their own auxiliaries, all the way through, both for Navy and the merchant marine, and they have side issues of various kinds to take care of the humps and hollows, and have a somewhat more stable load than we have been able to do from a navy yard point of view.

Senator CLARK. When they have a hump, they just step out and take your personnel, Admiral?

Admiral LAND. There is something in what you say.

Senator BARBOUR. I want to be sure, Mr. Chairman, that I understand the Senator's question correctly. When you speak of the ability of the Navy to make all these designs themselves, do you refer, for instance, to the designing of a marine boiler, and the details of that, Senator Clark, or Senator Vandenberg?

Is that what you have in mind, or as against getting bids of concerns which for years have made marine boilers?

Senator VANDENBERG. If you are asking me, I am not trying to detail this thing down to the boiler room. I am interested in the general inquiry as to whether the Navy is dependent upon the private shipyard for designs, speaking abstractly and generally, and it is my understanding that under the set-up today they are absolutely dependent upon the private shipyards. Is that correct?

Admiral LAND. I would not say absolutely, Senator. We are, in a way, dependent upon them, but, as I say, by a great augmentation of our forces, we could do this. It would not be economical and probably would not be efficient, because we would then become standardized in the Navy and would not have the benefit of the design and engineering information which exists in the shipbuilding world in the United States.

Senator VANDENBERG. I understand that. Let me get back to this matter again. I understand you to say that you might augment your forces and become independent.

Admiral LAND. That is possible.

Senator VANDENBERG. All right. That still leaves us with this contemplation, as I understand it, that during the last 20 years, and at the present moment, you are dependent upon outside shipbuilders for design.

Admiral LAND. In a sense of the term, that is correct.

Senator VANDENBERG. Actually that is a fact, is it not?

Admiral LAND. We are not dependent for contract plans except in an emergency program. We are dependent upon detailed design; yes.

Senator VANDENBERG. Now, to what extent does that put you at the mercy of the outside shipbuilder?

Admiral LAND. I do not think it puts us at their mercy; no, sir, as I understand the term. We always have the whip hand in any situation of that kind, and, if anybody tries, through vicious attributes, to perpetrate something on the Navy Department, we are in a position to go ahead and do it ourselves. We have been doing it, now, for years. I can cite instances in the manufacturing game where it looked as if we were being treated pretty hard, and we talked it over and found out the reason.

Senator VANDENBERG. You could not take over the planning when it was dragging due to any such conditions?

Admiral LAND. We could not take over 7 different designs, a greater number than we have ever had in the Navy Department.

The CHAIRMAN. Some of those designs and plans are common for ships being built in the private yards and those built in the navy yards, are they not?

Admiral LAND. Yes, sir.

The CHAIRMAN. Has a ship ever been started in the navy yards under its plans ahead of the start in the private yard?

Admiral LAND. That would depend entirely, Senator, on whether the contract required the navy yard to draw the plans, or whether it required the shipbulder to draw the plans. If it requires the shipbuilder to draw the plans, there is a clause in the contract, from which we got the plans, at the cost of labor and material for the blueprinting, tracing, and what not. If it is done by the navy yard, it would be the other way; that is, the shipbuilder would pay us. It can be done either way. We are actually building two gunboats and we have not had any assistance from outside, from anybody at all.

The CHAIRMAN. Did the navy yards do all the designing on that?

Admiral LAND. Not the navy yards. The bureaus and the navy yards.

Senator VANDENBERG. When the American Federation of Labor constantly protested to your Department over the failure of this Navy program to take up unemployment in the degree they thought it should, what was the reason that the Navy Department always gave the American Federation of Labor for the delay and for the comparatively small amount of employment provided? What was the reason that the Navy Department always gave the American Federation of Labor?

Admiral LAND. We gave them, in many conferences, simply the same reasons I have endeavored to give this committee this morning.

Senator VANDENBERG. I do not want to go into detail, but, in a word, was there not always, or almost always, delay in plans?

Admiral LAND. That is always the neck of the bottle in a shipbuilding program, so far as the start is concerned.

Senator VANDENBERG. Precisely.

Admiral LAND. Yes, sir; that is correct.

Senator VANDENBERG. Therefore, the responsibility for the delay, if there was a delay, was on the failure of the designs to be produced expeditiously in the private yards?

Admiral LAND. To a certain extent. Some of that responsibility belongs on our shoulders.

Senator VANDENBERG. Why?

Admiral LAND. Because we did not have contract plans, which has been the practice of the Navy Department for years.

Senator VANDENBERG. I do not want to leave any misunderstanding on the record, and let me ask you this: You do not mean that there is any responsibility on you because you did not pursue the shipyards for these plans?

Admiral LAND. Not at all. I hate to repeat, but I again must state that we had precipitated upon us seven new designs in 1933.

Senator VANDENBERG. They were not precipitated upon you. You were very eager and solicitous of getting the privilege of having them precipitated upon you, were you not?

Admiral LAND. Absolutely; but they were precipitated just the same.

Senator CLARK. You were standing around waiting for the invitation.

Admiral LAND. Surely, with a large blanket to catch them all.

Senator BARBOUR. As I understand it, Admiral, it is your opinion that if the United States Government wanted to spend enough money, regardless of whether it would be a more expensive way than otherwise. from the point of view of the taxpayer, obviously the Navy Department could do the whole thing itself?

Admiral LAND. Yes, sir; that is correct.

Senator BARBOUR. I know that if anybody had money enough you could do any and all those things. So that if the committee is trying to find out whether it would be possible for the United States Government to make all the designs and build all the ships, it could be done if they wanted to spend enough money to do it?

Admiral LAND. That is correct.

Senator BARBOUR. It would not necessarily follow that, under all the circumstances. it would be the best and most economical approach to the situation.

Senator VANDENBERG. I think that that is so; that there is no conclusive evidence as to whether it is or is not the better plan. But how can you say, Admiral, in the existing arrangement, that it is the better or more economical plan if you have never tried the other one?

Admiral Land. We have tried the other one. I cited an instance. We were doing it with the gunboats. I would like again to draw the committee's attention to this fact: It is well known in the United States that the private shipbuilders think they are better designers than the Navy Department, and the Navy Department thinks they are just as good as the private shipbuilders. To get the best results it stands to reason that a little competition is the life of trade, and if we are going to make the progress which you gentlemen expect the United States to make in connection with design and construction of combatant ships, it seems reasonable to me to have this competition between the private shipyard designers and the Navy Department designers to get the best results, and probably the best results and the cheapest.

Senator Vandenberg. That is what I have been trying to dicover, if there is any competition; and I have not been able to discover any. It seems to me instead of a monopoly in the Navy with respect to the designs, the monopoly exists externally with the Navy, and to a substantial degree they are at the mercy of the private shipyard. Is that an erroneous statement?

Admiral Land. I think it is only a half truth, because we are not at the mercy of them, as I have explained. If we are being jammed and feel we are getting the worst of it, we can always take the thing away from them.

Senator Vandenberg. Have you ever felt during the last 2 or 3 years that you were getting the worst of it from the private shipyards?

Admiral Land. In certain instances, yes, sir; and we have gone after the private shipyards as best we could, bait, hook, and sinker.

Mr. Raushenbush. What instances were those, Admiral?

Admiral Land. Dozens of instances in connection with the plans. Dozens of instances in connection with the changes of design, installations going into ships. We have a continuous row with the contractor over changes to bring these ships up to date. They are down in the Navy Department practically every day complaining of our action on this and that, and our inspectors are asked for recommendations every day in the week, and they are complaining about different things. It is no beer and skittles between the Navy Department and the private shipyards by any manner of means.

Mr. Raushenbush. Did you ever throw out any bids because they were too high?

Admiral Land. Yes, indeed.

Mr. Raushenbush. That is one of the things which you mentioned. You said you had particular control over it.

Admiral Land. What I meant was that the Navy Department always has the whip hand in connection with the matter, from the inception, the beginning, to the end of the contract, all the way right through it.

Mr. Raushenbush. Which time was it you threw the bids out because they were too high, Admiral?

Admiral Land. There have been a great many times when high bids have been thrown out. It nearly always obtains that high bids are thrown out, because we attempt and, so far as I know, we always do award to the lowest satisfactory bidder.

Mr. Raushenbush. That was not the question. I asked when you threw the bids out.

Admiral LAND. You are speaking of the bids on the *Wichita* last summer, 1934?

Mr. RAUSHENBUSH. I was asking the question when it was done.

Admiral LAND. On that particular ship all the bids were thrown out, and the cruiser was allocated to the Philadelphia Navy Yard.

Mr. RAUSHENBUSH. That was because the bids were too high?

Admiral LAND. In our opinion the bids were too high.

Mr. RAUSHENBUSH. All the bids?

Admiral LAND. All the bids. I think there were four or five bidders on the thing, some of them ranging from a minimum of around $14.000.000 to $16,600.000, and some odd thousands.

Mr. RAUSHENBUSH. Just in passing, will you identify this joint letter from the Bureaus to the Secretary, summarizing the bids in August of 1933?

Admiral LAND (examining letter). That is our letter.

Senator VANDENBERG. When was it that these bids were thrown out? In 1934?

Admiral LAND. Yes, sir.

The CHAIRMAN. What month in 1934?

Admiral LAND. August.

Senator VANDENBERG. Were there any bids thrown out in 1933 because they were too high?

Admiral LAND. Not specifically thrown out. They were not awarded, but no complete class was rejected.

Senator BARBOUR. Admiral, with the chairman's permission, if it is a fair question, I would like to ask you this: Assuming that you had a situation where war should be imminent, would it mean that your navy yards would be greatly engaged with last-minute alterations and repairs and supplementing carriers of one kind or another with armament and equipment? In other words, would your yards be used, certainly, to a very unusual extent, and would it not then be of advantage to the country to have private yards that could go along with the building of new boats?

Admiral LAND. Yes, sir. Our experience in the last war very definitely proved that. When engaged in war, no navy yard can carry out shipbuilding. It has to concentrate all its efforts and expand to the limit to take care of repairs, alterations, and conversion jobs.

Mr. LAROUCHE. May I ask a question? Admiral, is it not a fact that the conversions which you speak of are the most immediate thing and the thing most needed to prosecute war at that time?

Admiral LAND. I am not in a position definitely to answer that. It is one of the most important things.

The CHAIRMAN. It is far more important to have a ship ready for service in 10 days than in a year, is it not?

Admiral LAND. Yes, sir.

The CHAIRMAN. Admiral, how hard did the Navy have to go to work to accomplish the allotment of these Public Works funds?

Admiral LAND. Senator, do you think that is a fair question and is capable of an answer? You say "how hard." I am afraid I cannot answer that.

The CHAIRMAN. Let me ask it in another way. Did you have an active part in prevailing upon the authorities to grant this Public Works appropriation?

Admiral Land. To the best of my ability; yes, sir.

The Chairman. To whom did you go to present your plea for this money?

Admiral Land. To my immediate superiors.

The Chairman. Did you go to the Public Works Administrator?

Admiral Land. I did not.

The Chairman. Who, from the Navy Department, did go to the Public Works Administrator?

Admiral Land. I do not know.

The Chairman. You did not go with others from the Navy Department to the Public Works Administration in connection with this at any time?

Admiral Land. I have already answered that, Senator. I did not.

The Chairman. Did you go to the White House in connection with it? You did, did you not?

Admiral Land. Yes; I went to the White House with my Navy superiors.

The Chairman. In connection with this Public Works program?

Admiral Land. Not in connection with the Public Works program as a program, but in connection with the Navy building program; yes.

The Chairman. That is right, and with your plea for funds from the Public Works Administration to go ahead with this program?

Admiral Land. Absolutely.

The Chairman. How many ships have been started and will be completed with Public Works funds already appropriated?

Admiral Land. As I understand the matter, there are 32 ships, that is, 32 which we have been discussing this morning under N.R.A. That is the 1933 program. I cannot differentiate this 1934 program as to the allocation of funds.

The Chairman. Now, are we to understand that there are 32 ships started that could not have been started without this Public Works allocation?

Admiral Land. That is correct, unless Congress had appropriated otherwise for it.

The Chairman. That is right.

Senator Vandenberg. How many are started out of the additional $40,000,000 you got in 1934?

Admiral Land. Twenty.

The Chairman. All right, Mr. Raushenbush.

RULING OF COMPTROLLER GENERAL IN 1931 REGARDING FIRMS BIDDING ON THEIR OWN DESIGNS

Senator Vandenberg. I would like to ask Admiral Land one further question. Did you ever hear of a criticism, an official criticism, by the Comptroller General of the United States in 1931 upon this practice of letting ship contracts to private yards upon their own private designs?

Admiral Land. I have heard of it; yes, sir.

Senator Vandenberg. What did the Comptroller General have to say on that subject? Do you recall?

Admiral Land. I was not in the Bureau of Construction and Repair at that time.

Senator VANDENBERG. Do you remember in a general way what the attitude of the Comptroller General was?

Admiral LAND. Only in a very general way.

Senator VANDENBERG. Mr. Raushenbush, is this a statement of the Comptroller General [exhibiting paper]?

Mr. RAUSHENBUSH. Yes, sir; at the time the United Drydocks had put in a bid, and felt that it was low, and Bethlehem was given the award on its own design. There was correspondence back and forth, and you hold in your hand the final letter from the Comptroller General to the Secretary of the Navy insisting that the Navy do certain things to remedy the situation.

Senator VANDENBERG. I think, Mr. Chairman, I better read this into the record. It is a communication from the Comptroller General, Mr. McCarl, dated December 10, 1931, addressed to the Secretary of the Navy. The entire document is pertinent, and we will mark it as an exhibit.

(The letter referred to was marked "Exhibit No. 1481" and is included in the appendix on p. 4916.)

Senator VANDENBERG. I read as follows:

> It is realized, of course, that the United States should obtain the best possible vessels for the money expended, and that in connection with construction work of this character the Navy Department has its problems and would find it advantageous to utilize the best skill of the country in designing hull, machinery, etc. The results reported as obtained in the instant matter suggest the benefits possible through obtaining the views and suggestions of experts not in the Government service, but the procedure followed not only fails in fully meeting the requirements of section 3709, Revised Statutes, but will invariably breed dissatisfaction among bidders. Each bidder submitting an alternate design will doubtless believe, and honestly, that his is superior to all other designs submitted, and it would seem most difficult, if not quite impossible, to work out in advance and without intimate knowledge of the details of designs to be submitted, an evaluating formula that would be considered fair by any bidder whose design was not accepted, and charges of favoritism and even fraud may too frequently follow, with protests raising questions going to the availability of the appropriation proposed to be charged.
>
> The law requires that specifications state the actual need of the Government and that award be made to the low responsible bidder proposing to supply such need. Considering the administrative problem to be as stated in matters of this character there is suggested for your consideration and as a means to enable the Navy Department to lawfully obtain the assistance of the skill in private industry when new vessels are to be designed and constructed, the advisability of acquainting the Congress with the situation and need with a view to securing authority to employ a reasonable amount of the appropriation to secure from competent sources outside of the Government a limited number of designs of hulls, machinery, etc., to supplement or for purposes of comparison with plans and specifications drafted by the engineers or the Navy Department, to the end that there may be worked out in every detail the best possible design and the final result submitted for competitive bids and construction by the low responsible bidder.
>
> It is understood that on the assumption the procedure followed was sufficient compliance with the applicable law there has been adopted for building in two navy yards the design submitted by the Bethlehem Shipbuilding Corporation, and award made to said corporation for the construction of a vessel of such design. In such circumstances and in view of the apparent good faith of the Navy Department in following the procedure herein discussed and which should hereafter be otherwise, this office will make no further objection thereto.

The final sentence, Admiral, would seem to be virtually an order from the Comptroller General to change your procedure, would it not?

Admiral LAND. It appears that way from that. I am not sufficiently legally advised to know exactly what that means, Senator.

Senator VANDENBERG. Do you know whether any change was made after the Comptroller General submitted this memorandum?

Admiral LAND. I do not, offhand, know. I was not there, so that I would not be cognizant of the action of the Department in connection with this particular matter.

Senator VANDENBERG. Do you agree with the analysis that the Comptroller General makes of the situation?

Admiral LAND. Frankly, I do not, because I think it is essential to have class 2 bids, but then that is merely an opinion, and I am not a lawyer.

Senator CLARK. You think it is essential for what?

Admiral LAND. To have class 2 bids. Class 1 are Navy Department designs and class 2 are private-shipyard designs. Again, we want to get the best we can. We do not think that all the best brains in design rest down there, and if somebody else can beat us, go to it.

Senator VANDENBERG. You feel quite to the contrary, do you not, Admiral; and you are, at the present time, I want to be sure I am right about it, dependent upon the outside designs?

Admiral LAND. I would like to have Admiral Robinson answer that. I have answered it three times, and apparently not to anybody's satisfaction.

Senator VANDENBERG. Is the answer yes or no?

Admiral LAND. It cannot be answered that way.

Admiral ROBINSON. Senator we make up the designs for these ships always. We design the ship. That is a general design. We call them "contract plans." That is the plan of a ship.

Senator VANDENBERG. You could not build the ship from that?

Admiral ROBINSON. We could not build the ship from that, but you can use that to make the details for building the ship. For example, every plate which goes into a ship has to have a plan for it. The shipbuilder makes his plan and shows where the holes are going to be punched, and he shows the foundation of the ship. Those are all detailed plans. They have to be made when the ship is being made. It takes a year or two to make them. They are not actually finished until the ship is finished. Those two things go together. The Navy Department originates the plan and the shipbuilder or, in our case, the navy yard, furnishes the plans. In certain cases we depart from that and let the shipbuilders make contract plans as well. That was done in that particular case under discussion, because there were so many plans called for that summer that we could not in the Navy Department, with our force, get them all out. We took the way which we thought would be most expeditious to build them and had the shipbuilders submit this as a part of their contract work.

That, as a matter of fact, resulted in a delay in getting the plans for the ships, because it took 3 or 4 months that the Navy Department would have devoted to that work and have had ready when the contract was made, had to be done after the contracts were let. In that case that was the development of a contract plan by the shipbuilders.

That is not a usual procedure. The Navy Department ordinarily makes its own contract plans. There are exceptions, and we have exceptions right along, but that is the usual procedure.

Then the developments having to do with the thousands of detailed plans which have to be gotten out are carried out by the shipbuilders or the navy yards.

That is a composite picture. The Navy Department makes a part of the plans and the shipbuilder makes a part of them.

In no way could the Navy Department itself make all the plans which go into the building of a ship. Some of those plans have to be made on the spot. They could be made at a navy yard, or at a private shipyard, or wherever the ship is being built, but they could not all be made on the original private design; they have to be made when the plans are being designed. The man making them has to go down on the ship and see what is there in many instances.

Senator VANDENBERG. Do I understand you correctly to tell me that the plans which the private yards make are merely detailed plans?

Admiral ROBINSON. Ordinarily, yes. In the particular ship we are discussing, no. They made all the plans, including the contract plans, but that is not the usual procedure. It was done here because we wanted to get seven different types of ships at once, and we did not have the time or force to get out all those contract plans. We got out some of them—all that we could—and then we got the rest of them from private shipbuilders.

The ordinary procedure for building a ship is that the navy yard gets out the general ship plans, and those go into quite some detail and run into probably 100 plans or more altogether, and they show what kind of a ship it is going to be, where the boiler is going to be, what kind of a boiler, where the machinery is going to be, and what kind of machinery, the location of the decks, the location of the bulkheads, the thickness of the armor, the location of the turrets, the ammunition, and even pipe lines, in many instances, are shown in the Navy Department contract plans, but, of course, that is a long way from being a ship.

Senator VANDENBERG. That is the point. In 1933 what did you say was the reason for saying they could not even make their own contract plans?

Admiral ROBINSON. We made contract plans, but not for this ship. We made them for other types of ships, for submarines for one thing. The reason we did not do it was because we did not have the time. We were starting seven different types of ships at once, and, as Admiral Land said, we did not have the force to develop those plans, and developed all we could, and then we got the rest of them from the private shipbuilders, and this happened to be one of them.

The CHAIRMAN. How extensively are we training men at Annapolis in shipbuilding?

Admiral ROBINSON. We do not train men at Annapolis in shipbuilding at all. That is done as a post-graduate course after they leave Annapolis.

The CHAIRMAN. Designing is taught there?

Admiral ROBINSON. Designing is not taught at Annapolis except in a very elemental way. Every midshipman learns something about that, but it is very meager.

Senator CLARK. Where is that training carried out, Admiral?

Admiral ROBINSON. For the naval construction it is carried on at Massachusetts Institute of Technology and for engineers at the University of California.

Senator Clark. Admiral, let me ask you this question: As to your department and Admiral Land's department, are officers, designers, or engineers placed in those departments and allowed to remain there, or are they taken off from that duty after having one tour of duty, and put at sea duty, and then taken off sea duty and put at some other duty? In other words, do they rotate through the departments, or do you have a fairly constant personnel in the department?

Admiral Robinson. The situation is a little different in the two cases. I would prefer to answer for the engineering personnel.

Senator Clark. All right.

Admiral Robinson. The engineering personnel in the Bureau is mainly composed of people who have been selected for engineering duty only. There are others there, in a junior capacity, for training, but the controlling ones and the important positions are filled by officers who are specialists in engineering. They have been selected for that duty from the line and transferred into that status. They are practically all people who have post-graduate training at college and at Annapolis, and in addition to that they have training at navy yards.

About 25 percent of those go to sea. I mean, you have about 25 percent of them at sea all the time. We feel that is necessary to keep them in touch with seeing the machinery work after they have had the experience in laying it down on paper. A certain percentage of them are at navy yards in connection with building ships, and a certain percentage are at shipyards in connection with the inspection of ships.

Senator Clark. But when a man goes into that department, he does become more or less of a specialist, so far as the designs of the Navy are concerned.

Admiral Robinson. That is correct.

Senator Clark. How about your department, Admiral Land?

Admiral Land. Entirely specialists. We have a lesser percentage at sea than Admiral Robinson does, and our officers rotate on three or four main jobs. That is, a few at sea, Bureau duty, inspectors at private plants, and navy yard work.

Senator Clark. But within your department, in other words, they do not take them from your department and put them to work on gunnery?

Admiral Land. No. They are all specialists from the time they are selected for post-graduate courses at Massachusetts Institute of Technology, and they stay that way throughout their service careers.

Senator Clark. That is the story of how they get there.

The Chairman. Admiral Land and Admiral Robinson, we are going to have to excuse you now, and we will notify you when we shall want you to return.

TESTIMONY OF W. A. CALVIN

OFFER TO "FIX" NAVAL AWARDS

(The witness had previously been sworn by the chairman.)

Senator Clark. Will you state for the record again what your business is in connection with the American Federation of Labor?

Mr. Calvin. I am Secretary and Treasurer of the Metal Trades Department of the American Federation of Labor.

Senator Clark. Mr. Calvin, you were present the other day when Mr. Frey testified as to the letter or as to the envelop, the sealed envelop, which was handed to him by Mr. Lawrence Wilder, containing the names of the contractors, or containing schedule of awards which would be made on the 32 vessels which made up that program?

Mr. Calvin. Yes, sir.

Senator Clark. Were you present when that envelop was handed to Mr. Frey?

Mr. Calvin. I was.

Senator Clark. Were you present when the envelop was opened?

Mr. Calvin. I was.

Senator Clark. Are you familiar with the awards which were made in these cases?

Mr. Calvin. In detail I am not. I remember at the time the envelop was opened, we compared the estimated or predicted awards with the actual awards or the low contractors.

Senator Clark. What was the result of the comparison between the list handed to Mr. Frey in your presence by Mr. Wilder and the awards actually made?

Mr. Calvin. In every instance they were identical.

Senator Clark. Now, Mr. Calvin, I will ask you whether, during the year 1933, any other evidence came to your knowledge tending to corroborate Mr. Wilder's assertion at that time?

The Chairman. Meaning to corroborate the charge of understanding?

Senator Clark. Yes.

Mr. Calvin. It would be rather difficult to answer the question, Senator. I might say that that was taken up.

Senator Clark. Were you present at any time in Mr. Wilder's room in a hotel in Washington?

Mr. Calvin. I was.

Senator Clark. When a proposition to Mr. Wilder was made to secure part of this work?

Mr. Calvin. I was.

Senator Clark. Will you state to the committee what happened on that occasion?

Mr. Calvin. On August 3, 1933——

Senator Clark. First, Mr. Calvin, will you identify Mr. Wilder?

Mr. Calvin. Yes.

Senator Clark. I say, will you identify him? State to the committee who he was.

Mr. Calvin. Mr. Wilder came to me with a letter of introduction from our members in Pensacola, Fla. Mr. Wilder had been a former president of the New York Shipbuilding Corporation, of Camden, N. J. At that time he was chairman of the executive board of Gulf Industries of Pensacola, Fla.

Senator Clark. What business was Gulf Industries engaged in, Mr. Calvin, if you know?

Mr. Calvin. They aspired to be engaged in the shipbuilding industry, as I understand it.

Senator Clark. Do they have a shipyard?

Mr. Calvin. They have.

Senator Clark. Did they have a shipbuilding organization?

Mr. Calvin. The official personnel. I do not think there were any mechanics or mechanical personnel employed. I may be wrong about that because I had only known Mr. Wilder a brief period of weeks at that time.

Senator Clark. Just state to the committee what occurred.

Mr. Calvin. On August 3, 1933, in response to an invitation from Mr. L. R. Wilder, chairman of the executive board of Gulf Industries of Pensacola, Fla., I visited Mr. Wilder in his suite in the Washington Hotel, Washington, D. C. Mr. Wilder informed me that on the previous day, August 2, he had been approached by a Mr. Gravem who professed to be a close friend of an influential citizen of Washington, D. C., who could have the Navy shipbuilding program extended for a consideration, and have certain ships awarded to the Gulf Industries for construction.

Mr. Wilder stated that as soon as he learned Mr. Gravem's intention, he requested him to return on the following day, in order that I might hear this proposal.

Mr. Wilder had submitted bids for three destroyers, but his bids, although lower, were not favorably considered, and the destroyers for which he submitted his bid were awarded to a competitive firm which had submitted a higher bid.

Mr. Gravem stated, in my presence, that Mr. Wilder would have to do business through his friend whom he referred to as "the fixer", in order to obtain any naval building contracts. Mr. Gravem further stated that his friend, "the fixer", was the most influential civilian in Washington, and that he had drafted the shipbuilders' and ship repairers' code, and prepared all bids for the shipbuilders for naval vessels allocated under the N.I.R.A.

He stated that his friend, "the fixer", was disappointed because he had not made more money out of the awards for new naval vessels; and that if Mr. Wilder would give him the sum of $250,000 that he could obtain 10 to 15 million dollars' worth of naval construction for the Gulf Industries, provided the yard was capable of producing same.

The Chairman. Let me ask you, Mr. Calvin, a question. You appear to be reading a statement. Is this something which you have prepared upon notice that the committee wanted to discuss this matter?

Mr. Calvin. It is not, Senator. I realized the importance of it, of what I had overheard, and immediately upon my return to my office, while it was fresh in my memory, I dictated this to my secretary.

The Chairman. And this is the original statement?

Mr. Calvin. And this is the original statement itself.

The Chairman. It has not been altered in any particular since?

Mr. Calvin. It has not been altered in any particular. This is the statement.

The Chairman. All right.

Mr. Calvin. Mr. Wilder replied that if it became known that there was collusive bidding for naval construction that a Senate investigation might be ordered, to which Mr. Gravem replied that the keels would be laid for all vessels before a Senate investigation could start, which would, in his opinion, obviate the possibility of revocation of contracts by the Navy Department.

Mr. Gravem stated further that his friend, "the fixer", knew 2 weeks in advance of every Navy announcement, to which Mr. Wilder replied, "I never knew before that the Navy Department was crooked."

Mr. Gravem answered, "This is purely a practical matter."

Those present at the time Mr. Gravem made these statements were Mr. L. R. Wilder, of Gulf Industries; a Mr. Hyde, assistant counsel for the Gulf Industries and former treasurer of the city of New York; Miss Judy Kitchen, secretary to Mr. Wilder; and myself.

Senator CLARK. Mr. Calvin, were you present in the room during this conversation between Wilder and Gravem?

Mr. CALVIN. I was sitting in the adjoining room, inside an open door, not more than 8 feet distant from Mr. Gravem, at the time he was making that statement.

Senator CLARK. Where were you with regard to the two gentlemen you have mentioned?

Mr. CALVIN. Miss Kitchen was sitting inside of the open door of the same room that I occupied at that time, making notes of the conversation. Mr. Wilder was ill and in his bed, and Mr. Hyde was in Mr. Wilder's room, at his bedside.

Senator VANDENBERG. You are sure Mr. Gravem used the term you have suggested?

Mr. CALVIN. Very sure. I am very confident of that.

Senator VANDENBERG. Did anybody ask him who the "fixer" was?

Mr. CALVIN. I think there had been some conversation on the previous day, and they tried to obtain the name of the "fixer", without any success.

The CHAIRMAN. Proceed, Mr. Raushenbush.

Mr. RAUSHENBUSH. Mr. Calvin, was that at the time these 1933 bids showed a considerable jump over the previous bidding?

Mr. CALVIN. That was at the time the bids were opened, and I believe there was considerable increase in the cost over previous contracts, but, of course, I am not familiar with that.

Mr. RAUSHENBUSH. All this happened, I take it, after the letter had been written out and offered to General Johnson, in which the lowest bidders in each case were accurately mentioned?

Mr. CALVIN. Of course, that was after the letter.

Mr. RAUSHENBUSH. This was after that?

Mr. CALVIN. Because the letter was submitted to Mr. Frey several days prior to the opening of the bids.

Mr. RAUSHENBUSH. And this conversation you overheard between this gentleman and Mr. Wilder took place after the opening of the bids?

Mr. CALVIN. Yes, sir.

Mr. RAUSHENBUSH. And the fact that you had already gleaned from this letter that it would be known by someone ahead of time who the lowest bidders would be lent some semblance of credence, I take it, to your belief in this man's ability to arrange the things he promised to arrange?

Mr. CALVIN. Obviously.

Senator VANDENBERG. Do you know who Mr. Gravem is, Mr. Calvin?

Mr. CALVIN. I was told that he was an attorney of Washington, D. C. I saw him only the one time, and from an adjoining room, so that I do not know any of his background or his history.

Mr. RAUSHENBUSH. Did you also gather that regardless of what this gentleman could or could not do, or promise, or said that other people generally considered, that the bidding on these cruisers, on these ships, was a prearranged matter? I mean, did everybody take this as a normal conversation; I mean the part of it which dealt with a certain prearrangement? Did they take that as normal?

Mr. CALVIN. I would assume that Mr. Wilder had accepted that as a normal condition. Otherwise, unless he is a pretty good guesser, he would scarcely be able to estimate so accurately who would be awarded certain contracts. Of course, that is something that I know nothing about. Our interest is putting men to work, not acting as detectives to find out how contracts are awarded.

Senator BARBOUR. Your presence at this conference, Mr. Calvin, was in that general connection in respect to your duties?

Mr. CALVIN. I assume that my presence, Senator, was that as a witness.

Senator BARBOUR. I see.

Senator CLARK. You had no reason to be other than a disinterested witness, so far as Mr. Wilder was concerned?

Mr. CALVIN. Absolutely no reason whatsoever.

Senator CLARK. Did I understand you to say your acquaintance with Mr. Wilder had been of a very brief duration?

Mr. CALVIN. It had been very, very brief.

Mr. LAROUCHE. Had Mr. Gravem any official position, either then or earlier, that you know of?

Mr. CALVIN. That I would not be in a position to answer. I understand from hearsay—of course I remember I am under oath—but from hearsay, I understand he had been officially connected with the R.F.C. from the time of its creation until a short time previous to this conversation. I was told that, and I do not know anything about Mr. Gravem beyond what I actually heard in Mr. Wilder's hotel suite.

Mr. RAUSHENBUSH. Was there any conversation at the time having to do with any allocation of this P.W.A. money or R.F.C. money to particular companies?

Mr. CALVIN. None that I recall.

Mr. RAUSHENBUSH. May I ask again about the last part of your statement? What was the conversation there toward the end, something about the practical matter. How did that take place?

Mr. CALVIN. Mr. Wilder stated that if it become known that there was collusive bidding that it would probably result in a Senate investigation, to which Mr. Gravem replied that the keels would all be laid before a Senate investigation would start, which, in his opinion, obviated the possibility of such an investigation proceeding very far.

Then Mr. Wilder stated that he never knew or believed that the Navy Department was crooked, to which Mr. Gravem replied that this was purely a practical matter.

Senator BARBOUR. When he spoke about the keels of these ships being laid before an investigation could start, I support he meant by that that under the contracts as soon as the keels were laid, investigation or no investigation, the contracts could not be abrogated.

Mr. CALVIN. Possibly he had a limited degree of actual knowledge as to what might occur, but I would assume that that was his presumption.

Senator BARBOUR. Yes; that is the inference I get too.

Mr. RAUSHENBUSH. Are you a practical shipbuilding man, Mr. Calvin?

Mr. CALVIN. I am a practical boiler maker and shipbuilder.

Mr. RAUSHENBUSH. Do you know enough about shipyards to know whether it is possible to lay down the keels and then pick them up again?

Mr. CALVIN. Oh, yes; it is possible.

Mr. RAUSHENBUSH. Is it ever done?

Mr. CALVIN. It could be done. I do not know whether it is ever done or not.

Mr. RAUSHENBUSH. Is it a very expensive thing?

Mr. CALVIN. Not necessarily; that is just so far as the keel is concerned, but after the hull has really attained some degree of progress or completion, it would be impractical and quite expensive to disassemble the hull, the plates, and then raze them. But the keel could be done.

Senator BARBOUR. I was referring, Mr. Raushenbush—and I do not know, mind you this is just a guess—I was referring more to the possibility that in the contract it had some provision that when the keel was laid, the contract had to go forward.

Mr. RAUSHENBUSH. Yes, sir. I do not know whether there was or not.

Senator BARBOUR. That is a legal proposition?

Mr. RAUSHENBUSH. Yes, sir.

Senator BARBOUR. Or a shipbuilding proposition?

Mr. RAUSHENBUSH. Yes, sir.

Mr. Calvin, about this time, did Senator Trammell write a letter, or do you remember that Senator Trammell wrote a letter to the Secretary of the Navy, protesting the character and nature of the bidding? [1]

Mr. CALVIN. Yes.

Mr. RAUSHENBUSH. Was that before or after this conference?

Mr. CALVIN. That was after the conference, as I recall it.

Mr. RAUSHENBUSH. He made statements to the effect that the bidding there showed obvious agreement between the companies, did he?

Mr. CALVIN. He inferred that in his communication, hinted at the collusive bidding.

Senator BARBOUR. Were these bids actually alike, Mr. Calvin, as to the amounts involved?

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[1] See p. 4759 for Senator Trammell's letter.

Mr. Calvin. Pardon me?

Senator Barbour. Were these bids all alike so far as the estimated amounts for the cost of the ships were concerned?

Mr. Calvin. The bids were not all alike; no, sir. There would be a low bidder and several bidders on each ship higher than the lowest bidder.

Senator Barbour. Let me make that clear. However, I am not challenging anything.

Mr. Calvin. The bids were not identical, because that would naturally result in calling for new bids, if everyone bid the same on every ship.

The Chairman. Let it be made clear, Senator Barbour, that the list which was prepared by Mr. Wilder did not pretend to state the amount which was being bid. It pretended to state only who would be the low bidders.

Senator Barbour. I see.

Mr. Calvin. It indicated who would be the successful bidders.

Senator Barbour. I understand.

Senator Clark. Mr. Calvin, from your experience, you have had the opportunity to observe collusive bidding, more or less?

Mr. Calvin. To some limited degree.

Senator Clark. It is the practice in case there is collusion between several bidders that the bidders who are not scheduled to get the award make what is called protective bids, a little higher than the bidder who intends to get it? Is that correct?

Mr. Calvin. Of course, if there was no collusion, what would be the necessity or justification for collusion unless it was understood that those who were not anxious to have certain ships would protect the lowest bidder by putting in a higher bid.

Senator Clark. But they do not customarily put it in the newspaper that there is collusion by making identical bids.

Mr. Calvin. I do not think their collusive machinery would be very effective if they did.

Senator Vandenberg. What do I understand Mr. Wilder said to Mr. Gravem in response to this suggestion?

Mr. Calvin. Mr. Wilder said to Mr. Gravem in response to this suggestion that if it became known that there was collusive bidding, that a Senate investigation would very probably result.

Senator Vandenberg. Mr. Wilder rejected the suggestion that Mr. Gravem made to him?

Mr. Calvin. He did.

Senator Vandenberg. Then Mr. Gravem left without any further argument?

Mr. Calvin. Then Mr. Gravem left.

Mr. Raushenbush. Did you find out later who Mr. Gravem was? I mean, his initials and his residence.

Mr. Calvin. I made no effort to find out who Mr. Gravem was. I did not think that was my job.

Mr. Raushenbush. Do you know whether it is a Mr. A. B. Gravem in the Shoreham Building?

Mr. Calvin. I do not know his initials.

Mr. Raushenbush. Do you remember exactly what that language was there at the end—I am asking the same question which the

Senator was asking I think—when Mr. Wilder was reported to have said that it was the first time that he had heard that the Navy Department would lend itself to this sort of thing. What was the reply of Mr. Gravem? "This is purely a——

Mr. Calvin. Practical matter." In order not to trust a rather atrocious memory, I dictated that to my secretary immediately upon my return to my office, presuming that I might have to present it at some such hearing as this.

The Chairman. Has there ever been any call for its presentation prior to this time?

Mr. Calvin. Never has.

The Chairman. Have you had occasion to reveal its contents to anyone since its writing or not?

Mr. Calvin. No occasion for an official revelation whatever, until I was subpenaed by this committee.

The Chairman. How long ago did the representative of this committee first approach you upon this matter?

Mr. Calvin. I would say that was along about August or September of 1934, when Mr. LaRouche——

The Chairman. Mr. LaRouche here at the table?

Mr. Calvin. Yes, sir.

The Chairman. Did you show the memorandum to Mr. LaRouche at the time?

Mr. Calvin. Yes, sir; and he asked me to turn it over to him and I refused.

Senator Vandenberg. And you showed the same memorandum to Senator Clark and Senator Nye and Senator George and myself?

Mr. Calvin. Yes; but it was after I had been called before the committee.

Senator Vandenberg. I am just fixing the fact that it is the same memorandum.

Mr. Calvin. The identical memorandum, which I am submitting as this committee's property.

The Chairman. Mr. LaRouche, are you prepared to state that the memorandum which was read this morning is the same one which you originally saw?

Mr. LaRouche. I can better tell after I examine it.

The Chairman. Do you have any reason to doubt it at all?

Mr. LaRouche. No, sir, it sounds exactly the same.

The Chairman. The committee will be in recess until 10 o'clock tomorrow morning.

(Thereupon, at 12 noon, the committee recessed until 10 a. m., Jan. 30, 1935.)

INVESTIGATION OF MUNITIONS INDUSTRY

WEDNESDAY, JANUARY 30, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m., in room 357, Senate Office Building, pursuant to recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Bone, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee, and F. W. LaRouche, investigator.

The Chairman. The committee will be in order.

Miss Kitchen, will you come forward and be sworn?

TESTIMONY OF MISS JULIA MARGARET KITCHEN

OFFER TO "FIX" NAVAL AWARDS

(The witness was duly sworn by the chairman.)

The Chairman. You may be seated, Miss Kitchen.

Give the committee your full name.

Miss Kitchen. Julia Margaret Kitchen.

Senator Vandenberg. Miss Kitchen, what position did you hold in August 1933?

Miss Kitchen. I was Mr. Wilder's secretary.

Senator Vandenberg. Mr. L. R. Wilder?

Miss Kitchen. Yes.

Senator Vandenberg. Were you working here in Washington?

Miss Kitchen. Yes.

Senator Vandenberg. Do you recall an occasion in August 1933 when you and Mr. Calvin and some others were in Mr. Wilder's apartment in the Washington Hotel when the cruiser bids were discussed by certain gentlemen?

Miss Kitchen. Yes.

Senator Vandenberg. How did you happen to be present that day?

Miss Kitchen. I was generally there. I was working at that time, and I was there most of the time.

Senator Vandenberg. How many rooms were there in Mr. Wilder's apartment?

Miss Kitchen. There was one room and a living room which was used as an office, and a small entrance.

Senator Vandenberg. Where were you on the morning of August 3, 1933, in this apartment? Were you in the same room with Mr. Wilder?

Miss Kitchen. No; I was in the living room.

Senator Vandenberg. You were in the living room?

Miss Kitchen. Yes; Mr. Wilder was sick.

Senator Vandenberg. Mr. Wilder was sick and in the bedroom?

Miss Kitchen. Yes, sir.

Senator Vandenberg. Who was in the room with you?

Miss Kitchen. Mr. Calvin and another secretary.

Senator Vandenberg. Mr. Calvin and another secretary?

Miss Kitchen. Yes, sir.

The Chairman. Secretary to whom?

Miss Kitchen. Another of Mr. Wilder's secretaries.

Senator Vandenberg. Who was the other secretary?

Miss Kitchen. Mrs. Phillips.

Senator Vandenberg. Who was in the other room with Mr. Wilder?

Miss Kitchen. A man named Hyde,[1] and Mr. Gravem, and Mr. Wilder.

Senator Vandenberg. Were you in a position where you could hear what occurred in the other room?

Miss Kitchen. Yes; I was. I was just outside the door.

Senator Vandenberg. Did you make a memorandum at the time respecting what you heard?

Miss Kitchen. Mr. Wilder made a memorandum of that, and, from what I heard of the conversation, I agreed with the memorandum.

Senator Vandenberg. Have you a copy of that memorandum?

Miss Kitchen. I have it right here.

Senator Vandenberg. May I see it, please?

Miss Kitchen. Yes [handing paper to Senator].

Senator Vandenberg. What is this book in which this is pasted?

Miss Kitchen. That book is a scrapbook of the various things that happened during the 1933 period.

Senator Vandenberg. And this memorandum was made the same day that the conversation occurred?

Miss Kitchen. Yes. It was made immediately after the conversation.

Senator Vandenberg. I offer this for the record, and perhaps I had better read it. It is headed "Memorandum" [reading]:

> On Wednesday, August 2, 1933, early in the afternoon, Mr. Charles S. Barrett, Shoreham Building, Washington, D.C., phoned to ask if he might bring up and introduce a friend of his. He brought up and introduced A. B. Gravem, Tower Building, Washington, D.C., telephone National 7648. There were present, besides, Mr. Wilder and and Mr. Charles M. Hyde, attorney, 1701 H Street NW., Washington, D.C.

Let me interrupt the reading a moment to be sure we understand each other. Were there two interviews between Mr. Wilder and Mr. Gravem?

Miss Kitchen. Yes, sir.

Senator Vandenberg. The memorandum I am now reading describes the first interview?

Miss Kitchen. Yes, sir.

Senator Vandenberg. Mr. Calvin was not present during the first interview?

Miss Kitchen. No, sir; he was not.

Senator Vandenberg. I continue the reading:

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[1] During hearings of Feb. 4, 1935, a letter from Mr. Hyde, regarding above testimony, was read into the record. See Hearings, Part XIX, p. 5001.

Mr. Barrett, who is an old intimate friend of Mr. Wilder, and also a director of Gulf Industries, said that he thought Mr. Gravem had a matter of considerable interest to put before us. Without preamble Mr. Gravem made the following assertion:

That he, Gravem, since the earliest days of the R. F. C. and up to a week or two ago, had been one of the counsel for that body; that in that capacity he had put through some 200 millions of the most difficult loans and that he had now set up his own law offices in Washington.

He stated that he did not want a nickel, nor a job, nor any other consideration. He further stated that he had, just prior to calling here, left an intimate and long-time friend of his, who has offices in Washington; that this friend had offered Gravem office space in his suite and that he would see his friend immediately after he left the Washington Hotel. He stated that it was possible for us to secure some Navy shipbuilding awards, and that he had secured the award of two destroyers for the Bath Iron Works. Inasmuch as the Bath company's bids were higher than Gulf Industries' bids, Mr. Wilder expressed surprise and asked if the award had been made to the Bath company. Mr. Gravem said it was as good as made. He stated that while he (Gravem) did not, as above stated, expect or want a nickel, a job, or any other consideration, that his friend was (in his own language) a "chiseler" and that if we (Gulf Industries) would subject ourselves to this "chiseling", his friend would get us an award, and that without it we would not get an award. He further stated that his friend had handled the negotiations from the beginning, including the drafting of the codes and specifications, and was now arranging the awards between all of the private yards. He did not volunteer, nor did we demand, the name of his friend, but he was brazen in his statement that the awards were being made in this way and that his friend was making money out of them.

Upon leaving he said that he would see his friend immediately and would communicate with us either later in the afternoon or the following morning. Mr. Wilder said that he could not believe it possible that the President or Secretary of the Navy would permit awards for the building of warships on any such basis and that he did not see the necessity for the services offered by Mr. Gravem. Mr. Gravem constantly reiterated that this was a practical administration and nothing could be done, nor could an award be secured, except through his friend.

Mr. Gravem stated that in the 20-odd months he had been in Washington he had made many contacts and learned the ropes and that the methods he suggested were the only ones which would produce results.

Mr. Gravem referred to the letter of Senator Trammell, chairman of the naval committee of the Senate, which was published in the newspapers on that day, August 2. He intimated that it might result in scandal and that his friend and the other shipbuilders would prefer to let us in rather than to have the scandal aired.

That appears to be the memorandum describing the first interview. That is a correct statement of the interview?

Miss KITCHEN. Yes.

The CHAIRMAN. Miss Kitchen, did you make any notes while these interviews were in progress?

Miss KITCHEN. No; I did not make any notes, but this thing was dictated immediately afterwards, so that I am quite sure it is right.

Senator VANDENBERG. It was dictated by Mr. Wilder?

Miss KITCHEN. Yes, sir; it was; and I remember agreeing to it.

Senator VANDENBERG. You agreed to it?

Miss KITCHEN. Yes, sir.

Senator VANDENBERG. The second interview occurred the following day, as I understand it?

Miss KITCHEN. Yes, sir.

Senator VANDENBERG. I now read the memorandum on the second interview, which is headed "Second interview" [reading]:

On Thursday, August 3, shortly after the Navy released its awards, none having been awarded to Gulf Industries, Mr. Hyde phoned Mr. Gravem from room 620, Hotel Washington, and Mr. Gravem stated that he would be over to see Mr. Wilder between 2 and 3 in the afternoon. He came over to the room about 3 o'clock on Thursday, August 3. There were then present Mr. Hyde and Mr. Wilder and in the next room, through which the door was wide open, Mr. William Calvin, vice president, International Brotherhood of Boilermakers, with offices in the American Federation of Labor Building. Mr. Gravem stated that, of course, it was too late to do anything about this particular batch of naval awards, and that his friend had not made as much as he expected, but that he had arrangements by which he would receive something like $60,000.

Then the words "in commissions on the sale of accessories used in the ships to be built" are stricken out. What is the significance of that?

Miss KITCHEN. Will you read that again?

Senator VANDENBERG. Mr. Raushenbush, show her the sentences which are stricken out.

Mr. RAUSHENBUSH. Yes, sir [handing book to witness].

Miss KITCHEN. This was a first draft of that. All these papers which are here are the first draft. There are several words written in here. This was the first draft, and it was redrafted afterwards, and that was to be left out and was not put in the second draft.

Senator VANDENBERG. Continuing with the memorandum:

> He insisted that, on account of the close friendship he had with the President and others of influence in the Navy, he could have the naval program extended and that he would have no trouble in having some of them, say 10 or 15 million dollars, awarded to us for the consideration of $250,000.
>
> On this occasion he said that there would be no Senate investigation and that anyway it would be too late because the keels of the ships would be laid and the ships well advanced in construction, a fact which would make any investigation futile, and that "they" had determined to go on with the awards.

Miss Kitchen, these penciled changes on the memorandum were made at the time?

Miss KITCHEN. Yes, sir; at the time.

Senator VANDENBERG. You concur, do you, that this memorandum which was dictated to you by Mr. Wilder that day is a correct report of the conversation as you heard it?

Miss KITCHEN. Yes; it is.

Senator VANDENBERG. I think that is all, Miss Kitchen.

The CHAIRMAN. Miss Kitchen, just 1 minute. Has it been your custom, or the custom of Mr. Wilder, to make memoranda following these conferences of this kind?

Miss KITCHEN. That was a rather unusual occasion.

The CHAIRMAN. And you were counting it at the time a very unusual case?

Miss KITCHEN. Yes, sir.

The CHAIRMAN. That is all.

(The information regarding bids and valuations is made a part of the record at this point, pursuant to the instructions of the chairman.)[1]

TESTIMONY OF LAURENCE RUSSELL WILDER

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Mr. Wilder, before proceeding, a little matter is required to be taken care of. Are you aware of the so-called "waivers of immunity"?

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[1] See appendix, p. 4923, for Navy figures on bids and evaluations to and including 1933.

Mr. Wilder. Yes, sir.

The Chairman. Are you prepared to sign such a waiver of immunity at this time?

Mr. Wilder. I am.

The Chairman. I present you, Mr. Wilder, a form of such waiver and ask you to read it, and, if you consent to do so, to sign it [handing paper to witness].

Mr. Wilder. I would be glad to.

(The witness thereupon executed the waiver of immunity.)

The Chairman. Mr. Wilder, will you give the committee your full name?

Mr. Wilder. Laurence Russell Wilder.

The Chairman. And your present address and occupation, Mr. Wilder?

Mr. Wilder. Lee House, Washington, D. C., engineer.

Senator Clark. Mr. Wilder, what is your business?

Mr. Wilder. It used to be shipbuilding; trained as an engineer, and I have been in practically all branches of mechanical and electrical engineering and manufacture.

Senator Clark. You were formerly president of the New York Shipbuilding Corporation?

Mr. Wilder. Technically I was president of the American Brown Boveri Electric Corporation, sir, of which the New York Shipbuilding Corporation was part, and I was the chief executive of that concern.

Senator Clark. Who was the president of the New York Shipbuilding Corporation at the time you were president of the American Brown Boveri Electric Corporation?

Mr. Wilder. There was not any. The New York Shipbuilding was a merger of a number of concerns.

Senator Clark. The New York Shipbuilding at that time was operated by the American Brown Boveri Electric Corporation?

Mr. Wilder. It was the American Brown Boveri Electric Corporation.

Senator Clark. During what period was that?

Mr. Wilder. 1925 to January 1, 1928, that I was president. From January 1, 1928, on to 1929 I was chairman of their shipbuilding division or chairman of their advisory staff.

Senator Clark. Mr. Wilder, were you present on yesterday when Mr. Calvin testified?

Mr. Wilder. I was not, sir.

Senator Clark. Did you hear Miss Kitchen's testimony this morning?

Mr. Wilder. Yes. I think, Senator Clark, I am familiar with it. I had it reported to me what occurred yesterday.

Senator Clark. Mr. Frey and Mr. Calvin testified during last week, and Mr. Calvin again on yesterday, that in 1933, several days prior to the opening of the bids for some 32 ships, making up the naval building program for that year, that you placed in an envelop, sealed, and handed to Mr. Frey a list containing the awards which were to be made by the Navy Department upon the opening of the bids, and that upon the awards being made, they opened the envelop and discovered your list to be correct. Will you tell us about that transaction?

Mr. WILDER. That is not quite correct, sir. That list that I gave to them——

Senator CLARK. I believe that is 37 ships and not 32. I was in error.

Mr. WILDER. That was in July 1933, prior to the opening of the bids and was not what the awards would be, but who would be found to be low bidders on the various types and categories of ships. Subsequently that proved to be true, and I found that the awards were made on that basis.

But the contents of that letter was not who would get the awards, but who would be low bidders. In other words, the thing was prearranged in advance.

Senator CLARK. How long before the opening of the bids did this incident take place, Mr. Wilder? Do you recall?

Mr. WILDER. The opening of the bids was, sir, on July 26, and the incident took place a week before, perhaps. Just what day I could not tell you now.

Senator CLARK. Where did you get your information as to who would be the low bidder in this matter?

Mr. WILDER. It was general knowledge.

Senator CLARK. What do you mean by " general knowledge "?

Mr. WILDER. The subcontractors knew, and my vice president, Mr. T. M. Cornbrooks, was a principal source of information.

Senator CLARK. Who was T. M. Cornbrooks?

Mr. WILDER. T. M. Cornbrooks was formerly a shipbuilder and was formerly with the Sparrows Point yard, then Bethlehem, and then New York Ship, from which he retired, just before I came in.

Senator CLARK. With whom was he connected in 1933?

Mr. WILDER. He was with me.

Senator CLARK. You mean he was associated with you?

Mr. WILDER. Yes, sir.

Senator CLARK. In what way?

Mr. WILDER. We were trying to get Gulf Industries, a southern yard, going.

Senator CLARK. And Mr. Cornbrooks was associated with you in Gulf Industries?

Mr. WILDER. Yes, sir.

Senator CLARK. Do you know where Mr. Cornbrooks got his information as to who would be the low bidders?

Mr. WILDER. His brother was operating vice president of New York Ship, and he had been in New York Ship and had been with Bethlehem as well. He did not tell me where he got his information.

Senator VANDENBERG. What is his brother's name, Mr. Wilder?

Mr. WILDER. Ernest.

Senator VANDENBERG. Ernest Cornbrooks.

AGREEMENT AMONG SHIPBUILDERS

Senator CLARK. In your experience as president of the New York Shipbuilding Corporation, Mr. Wilder, was collusive bidding customary on these naval contracts?

Mr. WILDER. Not to any such extent as occurred in 1933 and 1934, sir. Through the National Council of American Shipbuilders——

Senator CLARK. What is the National Council of American Shipbuilders?

Mr. WILDER. It is a meeting ground for contractors, sir.

Senator CLARK. Who composes it?

Mr. WILDER. H. Garrish Smith, formerly the vice president of Bethlehem Steel, is president. Mr. Henry Hunter is secretary of the council.

Senator VANDENBERG. Is that a "m-e-a-t-i-n-g" ground?

Mr. WILDER. Very well put, sir.

Now, in one instance, I must confess to having been guilty of talking matters over in advance. This was the incident where Cramp defaulted and we took the contracts over.

Senator CLARK. With whom did you talk the matter over in advance?

Mr. WILDER. I discussed that with Wakeman and Ferguson.

Senator CLARK. Who is Wakeman?

Mr. WILDER. I think he was vice president of Bethlehem Ship, Wiley Wakeman.

Senator CLARK. You were at that time representing New York Ship?

Mr. WILDER. Yes, sir.

Senator CLARK. And you discussed the matter with Bethlehem and whom else?

Mr. WILDER. News.

Senator CLARK. Whom?

Mr. WILDER. Newport News.

Senator CLARK. Newport News Shipbuilding Co.?

Mr. WILDER. Yes, sir.

Senator CLARK. They make up what is called the "Big Three"?

Mr. WILDER. That is the "Big Three", the unholy three.

Senator CLARK. What was the nature of this discussion which you had with Bethlehem Shipbuilding Co. and with the Newport News Shipbuilding Co.?

Mr. WILDER. To this effect, sir: The Cramp Co. had gotten into very serious difficulties in its building of merchant ships. It was having great trouble with the *Malola.* They stood to lose about 3½ million dollars on this contract.

Senator CLARK. What was the name of that ship?

Mr. WILDER. *Malola*, American-Hawaiian; and also had two for Eastern Steamship Co.—the *Evangeline*, and the other I do not remember. They had the contracts for one cruiser and machinery for another cruiser.

Senator CLARK. When was that, Mr. Wilder?

Mr. WILDER. 1926.

Senator CLARK. Go on.

Mr. WILDER. The keel had been laid for the cruiser, but she was done, if I remember—do not hold me to that, because it is just a rough guess—she was 6 to 9 months late.

I told Mr. Wakeman and Mr. Ferguson that if they defaulted I was prepared to take that contract over at the Navy's contract price with Cramp.

Senator CLARK. You mean you told the Bethlehem and Newport News executives that, on behalf of the New York Shipbuilding Co., that you proposed to take over this cruiser?

Mr. **Wilder.** From Cramp, if Cramp defaulted, at the Navy contract price, less the amounts paid by the Navy toward the construction. I would probably get something out of the bondsman, because it is costly to pick up the keel and move it across the river.

Senator **Clark.** It cannot be done.

Mr. **Wilder.** It was done.

Senator **Clark.** What was the nature of the arrangements you had with Bethlehem?

Mr. **Wilder.** There was not any. I told them we were prepared to do that, and they thought I was a damned fool.

Senator **Clark.** Did you do it?

Mr. **Wilder.** Yes.

Now, on one other occasion, when I discussed the matter——

Senator **Clark.** Just a minute before that. Let us finish with this transaction, Mr. Wilder.

Mr. **Wilder.** Yes, sir.

Senator **Clark.** Did you have any understanding with Bethlehem, or with Newport News, or with the Navy Department as to getting an additional cruiser as a result of taking over for the New York Shipbuilding Corporation this work and completing this work for Cramp?

Mr. **Wilder.** No understanding; no, sir. Certainly no collusion.

Senator **Clark.** What occasioned that question was this, Mr. Wilder: There was a telegram read in evidence last week from Mr. Bardo—[1]

Mr. **Wilder.** That was news to me.

Senator **Clark** (continuing). —to Secretary of the Treasury Mellon, complaining of the award of two cruisers to two navy yards on the Pacific coast, and stating that there had been an understanding that the New York Shipbuilding Corporation was to obtain the awards for cruisers as an outgrowth of this transaction, taking over the cruiser from Cramp. Do you know anything about that matter?

Mr. **Wilder.** No, sir; I do not. It was news to me.

Senator **Clark.** Go ahead about the other instance you started to tell us about.

Mr. **Wilder.** The other instance was the *Saratoga.* The *Saratoga* started off life as a battle cruiser. I believe she was laid the 16th of March 1917. Then, under the Disarmament Conference, she was transferred to the category of an experimental aircraft carrier. There had been three or four changes of contract on that ship when I appeared with New York Ship. She was on what we call a " cost-plus fixed fee ", the fixed fee having been paid.

Senator **Clark.** What do you mean by " cost-plus fixed fee ", Mr. Wilder?

Mr. **Wilder.** You usually think of cost plus 10 percent. This was not. You have got the amount, and it was cost plus $2,000,000, $2,000,000 being for the organization, the profit——

Senator **Clark.** The velvet?

Mr. **Wilder.** The velvet. There was plenty of " velvet " in it.

Now, part of that contract was to the effect that the *Saratoga* should bear that portion of the total overhead, your interest and depreciation and your repairs, and the men who are on direct labor and salary changes and telephone and all that sort of thing, and the number of men directly employed on her bore to the total in the yard. That is, if we were working 3,000 men on the *Saratoga* and another 1,000 on something else, she took three-quarters of the burden.

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[1] Entered into record as " Exhibit No. 1454 ", see text, p. 4621.

Senator CLARK. Of your overhead?

Mr. WILDER. Of all overhead.

Senator CLARK. Did that include executive salaries, and so forth?

Mr. WILDER. Oh, everything.

There was general understanding, obviously, that that should not be 100 percent. That was the real motivation of going after the Cramp cruisers. Going after new business, that I could lay my hands on, so as to relieve the burden on the *Saratoga*, I mean. As I remember it, we took on several Coast Guard cutters, the little fellows, 135 feet, and got a lot of car ferries and car floats, anything we could lay our hands on. Then I ran into this difficulty:

If you were driving rivets on the *Saratoga* and Senator Clark on a Pennsylvania car float, Senator Clark would come to me and say, "Give me 10 cents an hour, 10 cents more an hour, as the Navy pays you." And I have to give him that 10 cents an hour, the same as I would give it to you.

I went in to see Secretary Wilbur and said: "You can have two choices; take this ship to the Philadelphia Navy Yard and finish it there, because I have no control over the organization in the Navy, or put it on the flat price. If you agree to take the keel up, we will agree for so much money that we will deliver this vessel on a certain day. That is, either take up the extra cost in the navy yard, where you can stand this sort of thing, or put it on a flat price."

The shipbuilders never forgave me for that.

Senator CLARK. What shipbuilders?

Mr. WILDER. Bethlehem and Newport News; Bethlehem in particular.

Senator CLARK. Why was that?

Mr. WILDER. They had a sister ship, and we were using the drawings for that, and we got the *Saratoga* out 6 months ahead of that and I believe at $9,000,000 less cost.

Senator CLARK. $9,000,000 less cost to the Government?

Mr. WILDER. The *Saratoga* cost 34½ million dollars, and I was informed the *Lexington* cost $43,000,000.

Senator CLARK. What was the basis of letting to the Bethlehem Co.?

Mr. WILDER. Same basis, cost plus fixed fee, and they finished on that contract and we changed over to a flat contract. I discussed it with them, but they did not like it.

Senator CLARK. When you say "they did not like it", what did they say? With whom did you discuss it?

Mr. WILDER. Wakeman, Ferguson, and Palen.

Senator CLARK. They are the executives of those two companies?

Mr. WILDER. Yes, sir. I said, "I must close up this yard unless I put the contract on a flat price." What can you do with a labor situation of that kind? The men were right.

Senator CLARK. What course did they advocate, Mr. Wilder?

Mr. Wilder. Go on and drift along on the cost-plus.

Senator Clark. Cost plus a percentage?

Mr. Wilder. No; cost plus a fixed fee. They did not propose to change that contract.

Senator Clark. You were advocating the proposition of making a definite offer to the Government to build the ship?

Mr. Wilder. To finish the ship. We were building the ship; to finish it.

Senator Clark. At so much money?

Mr. Wilder. Yes, sir. By negotiation we changed that contract.

Senator Clark. You mean by negotiation with the Navy Department?

Mr. Wilder. By negotiation with the Navy Department we changed the contract. They set up a board of three admirals—Capps, Halligan, and Beuret, if I recall it—and they made the recommendation to Secretary Wilbur, and we closed on that basis.

Senator Clark. What was the name of the sister ship?

Mr. Wilder. *Lexington*.

Senator Clark. Mr. Wilder, referring to the transaction in which you took over the cruiser from Cramps', did you have any agreement or negotiation with the Bethlehem and Newport News companies leading to an agreement to take over that work without bids?

Mr. Wilder. They could not have taken it over. First, physically, we were the only yard that could have taken it over. The pieces were too large to ship them around the country anyway, but to float them. We could lift them across the river, being only about 3 miles apart. You realize, Senator, the proposal was to take it over at the price which the Government had allowed to Cramp, less what the Government had paid. We did negotiate with the bondsman, and I have forgotten how much, but we shook them down for something, I think about $900,000.

Senator Clark. Then, if I understand you correctly, Mr. Wilder, the fact that Bethlehem and Newport News did not bid on this work was due to the fact that it was physically impossible?

Mr. Wilder. Physically impossible, and, so long as we did not make a bid higher than that which the Navy had been satisfied with, I felt we were giving the Navy a square deal.

Senator Clark. Referring again to this transaction in 1933, Mr. Wilder, when you supplied this list to Mr. Frey and Mr. Calvin, you say that that was a matter of general information at that time?

Mr. Wilder. Yes, sir.

Senator Clark. Will you describe a little further what you meant by "general information"?

Mr. Wilder. General knowledge would be a better word.

Senator Clark. General knowledge?

Mr. Wilder. Yes, sir. Such people as the Chicago Pneumatic Tool, Westinghouse, or any large corporation that is supplying the shipbuilders, knew what the arrangements were.

Senator Clark. What were the arrangements?

Mr. Wilder. Knew where to look for the business.

Senator Clark. What were the arrangements?

Mr. Wilder. I will have to have that book back. I can tell you from memory, and can correct it if I am wrong.

Bethlehem was to get the heavy cruiser, 10,000-ton, 8-inch gun, and four 1,850-ton destroyer leaders.

New York Ship had two light cruisers, two 10,000-ton, 6-inch-gun cruisers, and four 1,850-ton destroyer leaders; and Newport News was given two aircraft carriers.

Senator CLARK. Did you have any information on the basis of that arrangement?

Mr. WILDER. You mean the price? No.

Senator CLARK. I mean as to the basis of division between Newport News and Bethlehem.

Mr. WILDER. It adds up, if you except one controversial point [examining paper]. That statement is correct. It is about an equal divide, Senator. If you take the cruiser that Bethlehem got on a fighting bid in December 1932 and add this additional heavy cruiser——

Senator CLARK. What do you mean by that statement, Mr. Wilder?

Mr. WILDER. You have got an excellent chart right here, which I have never seen before, and I have never seen a better one.[1]

Maybe Mr. Raushenbush better explain it. It is his baby. Here are the cruiser bids. New York Ship is in red, Newport News black, and Bethlehem green. They are running along from 1927 up through 1930 and 1931. Then you have this fighting bid.

The CHAIRMAN. You had what?

Mr. WILDER. You have this fighting bid.

Senator CLARK. What do you mean by " fighting bid ", Mr. Wilder?

Mr. WILDER. When you expect competition and you do not want it, you sometimes bid so low that it discourages the other fellow. You have heard of a " fighting ship ", have you not?

Senator CLARK. Yes, sir.

Mr. WILDER. Same thing.

Senator CLARK. You mean by a " fighting bid " a bid where there is actual competition?

Mr. WILDER. You bet your life there is competition there. It is fine.

Senator CLARK. What was the price?

Mr. WILDER. $8,196,000.

Senator CLARK. For what type of cruiser?

Mr. WILDER. The heavy cruiser.

Senator CLARK. Go on with your statement.

Mr. WILDER. Here we are down here on Bethlehem [indicating on chart]. Bethlehem got scared; got scared that much. They were afraid United was coming in.

The CHAIRMAN. Just how much is that? About $2,000,000?

Mr. WILDER. About $1,500,000.

Senator CLARK. Who is United?

Mr. WILDER. United is the United Drydocks, a Hayden-Stone combine of X shipbuilding plants, repair ways, and one thing and another in New York Harbor, headed by Joe Powell, a former naval constructor. Joe Powell used to be head of the old Fore River plant before it became a part of Bethlehem.

Senator CLARK. Did the United Drydocks submit a bid on this?

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[1] See appendix, facing p. 4927, for chart used in discussion.

Mr. **Wilder**. So far as I know. Did they, Mr. Raushenbush?

Mr. **Raushenbush**. This blue line shows in the first half of 1933 on those cruisers that United got into the picture for the first time with a bid which was below that of the other two companies. Up to that time the big three alone had been bidding, and here United got in with a very considerably lower bid. For some reason not heretofore explained Bethlehem Ship had been coming along here on this green line at about $10,000,000.

Senator **Clark**. What does the green line represent?

Mr. **Raushenbush**. The green line represents Bethlehem's bidding.

Senator **Clark**. I understand; but what does it figure compared with a straight line?

Mr. **Raushenbush**. It is over $10,500,000 in 1927, about the same in 1929, and then suddenly, without any corresponding decrease in prices, it drops about 10½ million dollars in 1931 away down to a little over 8 million dollars.

Senator **Clark**. What does the next bid represent?

Mr. **Wilder**. The next bid was in 1933.

Mr. **Raushenbush**. The next bid was in 1933, and apparently was close to $12,000,000.

Mr. **Wilder**. $11,720,000.

Mr. **Raushenbush**. That is right; $11,720,000.

Senator **Clark**. What is the next bid after that?

Mr. **Wilder**. $16,000,000.

Mr. **Raushenbush**. I think there was an intermediate bid of 13.

Mr. **Wilder**. There was no intermediate bid.

Senator **Clark**. What is the next bid shown on the chart for Bethlehem, Mr. Raushenbush?

Mr. **Raushenbush**. It is over $16,500,000.

Senator **Clark**. When was that?

Mr. **Raushenbush**. In 1934.

Senator **Vandenberg**. The chart shows that all the bids went down in 1932 and all of them came up in 1933.

Mr. **Wilder**. They got a war scare here. They got a new factor in the picture.

Senator **Clark**. The chart does show that all the bids submitted made a very sudden and noticeable drop in the fall of 1932, and then immediately going steeply up to more than double what had been a comparatively uniform basis for a period of several years. That is correct, is it not, Mr. Wilder?

Mr. **Wilder**. Yes, sir.

Senator **Vandenberg**. Are these bids on comparable ships, all of them?

Mr. **Wilder**. Yes, sir; there is really very little difference between an 8-inch and a 6-inch gun cruiser. If the Navy is wise, it is the same ship.

Senator **Clark**. Mr. Wilder, you spoke, a while ago, about the National Council of American Shipbuilders. Were these matters discussed at the meetings of the National Council of American Shipbuilders?

Mr. **Wilder**. I have been so informed.

Senator **Clark**. Have you ever been a member of the National Council of American Shipbuilders?

Mr. **Wilder**. No; I stayed out. I would not play.

Senator **Clark**. Were you invited to become a member of it?

Mr. **Wilder**. Not after the *Saratoga*.

Senator **Clark**. Coming back to the *Saratoga*, the matter of the six cruisers let in 1927, and the matter of your taking over the *Pensacola* and *Salt Lake City* from Cramp, and the matter of securing the last penny profit from the *Saratoga* and the *Lexington*, were all on the boards at the same time, were they not?

Mr. **Wilder**. Yes, sir.

Senator **Clark**. And it was all discussed between the New York Shipbuilding Corporation, or the American Brown Boveri, and the Bethlehem Shipbuilding Co. and the Newport News Shipbuilding Co. at the same time, was it not?

Mr. **Wilder**. With the exception of those 1927 new cruisers, I do not recall any discussion, at least never when I was in on it.

Senator **Clark**. I am speaking of the six new cruisers in 1927 and the matter of the New York Shipbuilding taking over the *Salt Lake City* and the *Pensacola* from Cramp, and the matter of the *Saratoga* and the *Lexington;* they were all on the boards at the same time and were all a matter of discussion and agreement between the big three at the same time. Is not that correct?

Mr. **Wilder**. I do not agree with you, Senator.

Senator **Clark**. All right.

Mr. **Wilder**. The *Saratoga* was a matter of very little disagreement.

Senator **Clark**. They were all a matter of discussion between the three of you at the same time, were they not?

Mr. **Wilder**. Not that bunch of 1927 cruisers; no, sir.

Mr. **LaRouche**. Excuse me, but is it not a fact that your taking of units of the 6 cruisers was contingent upon your taking over the Cramp job? That is, was there not some discussion as to whether you would accept one job if you did not get the other, and that you insisted on the two?

Mr. **Wilder**. I think in the discussions with the Navy we said we hoped we would get another cruiser to balance up the difficulty of taking over the Cramp cruiser. But you must realize, Mr. LaRouche, just as Senator Clark says, they were more or less on the boards at the same time, and there was no inclination on the part of anybody in that regard. They were afraid the Navy would force Bethlehem to do the same thing, and they did not want that. I could not even go into a luncheon club in New York after that for a while.

Mr. **LaRouche**. Was not your position with respect to the *Saratoga* used as a club to force that situation?

Mr. **Wilder**. No, sir, certainly not by me.

Mr. **LaRouche**. Was it by anybody?

Mr. **Wilder**. Not that I know of; not that I have any knowledge of.

You asked, Senator, about the divide in 1933. Counting the cruiser that Bethlehem got down there on that particular bid, that, plus a new cruiser, plus 4 destroyers, equals 2 cruisers for New York Ship and 4 destroyers, and equals in value 2 aircraft carriers for Newport News. It was just a shuffle. Anybody could figure that out.

Senator CLARK. As I understand it, Mr. Wilder, you divided up the awards in the 1933 building program, so far as the value to the shipbuilding companies was concerned, and, as you say, Newport News, New York Ship, and Bethlehem each got approximately one-third of the value?

Mr. WILDER. Counting that job, the 1932 job.

Senator CLARK. In other words, counting in the bid which you say Bethlehem took at a loss?

Mr. WILDER. I do not say that; no, sir.

Senator CLARK. I understood you to say that.

Mr. WILDER. I said a "fighting bid."

Senator CLARK. What do you mean by a "fighting bid"? I thought you said that meant they were willing to take a job for the purpose of putting a competitor out of business?

Mr. WILDER. Yes; but I do not think at that price there was any loss in it.

Senator CLARK. Counting in the low bid which Bethlehem made in 1932 for the purpose of forcing out United Drydocks, you say that the two transactions taken together work out approximately one-third to each one of them?

Mr. WILDER. Yes; they got between $35,000,000 and $38,000,000 each.

Senator CLARK. Were there any other bidders on this 1933 program?

Mr. WILDER. Not on the cruisers or those destroyers—wait a minute. Did Federal come in there, or not until later?

Mr. RAUSHENBUSH. Federal did not come in until 1934 on the cruiser bidding. It was in on the destroyer.

Mr. WILDER. Now, if the Senator will permit, the reason I got that information was because the shipbuilders are reported to have had one whale of a row, and as a result of that row, this row being in the week prior to July 26, 1933——

Senator VANDENBERG. You mean the "Big Three" had a row?

Mr. WILDER. The "Big Three" had a row, and how! You had Charley Langell on the stand the other day. If you call him again, ask him what happened; why it was necessary for him to go out of the conference room and telephone Camden and urge Ernest Cornbrooks to get in a plane and come right down.

Senator CLARK. Who is Ernest Cornbrooks?

Mr. WILDER. Operating vice president of New York Ship. Bardo was getting the worst of the argument. Langell is the estimator. Langell had sense enough to go out and fly down. That was a week prior to July 26. It was reported that the row was so severe that Mr. Cornbrooks had a heart attack at 4 o'clock in the morning, and was taken out on a stretcher at the Mayflower Hotel. That was Thursday or Friday before the bids were opened.

Senator VANDENBERG. That is at a meeting, an all-night session in the Mayflower Hotel, between the representatives of the "Big Three", a week before the bids?

Mr. WILDER. The week before. I cannot place it exactly.

Senator VANDENBERG. The week before the bids?

Mr. Wilder. The week before the bids, Thursday or Friday. Mr. Ernest Cornbrooks flew down, and then at 4 o'clock was taken out on a stretcher. It was reported to me that the subject of the row was that Bethlehem would not accept the fighting ship and wanted something more out of it in addition. That was the reason.

Senator Vandenberg. What else was reported out of the meeting?

Mr. Wilder. That is all.

Senator Clark. Was this before the bids were filed?

Mr. Wilder. Before the bids were opened. It was on the basis that Bethlehem get one 8-inch-gun, 10,000-ton cruiser and 4 destroyer leaders of 1,850 tons; New York Ship, two 6-inch-gun, 10,000-ton cruisers and 4 destroyer leaders of 1,850 tons; and Newport News, 2 aircraft carriers.

Senator Bone. The bids had not yet been filed?

Mr. Wilder. No, sir.

Senator Bone. Manifestly, you could not have an understanding of that kind without knowing the attitude of the Navy Department, because it involved two different parties.

Mr. Wilder. That is just what I wanted to clear up Senator Clark on. This had nothing to do with awards. This was the filing of the bids.

Senator Bone. I understand, but the award is the important part. If they were made in that way and there was collusion, the Navy Department would have to be a part of it.

Senator Barbour. Awards can only be on the basis of a bid.

Senator Bone. I understand that.

Senator Clark. Mr. Chairman, I am glad Senator Bone brought that up. Assuming collusion on any bid, the method by which that would be determined would be for the party selected by the conspirators to make the low bid and for the other parties to the understanding to make so-called "protective" bids?

Mr. Wilder. Yes, sir.

Senator Clark. Sufficiently higher so that the selected party would necessarily be the low bidder. Is not that the customary method, Mr. Wilder?

Mr. Wilder. Yes, sir.

Senator Vandenberg. In other words, if at that midnight meeting it was decided that Bethlehem is to get—what does Bethlehem get?

Mr. Wilder. One 8-inch gun cruiser and 4 destroyer leaders.

Senator Vandenberg. All right. If they decided at that midnight meeting that Bethlehem is to have that particular group of ships, then Bethlehem bids low on that group and the other two bidders bid high. Is that the way it works?

Mr. Wilder. Yes, sir; that is the way, the explanation of the 1933 situation.

Senator Bone. That is the explanation I wanted.

Senator Vandenberg. Then to reciprocate Bethlehem bids high upon whatever ships are allocated to the other builders?

Mr. Wilder. Yes, sir. They faced a rather definite situation there.

Senator Bone. They were parceling the country out? "All Gaul is divided into three parts."

Mr. Wilder. Oh, yes; it is just the "great divide." They are quite accustomed to that in Bethlehem. They used to do it, and called it "Bonus Hill."

Let us say in there, with steel down, and with labor way down, that a fair price with one of those cruisers, with a couple of millions profit, and to take care of all the laziness in the way that all the yards are operated, $10,000,000 was a fair price. That is just an assumption. I am not testifying to something of my own knowledge, but as it appeals to me as a matter of logic.

The Chairman. Ten million?

Mr. Wilder. Ten million. With steel down and with labor down, I mean. Bethlehem first got itself loaded up with one job, their award in January 1933, at $8,000,000. To make an average, they have got to get $12,000,000 for the next one.

On that point, if they bid $12,000,000 for the next one, or $11,720,000, then they really know that the two will average $10,000,000; that is, 8 plus 12 is 20, and divided by 2 is 10.

New York Ship has got to bid higher than that, and Newport News must bid higher than that.

But let me step over into the next aisle, where New York Ship is going to be low on light cruisers, and it cannot very well drop from a 12-million-dollar bid over here to a 10-million-dollar bid there [indicating on chart]. That is what "high-jacked" cruiser prices.

Senator Clark. What do you mean by "high-jacked" cruiser prices, Mr. Wilder?

Mr. Wilder. I mean just that. It is a racket.

Mr. Raushenbush. Will you explain that last statement of yours again, Mr. Wilder? I mean the first part of it, that Bethlehem apparently was putting in a fighting or no-agreement bid.

Mr. Wilder. Whether Wakeman got scared to death or not, I do not know, or went out on a party, but he just tore 1½ million dollars off his bid.

Mr. Raushenbush. Is that the first time that United had gotten into the picture?

Mr. Wilder. Yes, sir.

Mr. Raushenbush. In other words, the big-three agreement, if there was such a thing, was not holding for that year?

Mr. Wilder. Yes, it was holding, all right. Look right here. It is here, all right [examining chart].[1] Let us say normally Bethlehem would be there [indicating]. Then he got scared to death of this, and tore it up [indicating].

Mr. Raushenbush. Go on with the second part and explain how it was necessary to average up.

Mr. Wilder. This is December and January 1933, and now you are in July [indicating on chart]. Bethlehem stands to average $10,000,000 each on the two cruisers.

Senator Clark. If I understand you correctly, it is your contention that Bethlehem was trying to make up in the next award for the comparatively low bid which they had made in the fall of 1932?

Mr. Wilder. You have it, sir. But the next point is, as Senator Bone says, that if you are going to have that, you have got to put two protective bids on top of that; and then if you, Senator, are going to bid on the same ships, obviously you cannot put a protective bid in over Bethlehem of, say, I think, $12,250,000 for a heavy cruiser and then say, "I will build a light cruiser for $10,000,000." No; you have got to stay up.

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[1] See appendix, facing p. 4927, for chart discussed.

Senator BONE. What is the difference in cost between those light cruisers where one uses 6-inch guns and one 8-inch guns? I mean outside the armament.

Mr. WILDER. The Navy supplies the armament.

Senator BONE. The shipbuilding company builds the turrets, does it not? What would be the difference in the cost?

Mr. WILDER. The answer is none.

Senator BONE. In other words, they build the so-called "8-inch-gun cruiser" about as cheaply as the other?

Mr. WILDER. Yes, sir.

Senator VANDENBERG. Your contention is that this averaging process inevitably forced up the entire scale for the balance of the bids?

Mr. WILDER. Of course. Does that answer it, Senator?

Senator CLARK. You mean the fellow who really was going to get the award had to raise his bid, and the fellows running interference had to go still higher?

Mr. WILDER. Right; and when they go in there they are on the light cruiser, so that they are the same ship. The proof of the pudding is that Bethlehem lowered its bid under 1931 on the 1,500-ton destroyers. The thing you might be thinking of in August 1933, they were covered on materials, and nobody is going to run any risk there, because you have got your coverage, and your only risk is the increase in labor rates, and the labor percentage on a destroyer is far higher than a cruiser. Think of it; it is limited to only 1,500 tons when everything is in them, and they have got one-half the horsepower. Fifty-four thousand is the horsepower for the little destroyer, and it is 107,000 for the cruiser. So that if there was any justification for increasing bids, it was in that category, where the increase in labor rates was greatest, namely, the destroyer category. Did they increase? No; they lowered under 1931.

PROTEST TO PRESIDENT ON 1933 BIDS

Senator CLARK. Mr. Wilder, I call your attention to a letter dated August 1, 1933, addressed to the President, a copy of which was to be sent to the Secretary of the Navy, from Senator Trammell, of Florida, the Chairman of the Naval Affairs Committee of the United States Senate, which I will read.

Senator VANDENBERG. What is the date, Senator?

Senator CLARK. August 1, 1933.

Senator VANDENBERG. What is that date in relation to the letting of the bids?

Mr. WILDER. Just between. The bids were opened on the 26th of July, and the 3d of August was the awards.

Senator CLARK (reading):

> DEAR MR. PRESIDENT: I have been quite interested in analyzing the bids opened by the Navy Department on July 26, 1933, which were submitted by the shipbuilders on naval construction. I believe a thorough study of the matter should be made.

It is my information that——

On September 16, 1931, Bethlehem Shipbuilding Corporation bid for one 1,500-ton destroyer, $2,728,500.

On July 26, 1933, Bethlehem Shipbuilding Corporation bid for an identical destroyer, $2,670,000, or a decrease in price of $58,500.

On December 14, 1932, Bethlehem Shipbuilding Corporation bid for one 8-inch gun (heavy) 10,000-ton cruiser, $8,196,000.

On July 26, 1933, Bethlehem Shipbuilding Corporation bid for the same cruiser, $11,720,000, or an increase in price of $3,524,000.

There appear to have been but 4 bidders on cruisers and 8 on destroyers. Gulf Industries, Inc., of Pensacola, Fla., appears to have submitted bids on the destroyers.

It is my information that, in addition to the facts outlined above, it was known in advance which of the four concerns bidding on the cruisers would be low on each of the several items, and it appears to have been known in advance that the position of each of the said shipbuilders would be protected by bids submitted by the remaining shipbuilders, for instance:

Bethlehem Shipbuilding Corporation, $11,720,000.
New York Shipbuilding Co., $12,100,000.
Newport News Shipbuilding & Dry Dock Co., $13,800,000.
United Dry Docks, Inc., $14,800,000.

The bid of the New York Shipbuilding Corporation on the 2 light cruisers was protected by the other 3 bidders as follows:

New York Shipbuilding, $11,657,000; Bethlehem Shipbuilding Corporation, $12,780,000; Newport News Shipbuilding & Dry Dock Co., $13,900,000; United Dry Docks, Inc., no bid.

I am unable to justify in my own opinion the increase in cruiser cost as indicated by the 1932 and 1933 bids, particularly when those bids are compared with the destroyer bids of 1931 and 1933. I am convinced that the cruiser bids should be rejected.

Your attention is invited to the fact that Gulf Industries, Inc., of Pensacola, Fla., in its letter to the Secretary of the Navy, dated July 29, 1933, stated that it is prepared to submit bids on the cruisers which will save the Government millions of dollars. And this is so whether the bidding is reopened by private negotiations or by a call for new bids.

I bespeak your careful and thoughtful consideration of this request that the cruiser bids be rejected.

What is that letter from you to the Secretary of the Navy referred to here?[1] Do you have a copy of it?

Mr. Wilder. Can I get my book back?

Senator Vandenberg. Mr. Wilder, while we are waiting for the scrapbook, I would like to get one thing clear in my mind about the advance memorandum which you made and gave to Mr. Frey. Was that memorandum based upon anything more than good guessing?

Mr. Wilder. And hearsay from those meetings at the Mayflower.

Senator Vandenberg. Was it substantially based on what Mr. Cornbrooks had told you?

Mr. Wilder. Yes; plus what I had learned from other people in other industries, and I speak of the contributing industries.

Senator Clark. You mean the subcontractors?

Mr. Wilder. Yes, sir. They all knew because they knew whom they were going to do business with.

Senator Clark. In other words, the suppliers of various parts and materials had information as to who was to secure these awards?

Mr. Wilder. Senator Clark, I knew it was absolutely accurate. It could not have been anything but accurate. The shipbuilders were not asking the suppliers to quote them on all the vessels. That is, New York Ship was taking no quotations on aircraft carriers, nor was Bethlehem.

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[1] See text, p. 4774, for Gulf Industries letter to Secretary of Navy.

Now, remember this code was just signed the day the bids were opened, and it was code no. 2, and what was the electric code going to be? It would be perfectly ridiculous to make a bona-fide bid on anything with as much electrical things in it as that, unless you had a letter from General Electric and others saying that within 6 months we will furnish you with these things for so much money.

Senator CLARK. If I understand you correctly, these people were filing bids on each class of ship?

Mr. WILDER. Yes, sir.

Senator CLARK. And were asking for information from their subcontractors on only certain ships?

Mr. WILDER. On the ships they were intending to get; yes, sir. You take any of the three big subcontractors and ask them leading questions, and anybody could put the picture together.

The CHAIRMAN. Was there any variation in that rule at all?

Mr. WILDER. That I cannot tell you, because it is a spotty thing, Senator.

Senator VANDENBERG. Did Mr. Cornbrooks indicate that there was any conversation at that midnight session, other than you have indicated to us?

Mr. WILDER. No. The thing had been set some time, and then Bethlehem kicked over the traces and wanted something else.

Senator VANDENBERG. In other words, the agreement antedated the midnight session?

Mr. WILDER. Yes, sir.

Senator VANDENBERG. That was just a post mortem?

Mr. WILDER. A flare-up.

Senator VANDENBERG. Have you any information as to any of the previous meetings, when the agreement may have been made in the first instance?

HEARINGS ON SHIPBUILDERS' N. R. A. CODE

Mr. WILDER. Mr. Raushenbush, do you know the date of the first code hearing?

Mr. RAUSHENBUSH. No; not offhand.

Mr. WILDER. Do you, Miss Kitchen?

Miss KITCHEN. I think it was the 18th.

The CHAIRMAN. The 18th of what month?

Mr. WILDER. Of July. It was a long meeting and they were in practically continuous session here in Washington, largely at the Mayflower, from that time when the code hearings opened to and through after the bids were opened. The meetings were going on all the time. Of course, we were fighting our heads off. They wanted an exclusion clause in the code which would keep everybody out except themselves.

Senator VANDENBERG. Did they get that?

Mr. WILDER. No; thanks to organized labor, but it was some row, though. That is what knocked me out.

Senator VANDENBERG. Then, as I understand it, they were here for a couple of weeks preceding this midnight session?

Mr. WILDER. Oh, yes.

Senator VANDENBERG. And that is the period, I take it from your story, that the arrangement was probably perfected?

Mr. WILDER. Yes, sir. You see, on the first day of the code hearing——

Senator VANDENBERG. Pardon me, but is there anything in the N.R.A. code that would protect this sort of uniform practice?

Mr. WILDER. Oh, most enlightening. The first day's hearings are most enlightening.

Senator VANDENBERG. What do you mean?

Mr. WILDER. There, sir, is the start on that exclusion clause, in that code matter. Under that they were to agree to monopolize the yards in the code list. They could not revamp an old, abandoned way; they could not reopen a dormant yard; and they could not build anything new.

Senator VANDENBERG. Who proposed this code?

Mr. WILDER. H. Garrish Smith, National Council of American Shipbuilders.

Senator VANDENBERG. That is the gentleman who presided over the meeting?

Mr. WILDER. Yes, sir.

Mr. RAUSHENBUSH. Senator, we had some evidence given here the other day identifying the testimony of Admiral Land in favor of that clause.

Senator VANDENBERG. That is exclusion of the code?

Mr. WILDER. Clause 14, sir. If you will look along a little later, you will see that Deputy Administrator Whiteside said they were going to attempt to reinsert it.

Senator VANDENBERG. This code, with the clause in it, was offered you by the N. R. A.?

Mr. WILDER. No; it was offered to N. R. A. by the National Council of American Shipbuilders.

Senator VANDENBERG. What was N. R. A.'s attitude when it was suggested to them?

Mr. WILDER. Whiteside was against it.

Senator CLARK. Who makes up this National Council of American Shipbuilders?

Mr. WILDER. The "unholy three."

Senator CLARK. Any other members?

Mr. WILDER. Only the satellites, Babcock & Wilcox, General Electric, Westinghouse, Durval, and they contribute. It is awful nice; they shake these babies for the cost of operating it.

Mr. RAUSHENBUSH. The smaller companies are there?

Mr. WILDER. They are in by sufferance, on a little different level.

The CHAIRMAN. By what?

Mr. WILDER. Sufferance.

Senator BONE. Mr. Raushenbush, might it not be a good idea at this point in the record to insert the paragraph of the code, so that anybody reading this record would be completely enlightened about that question?

Mr. RAUSHENBUSH. Yes, sir.

The CHAIRMAN. Make a note of that, Mr. Reporter, and insert the code provision.

(The code provision referred to is as follows:)

> The present capacity of active shipbuilding and ship repairing companies of the United States as a whole is in excess of present or any prospective needs; therefore, it will be considered a violation of this code to make any material increase in the plant capacity of the industry.

Senator CLARK. Mr. Wilder, in this letter from Senator Trammell, Chairman of the Naval Affairs Committee, he speaks of a bid submitted by Gulf Industries on destroyers. What were the circumstances in connection with the destroyer bid?

Mr. WILDER. We made up an entirely independent bid, and it proved to be pretty low. I can find it here, if I take time enough.

Mr. RAUSHENBUSH. Were those the light destroyers?

Mr. WILDER. Those were the light destroyers. Our bid on a flat price was $3,025,000, and the next nearest one was $3,400,000.

Mr. RAUSHENBUSH. That was the *Chester*.

Mr. WILDER. There is a little yard down there which built 10,000-ton merchant ships, very good ones, and had been inspected by Commander Duncan, of the Navy.

Senator CLARK. I read a letter from the Secretary of the Navy to Senator Trammell, in response to the letter which I just read, from Senator Trammell to the Secretary of the Navy, this being dated August 9, 1933, which was immediately after the award, was it not?

Mr. WILDER. The date was August 3, of the award.

Senator CLARK (reading):

> Replying to your letter of August 1, 1933, in which you make certain assertions concerning bids for the construction of naval vessels, which were opened by the Navy Department July 26, 1933, I wish to inform you as follows:
>
> In the first place, all bids were carefully examined and analyzed prior to decision as to awards and in every case were made to the lowest responsible bidder.
>
> The bid of the Gulf Industries, Inc., of Pensacola, Fla., was rejected because a survey of the plant indicated that this company was not in position to undertake construction of the vessels upon which bids were submitted.
>
> With reference to the statement concerning advance information as to the low bidders and as to collusion of the bidders, I find that there is no justification and fact for such statement. You will recall that Admiral Standley, Chief of Naval Operations, speaking for me, received from you by telephone the information to the effect that the basis of statements contained in your letter was obtained from a Mr. Thornton who stated to you that he had received his information from Mr. Wilder who is associated with the Gulf Industries, Inc., of Pensacola, Fla.
>
> You also stated that confirming statements were made by Mr. Kelvin, who represents Mr. Frey, of the American Federation of Labor. Both of these gentlemen were contacted, and Mr. Thornton stated he had given you no information whatever in regard to these bids, and only happened to be in your office when these statements were made as to Mr. Wilder's knowledge of irregularities in the bids.

Do you know who Mr. Thornton was, Mr. Wilder?

Mr. WILDER. Mr. Thornton represented the Pensacola Air Station, or did.

Senator CLARK (continuing reading):

> Mr. Kelvin stated that his information was based on a conversation with the same Mr. Wilder 2 or 3 days before the bids were opened, at which time Mr. Wilder stated that he could name the low bidders.

Is that the same transaction referred to by Mr. Calvin and Mr. Frey?

Mr. WILDER. Yes.

Senator CLARK (continuing reading):

> In view of the above, and after a careful analysis of all bids in the light of your statements, I am convinced that there is no foundation in fact for the accusations contained in your letter and accordingly no further action will be taken.

I regret exceedingly that a question of this kind should have arisen in connection with awards for bids of these vessels, for I assure you, Mr. Senator, that I am just as anxious as you are that the United States shall obtain the very best contracts they can for the construction of these vessels. It was only after assuring myself that such was the case that the awards were approved.

Sincerely yours,

CLAUDE A. SWANSON.

HON. PARK TRAMMELL
Chairman Committee on Naval Affairs,
United States Senate.

COMPETENCE OF GULF INDUSTRIES

Senator CLARK. What was the fact about the ability of the Gulf Industries to perform, if they had been given the award on their bid?

Mr. WILDER. At a meeting about the time that the invitation for bids first came out, in May or June, at which there was present Mr. T. M. Cornbrooks, Pickens Neagle, former Solicitor of the Navy, Admirals Land, Robinson, and Assistant Secretary Roosevelt, Admiral Land volunteered to the Secretary that we were competent to build any type of naval vessel, based on our past experience.

They wanted to inspect the Pensacola yard, so that I went down there and met Commander Duncan and went over it; and we agreed at the time that with an expenditure of about $400,000 that yard could be put in perfectly good shape to build destroyers, and it would not delay building, because that could be done while the destroyers were being designed.

I understand the report made by the commandant of the Pensacola Naval Air Station to the Secretary was favorable; that the yard was competent.

Senator VANDENBERG. Is that conditioned upon the expenditure of $400,000?

Mr. WILDER. Yes, sir.

Senator VANDENBERG. Was that available?

Mr. WILDER. Yes.

Senator CLARK. When you say "available", Mr. Wilder, had arrangements been made to finance the enterprise?

Mr. WILDER. Yes, sir.

Senator CLARK. Where were the arrangements made?

Mr. WILDER. New York.

Senator CLARK. With whom?

Mr. WILDER. I would rather not state that.

Senator CLARK. I am asking you. You are under oath, and I am asking you to state.

Mr. WILDER. With Mr. Harvey Wiley Corbett, Josiah T. Newcomb, and Alfred O. Hoyt.

Senator BONE. These gentlemen were in a position to make funds available?

Mr. WILDER. Yes, sir.

Senator CLARK. I will read the report of the commandant of the United States Naval Air Station, or I will first read one paragraph, and I will have the report from Commander Duncan to the commandant of the United States Naval Air Station inserted on the examination of the facilities of Gulf Industries, Inc. I will have the whole report inserted in the record.

(The documents referred to were marked " Exhibit No. 1482 ", and are included in the appendix on p. 4918.)

Senator Clark. However, since this document is quite long, I will read paragraph 7. [Reading:]

> The plant of the Pensacola Shipbuilding Co. was built for the purpose of constructing cargo carriers on what was known during the World War and immediately thereafter as the "fabricated-ship system"; that is, about 90 percent of the plates, framework, etc., of the ship was fabricated elsewhere than at the erecting plant and only 10 percent of the fabricating was done at the plant where the erection was accomplished. In the evaluation of the possibility of building destroyers at this plant this point should be given due consideration. Undoubtedly additional steel rolls and gang drills will have to be purchased and installed, but it appears to be entirely feasible within the estimate above given. It is believed that the plant can be reconditioned as the construction of the ships proceeds, as was frequently done in war-time plants, and there should be no delay in the construction of these destroyers at this plant on account of the necessity of rehabilitating the plant.

Senator Vandenberg. Is that a report to the Navy?

Senator Clark. This is a report from Commander Duncan to the commandant of the Pensacola Naval Air Station.

Then, the first endorsement on this report is from the commandant of the Pensacola Naval Air Station to the Secretary of the Navy, and these reports were taken from the files of the Navy Department, this being from the commander to the Secretary of the Navy.

It states:

> Subject: Torpedo boat destroyers nos. 356 to 359, 360 to 363, and 364 to 379, inclusive—Bids for the construction of.—Examination of facilities of the Gulf Industries, Inc.
>
> Reference: (a) Secretary of the Navy's letter DD356/L4-2 (330628) P of June 28, 1933.
> (b) Commandant's first endorsement. Ro-B/QM-G1 of June 30, 1933.
>
> Enclosures: (7).
>
> 1. Forwarded herewith is a report of Commander G. A. Duncan (C. E. C.), United States Navy, who was directed by me to make the inspection of the plant of the Gulf Industries, Inc., of Pensacola, Fla., in compliance with the Secretary of the Navy's letter, reference (a).
> 2. The commandant is of the opinion that so far as material conditions are concerned the plant is capable of constructing destroyers, provided the reconditioning of this plant as recommended in the attached report is carried out.
> 3. As for personnel conditions, it seems that such does not exist at present. It is possible, however, to obtain the necessary personnel as was done in the case of the Emergency Fleet construction during the war.
>
> F. R. McCrary.

Mr. Wilder, what was the situation as regards performance of the Gulf Industries at that time?

Mr. Wilder. As I say, at the time we obtained the bidder data from the Navy, at a meeting in Assistant Secretary Roosevelt's office, at which were present Mr. T. M. Cornbrooks; Mr. Pickens Neagle, former Solicitor of the Navy, our counsel; Admiral Land; and, I believe, Admiral Robinson; Admiral Land volunteered to the Assistant Secretary that Wilder and Cornbrooks were competent to build any type of naval vessel.

Senator Clark. I am not speaking of your ability or Cornbrook's ability, but what was your situation as regards performance, assuming you had the award given you?

Mr. Wilder. There is a list of names [indicating].

Senator VANDENBERG. When was the meeting which you are now discussing?

Mr. WILDER. About 6 weeks prior to the opening of the bids, the latter part of May or the first part of June. We submitted at that time this list of personnel, who were prepared to come with us if we got the awards.

Senator BARBOUR. Where was that personnel going to come from? From other yards?

Mr. WILDER. A lot of it out of employment. I do not think we were lifting anybody from any yard.

Senator CLARK. Mr. Wilder, this enclosure in the letter of Senator Trammell, to which you have just called my attention, details the technical experience of Mr. Cornbrooks.

Mr. WILDER. I beg your pardon.

Senator CLARK. Outside of that, there is no assertion of any organization capable of building destroyers at that time.

Mr. WILDER. Mr. Senator, my secretary tells me that the letter as to what the situation was is not in the book.

Senator CLARK. If you will just describe the situation with regard to the organization which you had at that time, Mr. Wilder, and what you had in prospect, if you had been granted the award on the destroyers on which you bid, it will answer the same purpose.

Mr. WILDER. The organization was a tentative organization. It is exactly as you are covering it. Mr. Cornbrooks and I had figured out the men whom we wanted for the key positions, the marine engineers, the naval architect, the man who was to run the ways, and so forth and so forth, about 20 key men, and we had submitted that list. I am correct in that, Miss Kitchen? We had submitted that list to the Navy long prior? It was submitted about the same time we got the invitation to bid, was it not?

Miss KITCHEN. Yes; if not before.

Senator CLARK. In this meeting which you speak of, was there anything discussed as to the capacity of your organization?

Mr. WILDER. Covered by the remark of Admiral Land, that, as an organization, we were competent to build any ships.

Senator BARBOUR. As I understand it, Mr. Wilder, these 20 key men, of course, were all experts and competent authorities in their own line?

Mr. WILDER. In their own line; yes, sir.

Senator BARBOUR. And they were all unemployed at the time?

Mr. WILDER. Some of them were employed and some of them doing consultation work. I think only one man was in another yard working on naval work.

Senator CLARK. I will offer your letter of August 4, 1933, Mr. Wilder, to the Secretary of the Navy, for the record.

(The letter referred to was marked "Exhibit No. 1483" and is included in the appendix on p. 4921.)

Senator CLARK. Had there been any discussion with these men as to whether they were open to employment?

Mr. WILDER. Yes, sir; their salaries and everything about moving them down to Pensacola have all been covered. It cost us quite a lot of money to make up those bids, and obviously we would not want to spend money to make up bids unless we were prepared to go to work.

Senator VANDENBERG. What were your bids?

Mr. WILDER. On two, $3,025,000 and the next lowest was $3,400,000. We were about 12 percent below. The awards were made: Two for $3,400,000; and two for $3,410,000; and two for $3,429,000. Am I right, Mr. LaRouche?

Mr. LAROUCHE. I could not follow it; will you repeat it?

Mr. WILDER. Two to United at $3,400,000; two to Federal at $3,410,000; and two to Bath at $3,429,000.

Senator BONE. What was your bid?

Mr. WILDER. $3,025,000.

Mr. LAROUCHE. I think what the committee wants to know, mainly, at this point, Mr. Wilder, is, as a physical fact, that that is the way the bids are spread around, that that is the way it is done, from your personal knowledge.

Mr. WILDER. Mr. LaRouche, you must realize that I was not in the business during the war, and since the war there has been no such mass of vessels awarded. There have been only one or two at a time.

Mr. LAROUCHE. There were a lot in 1927.

Mr. WILDER. How many were there?

Mr. LAROUCHE. There were six at once.

Mr. WILDER. Only three to private yards, were there not? Was not the Dallinger amendment on that?

Mr. LAROUCHE. Four to private yards.

Mr. WILDER. How did they get that way? Was not the Dallinger amendment on that?

Mr. LAROUCHE. Not then.

Senator VANDENBERG. I agree with Mr. LaRouche's inquiry. Were you cognizant of the fact that this was the system upon which bidding was done?

Mr. WILDER. Yes; but I want to qualify that by saying that I I was not a party to it, to my own knowledge.

Senator VANDENBERG. But did you know, of your own knowledge, that that had been done?

Mr. WILDER. It looked like it from conversations I had had with other shipbuilders, but I did not think it was as raw as it was.

Senator VANDENBERG. In these previous cases, and based on your conversations with other shipbuilders, you were sure this was the system?

Mr. WILDER. Yes, sir.

Senator VANDENBERG. You never participated in it yourself?

Mr. WILDER. Not to my knowledge. The only place I could have participated was in the 1927 awards. I have explained the Saratoga and the Cramp set-up.

Senator VANDENBERG. There was a time in this story when you were in the good standing of this group, was there not?

Mr. WILDER. I do not know when it was. It must have been early.

LOBBYING FOR JONES–WHITE ACT

Senator Clark. You used to sit in with the boys before the Saratoga incident, Mr. Wilder?

Mr. Wilder. Yes; but there was not much to sit in on. I sat in with them on what we would do as to merchant-marine legislation. We were in constant discussion on that subject.

Senator Vandenberg. Did you not hear any reminiscence of the situation in those meetings?

Mr. Wilder. Not very much. It was there, and we could feel it.

Senator Clark. You kind of headed a lobby for them on that merchant-marine business, did you not?

Mr. Wilder. Yes; you bet your life I did. That was my own pet. But I had to keep them out of town. They did not agree with me on that.

Senator Clark. Would they send in a check once in a while?

Mr. Wilder. Oh, yes.

Senator Clark. You preferred their checks to their presence?

Mr. Wilder. You bet your life. We had some terrible fights on that, because I wanted to put something in that bill, and they would not let me, and had some trouble getting some compromises through—nothing but fireproof ships—our chief quarrel was on the question of fireproof ships. I wanted no ships built which were not fireproof. There was no use sending a firetrap out to sea. They have known how to build a fireproof ship ever since they could build a fireproof Pullman.

Mr. LaRouche. How much did you spend on that?

Mr. Wilder. I have never kept an accurate account; I suppose a quarter of a million.

Senator Clark. Now where did you get that?

Mr. Wilder. I used to live pretty good.

Mr. LaRouche. Did they spend that much on merchant contracts customarily?

Mr. Wilder. I never heard of them doing it before.

Senator Clark. Who were the other contributors?

Mr. Wilder. You know Mr. Shearer calls him the "man of language", Mr. Bardo.

Senator Clark. Mr. Shearer was associated in that enterprise?

Mr. Wilder. Surely.

Senator Clark. Who were the contributors to the fund besides yourself?

Mr. Wilder. Bardo ran the fund, and I think Westinghouse and the other shipbuilders put up some. He put that in in the Shearer case. It is in the record.

Senator Clark. I am asking you.

Mr. Wilder. I did not have anything to do with the collecting but I was doing the spending.

Senator Clark. Who gave it to you?

Mr. Wilder. From the company, the New York Ship.

Senator Clark. You mean the funds you expended were paid to the New York Ship by the other companies?

Mr. Wilder. Yes, sir.

Senator Clark. And you had no relation to anybody except the New York Shipbuilding Corporation?

Mr. WILDER. Right.

Senator BONE. You are referring now to the activities leading up to the adoption of the Jones-White Act of 1928?

Mr. WILDER. Yes, sir.

Senator VANDENBERG. For what did you spend this money, in a general way? I am curious.

Mr. WILDER. We were doing two things at once. I explained that to the Shortridge committee in detail, and gave them an itemized account of it.

Senator CLARK. Explain that to this committee again.

Mr. WILDER. O. K. We were doing two things at once. We were trying to form some legislation that both the Senate and the House would accept. Now, the Senate, under Senator Jones—he had given up hope of the private operators ever doing anything, and felt that the merchant marine had to be a Government affair, just as the Navy is. The House did not hold to that view. Mr. White was going to kill that bill. The ship operators and shipbuilders were opposed to the Jones bill, so that the proposal was made the Jones bill pass the Senate, and then they made the amendment in the House and sent it back to the Senate.

At the same time I had four committees of experts working on what was then known as the "superliner or 4-day liner." I was running an engineering office here. I cannot remember all of them, but on the naval construction side we had Prof. William Hovgaard, of the Massachusetts Institute of Technology, and Prof. Alfred C. Saddler, dean of Engineering School of Michigan; Theodore Ferris, of New York; Dr. Elmer Sperry; and Ernest Rigg.

We had four committees like that because we were proposing something new. This was about the time that this country went back on the seas and went back in a proper style.

We had a committee on naval architecture, 1 on marine engineering, 1 on transportation, and 1 on the economics of the thing.

Senator VANDENBERG. Is that what these expenditures were for?

Mr. WILDER. Nine-tenths of them. We were paying retainers and defraying their expenses. It was just like running a big engineering office. We had the models in the Washington tank, and had them also in the tank at Ann Arbor, at the same time developing the plan of the new ship. The Germans grabbed it and built the *Bremen* and *Europa*. They were darned nice, and when the dignitaries came in on the maiden voyage they wirelessed me and said, " We are riding on your ship and want to talk to you."

Senator CLARK. That does not tell us where you spent that money.

Mr. WILDER. Two hundred thousand dollars on the engineering work and fifty thousand dollars on the fact we were living here, but I did not spend it on any Senator.

Senator BONE. Mr. Wilder, can you tell us who drew the Jones-White Act?

Mr. WILDER. Mr. Jones drew the preamble.

Senator BONE. I am talking about the peculiar phraseology of that act. What attorney drew it?

Mr. WILDER. I do not know what attorney. I did an awful lot of work on it, and I am not an attorney. Hundreds of different people were working on it, and came in with contributions.

Senator BONE. Private shipbuilding companies?

Mr. WILDER. Private shipbuilding companies, and particularly ship operators.

Senator BONE. Who drew the provisions in the Jones-White Act authorizing the sale of these vessels at a tiny fraction of their cost to which was added a provision that if the Government took them back in case of war, they would pay the price the company wanted to exact for the boats?

Mr. WILDER. Is that in the Jones-White Act?

Senator BONE. That is in the Jones-White Act, in practical effect.

Mr. WILDER. I thought that antedated it.

Senator BONE. The going market value in the case of war. Do you remember that?

Mr. WILDER. No, sir. Before the House it was the cost less depreciation to date.

Senator BONE. Some of those ships were sold to private operators at less than 2 cents on the dollar?

Mr. WILDER. Oh, yes.

Senator BONE. And in the same act there was a provision which authorized that if the Government took them for war purposes, that they would have to pay the going market value.

Mr. WILDER. Are you sure that is not in the 1920 act?

Senator BONE. 1928.

Mr. WILDER. Because, as I recall it, the wording under the loan provision of the 1928 act was cost less depreciation to date.

Senator BONE. I wondered what clever chap developed that.

Mr. WILDER. Maybe Ira Campbell.

OFFER TO "FIX" NAVAL AWARDS

Senator CLARK. Mr. Wilder, there was testimony here yesterday by Mr. Calvin, and this morning by Miss Kitchen, as to a conference held at the Washington Hotel in 1933 between you and Mr. Gravem. Did you hear Miss Kitchen reading the statement which you dictated to her?

Mr. WILDER. Yes, sir.

Senator CLARK. Will you tell the committee your own recollection of the circumstances leading up to it?

Mr. WILDER. It is in that memorandum.

Senator CLARK. That memorandum would represent your recollection of the matter?

Mr. WILDER. Yes, sir. I was going to correct Miss Kitchen. The reason for the changes in that memorandum is that I submitted it to the parties who had been present, to see if they all concurred in it.

Senator CLARK. After preparing this memorandum, immediately after the conference with Mr. Gravem, you prepared a statement of your recollection of the conversation and submitted it to the others who had been present and heard the conversation, to ascertain whether or not their recollection of the conversation checked with your own?

Mr. WILDER. Yes, sir.

Senator CLARK. How long had you known Mr. Gravem prior to this conversation?

Mr. WILDER. Never saw him before.

Senator CLARK. You had never seen him before?

Mr. WILDER. Before the date of August 2.

Senator CLARK. What was the occasion of him coming to see you? Was it an ordinary conversation?

Mr. WILDER. No. As the memorandum says, Charlie Barrett called up and asked if he could bring a friend around. I had known Charlie Barrett for a long time, and I guess some of you know him.

Senator CLARK. Who is Charlie Barrett?

Mr. WILDER. He is president emeritus of the Farmers' Union.

Senator CLARK. He called up and said he wanted to bring a friend around?

Mr. WILDER. Yes, sir; and thought he might have something of interest.

Senator CLARK. What was the nature of the conversation?

Mr. WILDER. As outlined in this memorandum here.

Senator CLARK. Were there any preliminaries on the part of Mr. Gravem leading up to this matter before he called up on the telephone?

Mr. WILDER. The thing was something new.

Senator CLARK. On the first day there was nothing in the conversation, when Mr. Barrett was present, that would have led you to have anticipated any such proposition as he made on the second day, was there?

Mr. WILDER. Excuse me, but I do not think you grasp it.

Senator CLARK. Just what did he say, then?

Mr. WILDER. He said we would not get any awards unless we subjected ourselves to "chiseling" and the chiseler wanted $60,000 the first day. They found we were low bidders.

Senator CLARK. You mean that was in Mr. Barrett's presence?

Mr. WILDER. Yes, sir; and in Miss Kitchen's presence.

Senator CLARK. I was not in here when the first part of the statement was read.

Mr. WILDER. May I reread it to you?

Senator CLARK. Yes, sir; I would be glad if you would, because I would like to get it clear.

(The witness at this point reread the memorandum previously read into the record by Senator Vandenberg.)[1]

Senator CLARK. What you have just been reading was something that took place in the presence of Mr. Barrett?

Mr. WILDER. And Miss Kitchen, who was listening in the other room.

Senator CLARK. Did you make any arrangements at that time for a further interview with Mr. Gravem?

Mr. WILDER. He was going to see a friend and report back.

Senator CLARK. Did you arrange the time when he was to report back?

Mr. WILDER. No; we called him the next day to learn what he had done. We called him again after the awards had been made.

Senator VANDENBERG. Why?

Mr. WILDER. To see what we could learn; wanted to get it on the record.

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[1] See supra, p. 4744.

Senator Clark. There was nothing which surprised you in this information which he gave you as to the awards? This was subsequent to the time when you had given Mr. Frey the sealed envelope containing the awards, was it not?

Mr. Wilder. Yes, sir; but in giving Mr. Frey or Mr. Calvin that envelope, I did not include the 1,500-ton destroyers. The big fellows were not bidding on those destroyers. I guess there were 10 or 12 people bidding on them. They were not included in the big divide, the ones on which we were bidding; that is, the 1,500-ton. The others were the 1,850.

Senator Clark. Why were they not included in the list?

Mr. Wilder. Those big fellows would not have them. That was not what they were fighting about. They were not interested in what the smaller fry were doing.

Senator Clark. Who did get the 1,500-ton ships?

Mr. Wilder. Bath, Federal, and United.

Senator Clark. Bethlehem, New York Shipbuilding, and Newport News did not get any of those?

Mr. Wilder. No. I guess they bid on them. Did they, Mr. Raushenbush?

Mr. Raushenbush. Yes; Bethlehem bid.

Mr. Wilder. Of course, that is right.

Senator Clark. Bath, Federal, and United are known as "the little three"?

Mr. Wilder. Yes, sir.

Senator Clark. As distinguished from "the Big Three", Bethlehem, New York Ship, and Newport News?

Mr. Wilder. Yes, sir. You ought to include Electric Boat, because Electric Boat is in a class by itself.

Mr. LaRouche. Why were not "the big three" interested in those six 1,500-ton destroyers?

Mr. Wilder. No room for them.

Senator Clark. As a matter of fact, Mr. Wilder, the information which Mr. Gravem gave you as to collusive bidding was information which might be figured out of the air, the same as you figured information out of the air for the list which you gave to Mr. Frey. Is not that so?

Mr. Wilder. Yes, sir; but as to "chiseling", that was something new and rather shocking.

Senator Vandenberg. You are sure they used that word?

Mr. Wilder. Oh, yes, sir.

Mr. LaRouche. Did you think he could do it?

Mr. Wilder. I did not. I did not think it existed.

Senator Clark. In other words, he had no information, other than this statement of this gentleman himself, which would lead you to believe that he was doing anything except pulling information out of the air in the same way in which you had picked your information out of the air?

Mr. Wilder. Yes, sir. Correct, sir.

Senator Clark. It was a matter of common notoriety that that sort of thing was going on?

Mr. Wilder He gave enough of a hint so that I knew who the man was, or I knew the man I thought it was, and I knew that that man was sitting around with some of the shipbuilders.

Senator CLARK. They had quite an organization sitting around with the shipbuilders, did they not, Mr. Wilder?

Mr. WILDER. Yes, sir. One of the shipbuilders was staying in his apartment.

Senator CLARK. And now, Mr. Wilder, I will read a letter which you directed to the Secretary of the Navy on August 4, 1933, which was the day after your conversation.

Mr. WILDER. You did not read the one I directed on the 29th, and you wanted that.

Senator CLARK. I did not have that

Mr. WILDER. I gave it to you. Read the press statement first, and the letter immediately follows. That was the cause of it.

Senator CLARK. Mr. Wilder, for the purposes of identification, will you read the letter to the secretary? I simply want to identify that. It is not necessary to place it in the record, but I simply want to identify it.

Mr. WILDER (reading):

> On Thursday, August 3, shortly after the Navy released its awards, none having been awarded to Gulf Industries, Mr. Hyde phoned Mr. Gravem from room 620, Hotel Washington, and Mr. Gravem stated——

Senator CLARK. It is not necessary to read that again, Mr. Wilder. You heard Miss Kitchen read the memorandum?

Mr. WILDER. Yes, sir.

Senator CLARK. And that is the memorandum you dictated immediately after the conversation on August 3?

Mr. WILDER. And submitted to Mr. Calvin and the others.

Senator CLARK. And the changes by striking out were as a result of this comparison with the others who were present?

Mr. WILDER. With the others who were present. Mr. Calvin made his own as to the meeting.

Senator VANDENBERG. Did you submit the first memorandum to Mr. Barrett?

Mr. WILDER. Yes, sir.

Senator VANDENBERG. And Mr. Barrett agreed to that?

Mr. WILDER. Yes, sir.

Senator CLARK. Mr. Wilder, I will read you an extract from the Washington Herald, a newspaper published in the city of Washington, on Friday, July 28, 1933, headed "Bids to build new United States ships held too high—Navy may reject them all and construct vessels in own yards, concerns told", by Fulton Lewis, Universal Service correspondent.

> Strong probability the Navy may reject all bids received Wednesday for construction of three cruisers included in the new naval building program, developed yesterday.
>
> The vessels may be built in Government navy yards unless the private yards pare down their prices to a reasonable level.
>
> LOWEST IS $11,720,000
>
> The lowest bid for construction of one 8-inch-gun cruiser was $11,720,000, by the Bethlehem Shipbuilding Corporation. The lowest for construction of one of the two 6-inch-gun cruisers was $12,251,000, by the New York Shipbuiding Corporation. Both are 10,000-ton vessels, identical except for armament and minor structural details.

The last contract for such vessels was awarded December 6, when the Bethlehem Corporation contracted to build an 8-inch-gun cruiser for $8,196,000. The keel has just been laid.

Naval officials were frank in declaring the difference between these two figures is far more than is justified by the slight increase in steel and labor prices since December.

COMPROMISE OFFER

In the instance of the New York Shipbuilding Corporation, an additional offer of $11,657,000 was made, provided it was awarded both of the contracts for the 6-inch-gun cruisers. Even this figure, however, is out of line with the December contract, officials pointed out.

When they refer to the "December contract", they mean that awarded to Bethlehem of $8,196,000?

Mr. WILDER. Correct.

Senator CLARK (continuing reading):

Bids for other classes were closer in line with past costs. Engineering experts immediately started studies of them to report what ones should be accepted. Award of contracts is expected within 10 days.

In addition to the 3 controversial cruisers, the bids were for 2 aircraft carriers, 4 heavy destroyers, 7 light destroyers, and 2 submarines.

Now, based on that newspaper article, you wrote the Secretary of the Navy a letter, did you not?

Mr. WILDER. Through Senator Trammell.

Senator CLARK. How?

Mr. WILDER. I asked Senator Trammell to personally deliver it.

Senator CLARK. You did write to the Secretary of the Navy yourself?

Mr. WILDER. Yes, sir.

Senator CLARK. I will read the letter dated July 29, 1933 [reading]:

The honorable the SECRETARY OF THE NAVY,
Washington, D. C.

SIR: We notice in the press of Friday, July 28, a signed article which is headed "Bids to build new United States ships held too high—Navy may reject them all and construct vessels in own yards, concerns told."

We concur in this reported view of the Navy that bids in excess of $11,650,000 on these cruisers are excessive.

Gulf Industries can, on its present Pensacola shipbuilding site at Pensacola, construct such cruisers, in addition to the three destroyers, on which we are we believe, low bidder.

Gulf Industries' personnel has had the broadest experience in such cruiser design and construction. Therefore, Gulf Industries guarantees to submit, within 15 days, fixed price bids at sums less than $10,000,000 each for 1, 2, and 3 such cruisers; and to guarantee delivery of 36, 38, and 40 months respectively.

We trust that the above statement may be of value to the Navy Department in determining its action in this matter; and that the price herein quoted will be treated confidentially.

Very respectfully,

GULF INDUSTRIES, INC.
By LAURENCE R. WILDER,
Chairman Executive Committee.

That was the letter referred to by Senator Trammell in his letter to the Secretary of the Navy, was it not?[1]

Mr. WILDER. It was. In the inspection of Commander Duncan, which you will find in there, he said he would prefer to have cruisers built there.

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[1] See text, p. 4759, for Senator Trammell's letter to Secretary of Navy.

Senator CLARK. When was this conference to which you referred in which Admiral Land expressed the opinion that your yard was capable of building cruisers?

Mr. WILDER. Pardon me. The statement of Admiral Land was that the personnel was capable of building ships. It was about 2 months prior to that.

Senator BONE. I want to go back to the Jones-White Act for a moment, before we adjourn, to be sure I get the facts correctly. Your information is, Mr. Wilder, that the provisions of the Jones-White Act of 1928 were prepared by private shipbuilding interests; that is to say, the act itself was drafted outside by private shipbuilding interests, and the preamble drawn by the Senator?

Mr. WILDER. And section I.

Senator BONE. That is rather a general statement of the purposes, is it not?

Mr. WILDER. Yes, sir.

Senator BONE. And the rest of that was framed and formulated by private shipbuilding interests?

Mr. WILDER. And turned over at the time of the hearings before the Merchant Marine and Fisheries Committee.

Senator BONE. And adopted by Congress?

Mr. WILDER. Yes, sir.

The CHAIRMAN. All right, Mr. Raushenbush.

1933 NAVAL BIDDING

Mr. RAUSHENBUSH. Mr. Wilder, before we adjourn this morning, I would like to see whether we understand exactly what you have been saying about this 1933 bidding. May I outline it and will you correct me if I do not get the import of your testimony correct so far?

Mr. WILDER. May I ask that my secretary come up here to help me on that?

Mr. RAUSHENBUSH. Surely.

The CHAIRMAN. Miss Kitchen.

(Miss Kitchen thereupon came forward.)

Mr. RAUSHENBUSH. Mr. Chairman, since there has been so much discussion this morning about the bids put in, may I ask permission to insert at the very beginning of the hearing of today the official Navy figures on the bids, with the names of all the companies.[1] That will make the rest of the testimony much more clear.

The CHAIRMAN. It would be well to do that.

Mr. RAUSHENBUSH. Mr. Wilder, concerning the bidding on the light cruiser *Quincy* which carried on from 1932 and was completed in the early part of 1933. we find Bethlehem with a bid of $8,196,000, which is roughly $2,000,000——

Mr. WILDER. Nearly $2,500,000.

Mr. RAUSHENBUSH (continuing). Two and a half million dollars between its 1927 and 1929 bids for similar cruisers. We find the other members of the big three, the Newport News and New York Shipbuilding roughly $1.500,000 above Bethlehem, and yet somewhat lower than their 1927 and 1929 bidding.

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[1] See appendix, p. 4923, for Navy figures on bids and evaluations.

Mr. Wilder. Roughly $1,000,000 under; yes, sir.

Mr. Raushenbush. They are very fairly close, one with the other. As I understood your testimony, you explained that on the ground that for the first time United, and one of the companies not a member of the big three, had entered the picture with a bid that was apparently known to be lower, or was known that it was going to be lower than the normal bidding.

Mr. Wilder. It is very evident that they did not know how much lower or they would not have put in the " fighting bid " as I call it.

Mr. Raushenbush. That in the face of such competition, the bid of the company which you say was expected to get it, dropped about two and a half million dollars. Is that correct?

Mr. Wilder. Twenty-five percent.

Mr. Raushenbush. We come to the bidding in 1933, beginning with the armored cruiser *Vincennes.*

Mr. Wilder. Have you got the numbers?

Mr. Raushenbush. Later changed to 44. In which Newport News bid $13,800,000.

Mr. Wilder. Right.

Mr. Raushenbush. New York Shipbuilding bid $12,100,000.

Mr. Wilder. Check.

Mr. Raushenbush. And United bid on two bases, one of them $14,000,000——

Mr. Wilder. $14,600,000.

Mr. Raushenbush. $14,600,000, and Bethlehem was low with $11,720,000.

Mr. Wilder. Check.

Mr. Raushenbush. Would you explain that on the ground that they were expecting to get the two aircraft carriers? That is, would you explain the high bid of Newport News on that ground?

Mr. Wilder. Yes, sir. Have you got those figures?

Mr. Raushenbush. I am going to put them in in a moment. Would you explain the low Bethlehem bid on the ground that they had bid such in the early part of 1933 on the *Quincy* that they had to make it up?

Mr. Wilder. Yes, sir.

Mr. Raushenbush. Would you explain the New York Ship bid of $12,100,000, on the ground that they were protecting the Bethlehem bid?

Mr. Wilder. Yes, sir.

Mr. Raushenbush. Although that bid was roughly two and a half million dollars above their bid earlier in 1933?

Mr. Wilder. Are you going to read in the figures on the light cruisers?

Mr. Raushenbush. I am going to do that in a minute. What explanation do you give for the fact that United Dry Dock in the early part of 1933 had put in a bid of $9,525,000 and they now jump their bid by $5,000,000 to $14,600,000?

Mr. Wilder. Learned the error of its ways, sir.

Mr. LaRouche. What do you mean?

Mr. Wilder. Been in the ranks.

Mr. Raushenbush. That needs explanation, sir.

Mr. Wilder. It would indicate that peace had been made between the three big shipbuilders and the little fellows.

Mr. RAUSHENBUSH. You find no other way to explain a jump of over $5,000,000?

Mr. WILDER. No; I do not.

Mr. RAUSHENBUSH. Coming to the light cruisers, in 1933, we find the bids were put in on both a fixed-price basis and an adjusted-price basis, in which United is again high with $16,500,000, and you explain that that is true for the same reason you have just given?

Mr. WILDER. Same reason.

Mr. RAUSHENBUSH. Newport News is again one of the high ones with $15,100,000?

Mr. WILDER. Check.

Mr. RAUSHENBUSH. Do you explain that again they expected to get the two aircraft carriers?

Mr. WILDER. Check.

Mr. RAUSHENBUSH. Bethlehem is bidding $13,100,000; New York Ship is bidding $12,271,000.

Mr. WILDER. $12,251,000 on 1 and $11,657,000 on 2, on which basis the award was made.

Mr. RAUSHENBUSH. And the award was given on the basis of two ships to the New York Ship?

Mr. WILDER. For $11,657,000.

Mr. RAUSHENBUSH. Do we understand your testimony to mean that you understood Bethlehem and Newport News and United were all protecting the New York Ship bid in this case?

Mr. WILDER. Yes, sir; just as in the other case they protected Bethlehem, and I explained that the relationship of Bethlehem's bid for 1 heavy cruiser of $11,720,000, and New York Ship's comparable bid of $11,657,000 for the 2 light cruisers. There are only a few thousand dollars apart. No two estimators can do that, $11,720,000 and $11,657,000 for two. They are within one-half of 1 percent. That is too good.

Mr. RAUSHENBUSH. We come to the aircraft carriers, and find a bid for 2 from Newport News for $23,000,000, and a bid from Bethlehem for 2 of $24,185,000, and a bid from New York Ship of $24,270,000 plus.

Mr. WILDER. We have $24,268,000.

Mr. RAUSHENBUSH. The official figures will show that?

Mr. WILDER. Yes, sir.

Mr. RAUSHENBUSH. In this case the other two, Bethlehem and New York Ship are roughly $1,185,000 and $1,200,000 plus above Newport News?

Mr. WILDER. Yes, sir.

Mr. RAUSHENBUSH. Was your testimony to the effect——

Mr. WILDER. My testimony was to the effect that those were complimentary or protective bids.

Mr. RAUSHENBUSH. You made some remarks about the light and heavy destroyers, which I am not sure I followed you on, or did not follow you as closely as I should have. We find in the heavy destroyers that Bethlehem got 4 and New York Ship got 4. I wonder if you would repeat your remarks about those heavy destroyers in connection with the cruiser bidding.

Mr. WILDER. They were in conjunction. They were together along there. Is that nos. 356 to 363?

Mr. RAUSHENBUSH. The heavy destroyers of Bethlehem, getting four on a class II bid.

Mr. WILDER. What numbers?

Mr. RAUSHENBUSH. Three hundred and fifty-six to three hundred and sixty-three.

Mr. WILDER. O. K.

Mr. RAUSHENBUSH. You made some remarks in connection with that which I want you to recall, if you can, as to bidding high on the cruisers and low on the destroyers, in connection with labor costs.

Mr. WILDER. That, however, is not in this class of destroyer. That is in the 15-hundred-ton class.

Mr. RAUSHENBUSH. Oh, it is in the light class?

Mr. WILDER. In that letter which you had up there, or rather in Senator Trammell's letter to the President—we have not that one except in the press. Senator Clark has that, has he not?

Senator CLARK. What is that?

Mr. WILDER. Senator Trammell's letter to the President.

Senator CLARK. Here it is [producing paper].

Mr. WILDER. This is it.

Mr. RAUSHENBUSH. Is this in reply to the question concerning the heavy destroyers?

Mr. WILDER. No; the light destroyers, 15-hundred-ton.

Mr. RAUSHENBUSH. Three hundred and sixty-four to three hundred and seventy-nine?

Mr. WILDER. Yes, sir.

Miss KITCHEN (reading):

> I am unable to justify my own opinion to increasing the cruiser costs as indicated by the 1932 and 1933 bids, particularly when those bids are compared with the destroyer bids of 1931 and 1933. I am convinced that the cruiser bids should be rejected.

Mr. WILDER. Somewhere it is stated how much they were.

Mr. RAUSHENBUSH. The United had an adjusted-price basis of $3,400,000, for 2; Bath received 2 on an adjusted-price basis of $3,429,000; and Federal received 2 on an adjusted-price basis of $3,410,800.

Was your point there that these prices were lower than the 1931 figures?

Mr. WILDER. One bid of Bethlehem in that category was.

Miss KITCHEN. That is here.

Mr. WILDER. On page 16 it says: (1) Bethlehem Shipbuilding Corporation bid for one 15-hundred-ton destroyer, $2,728,500; and on July 26, 1933, Bethlehem Shipbuilding Corporation bid for an identical destroyer $2,670,000, or a decrease in price of $58,000.

Mr. RAUSHENBUSH. I do not follow those figures, Mr. Wilder. Could you go to the heavy destroyers and repeat any comments you made about those in connection with this bidding?

Mr. WILDER. What is it that troubles you?

Mr. RAUSHENBUSH. I want to find out if you consider the heavy destroyers a part of the picture which you have made and charged was a collusive arrangement at that time?

Mr. WILDER. Yes, sir.

Mr. RAUSHENBUSH. In what respect did the heavy destroyers fit into that picture?

Mr. Wilder. To compensate New York Ship and Bethlehem, or to make up the value somewhat near equal to what Newport News was going to get. Roughly, Newport News got $38,000,000 for two aircraft carriers, and you had also to divide up the heavy destroyers between the Big Three, between Bethlehem and New York Ship.

Mr. Raushenbush. Then you interpret the somewhat higher bid of Newport News on the heavy destroyers as being upon that arrangement?

Mr. Wilder. Part of that set-up.

Mr. Raushenbush. Is there any further comment on this bidding in 1933 that was made and on which I have neglected to question you, as far as the figures go?

Mr. Wilder. Yes, sir; this point on which we do not seem to be clear on light destroyers, and may I call your attention to this—"Bids received as published by the United States Guaranty Co.", which agrees with the other surety people at the time. It is a custom immediately after the opening to tabulate the bids. As you know, they sit in the front row at the opening.

Under "Destroyers 364 to 379, of 1,500 tons", as of July 26, 1933, the Bethlehem Shipbuilding Corporation put in a bid of $2,670,000, for one 1,500-ton destroyer. That bid was lower than Bethlehem's bid of $2,728,500 as of September 16, 1931.

I made the statement, sir, that they decreased their destroyer prices and that the decrease was such that it scarcely justified an increase in cruiser prices, as the rate of increase in labor costs for destroyers is infinitely higher than it is on cruisers.

The only justification for this Bethlehem bid going somewhere to this region [indicating on chart] would be work under the codes, and that labor was going to cost more. In other words, the thing is entirely inconsistent.

Mr. Raushenbush. But actually, you say, on their destroyer bids, they show they were actually willing to change the bid although the labor cost was greater proportionately than on the cruiser?

Mr. Wilder. Although your labor cost, per ton, just guessing at it, is five times as much on a destroyer as on a cruiser.

Mr. Raushenbush. Just one more question, Mr. Wilder. If the 1932–33 bid of Bethlehem of $8,196,000 was an honest bid, without agreement, does it not follow that the bids in 1929 and the bids in 1927 could not be characterized by the same word?

Mr. Wilder. Correct.

Mr. Raushenbush. That is all I have.

Senator Bone. Now, Mr. Wilder, when you were down here in 1928, joining with others in formulating the text of the Jones-White Act, I believe that you said that in connection with this engineering work, experimentation, and so forth, you spent a quarter of a million dollars.

Mr. Wilder. Yes, sir.

Senator Bone. Were the other private shipbuilding companies equally interested?

Mr. Wilder. No. I think New York Ship carried much the bulk of it.

Senator Bone. They carried the major burden?

Mr. Wilder. And I, myself.

Senator BONE. Were the other shipbuilding companies exhibiting a friendly interest in your activities?

Mr. WILDER. Fairly.

Senator BONE. They were not hostile to it?

Mr. WILDER. They were not hostile to it.

Senator BONE. Was Mr. William B. Shearer connected with your organization?

Mr. WILDER. Yes, sir.

Senator BONE. Was he interested in the Jones-White Act?

Mr. WILDER. No, sir.

Senator BONE. What was he doing down here in connection with it?

Mr. WILDER. He was not, to my knowledge, doing anything in connection with the Jones-White Act.

Senator BONE. He was not?

Mr. WILDER. No, sir. Mr. Shearer has been a gold mine of information to me.

Senator BONE. He had access to sources of information which were very valuable to you?

Mr. WILDER. He has followed this marine practice the world over for a great many years, and knows a hundred times more about it than I do.

The CHAIRMAN. Mr. Wilder, what of the 1934 bidding?

Mr. WILDER. I was not as close to it, Senator Nye, as I was to 1933, because I was not here, but it has exactly the same identification marks.

The CHAIRMAN. It has all the earmarks of practices that may have been resorted to in other years?

Mr. WILDER. That were resorted to in 1933. It is a lot rawer than 1933.

The CHAIRMAN. You mean the margins or the evidences?

Mr. WILDER. Both the margins and the methods.

The CHAIRMAN. Before taking a recess, the Chair should announce that the committee will desire the presence tomorrow morning at 10 o'clock of all witnesses who were asked to be here today. The committee will be in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:15 p.m., the committee recessed until tomorrow, Thursday, Jan. 31, 1935, at 10 a.m.)

INVESTIGATION OF MUNITIONS INDUSTRY

THURSDAY, JANUARY 31, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D.C.

The hearing was resumed at 10 a. m., in room 357, Senate Office Building, pursuant to recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Bone, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee; and F. W. LaRouche, investigator.

The Chairman. The committee will be in order. All right, Mr. Wilder.

TESTIMONY OF LAURENCE RUSSELL WILDER—Resumed

The Chairman. Mr. Wilder, I believe you wanted to correct some of yesterday's testimony or check up on it.

Mr. Wilder. I did, Senator.

The Chairman. Will you proceed, then, Mr. Wilder, in whatever way you desire to clarify the matter?

Mr. Wilder. There were one or two minor points. Miss Kitchen pointed out after I testified that she believed Mr. Barrett left before I was through the first conversation with Mr. Gravem, and she does not think that the first memorandum was shown to him. I believe I testified it was.

The Chairman. Just incidentally, I would like to say that Mr. Barrett called on the chairman of the committee and said very emphatically that he had not seen the copy of any memorandum.

Mr. Wilder. I believe that he is correct in that.

The Chairman. All right.

Mr. Wilder. The second point was that some of my associates have pointed out that in relation to the 1927 program, the new cruiser program, it was generally understood that we were to get, that is, New York Ship was to get, a cruiser, a new cruiser in consideration of taking over that Cramp job.

I would like to correct that testimony.

Mr. Raushenbush. Among whom was it generally understood, Mr. Wilder?

Mr. Wilder. One of my associates, who was in the yard at the time, said that it was generally understood in the organization. I presume, although I do not definitely recall it, among the shipbuilders and the Navy.

Mr. Raushenbush. One cannot have an understanding that the yard is to get a cruiser ahead like that without also having an understanding among the other two big yards as to price, can one?

Mr. Wilder. That would be true.

Mr. Raushenbush. You are speaking of the 1927 scout-cruiser program?

Mr. Wilder. Yes, sir.

Mr. Raushenbush. It was in that connection that Mr. Bardo was asked a series of questions concerning the fixing with Bethlehem of the oil guarantees. A letter from you to Mr. Bardo, labeled "Exhibit No. 1464", was entered in the record, and I ask you to look at that and see what you remember about it. [Handing paper to witness.]

Mr. Wilder. That had to do with the oil-consumption rate of those cruisers.

Mr. Raushenbush. The oil-consumption rate was an important part of the valuation?

Mr. Wilder. Yes, sir; there are very high penalties on that.

Mr. Raushenbush. And had an important part in the price situation, did it not?

Mr. Wilder. In evaluating the bid; yes.

Mr. Raushenbush. The point I am trying to make, Mr. Wilder, and get a check from you on, is this: That if in 1927, in connection with the bids on the scout cruisers, when the bidding was comparatively low related to bidding later on, it developed that those bids were arranged between you and Bethlehem and Newport News, as they must have been, if you had the advance understanding that you were going to get one of these cruisers; then the bids in the following years, which show that New York Ship as brought out in earlier testimony, had an estimate of about $700,000 lower than it had in the year 1927, that therefore the bidding in 1929 must have been equally prearranged, or New York Ship would not have been able to jump over its 1927 bid and still count on getting the ship.

Mr. Wilder. Yes, sir.

Mr. Raushenbush. Do you follow that?

Mr. Wilder. Yes, sir.

Mr. Raushenbush. Do you agree with it?

Mr. Wilder. I agree with it.

The Chairman. Had you finished any amending of yesterday's record that you had in mind?

Mr. Wilder. Yes, sir.

The Chairman. Tell us very briefly, as briefly as you can, again what your understanding was in 1933 concerning the plan as to the intent of the Navy to throw out the bids that year, that were originally placed.

Mr. Wilder. Senator Nye, I only know what was stated in that article which appeared in the Washington Herald and which was read into the record yesterday.

The Chairman. Yes, sir.

Mr. Wilder. In which the Navy was quoted as being entirely dissatisfied with the cruiser bids, the immense increase from $8,000,000 to nearly $12,000,000 in a period of about 7 months. It stated that their engineers were then at work on the problem of building these cruisers in navy yards, unless the private yards would materially reduce their bids.

The CHAIRMAN. Then we are to gather this: The naval authorities, according to your understanding, were very much distressed by reason of the tremendous increase in those amounts?

Mr. WILDER. Yes, sir; from $8,000,000 to nearly $12,000,000.

The CHAIRMAN. And had indicated that they might throw the bids out?

Mr. WILDER. The press statement said they would throw out the bids unless the private yards would materially reduce their prices?

The CHAIRMAN. Did they throw them out?

Mr. WILDER. No, sir; they were awarded exactly on those prices.

The CHAIRMAN. Why did not they go through with what was understood to be a threat to throw them out?

Mr. WILDER. It is my understanding there was a meeting—this press release I believe was the 28th of July, and the awards were the 3d of August——

The CHAIRMAN. The press release was from the Navy Department?

Mr. WILDER. Supposedly. It is a signed article which appeared in the Washington Herald. I only know what appeared in the press. That is what occasioned our writing the letter to the Secretary of the Navy that we were prepared, if he did throw them out, to build one, two, or three at less than $10,000,000 each.

Now, it is my understanding that there was a meeting at the Mayflower Hotel on Saturday evening, a dinner meeting, Saturday evening I believe would be July 29, at which the matter was discussed by the shipbuilders with the Secretary, and following that the admirals were instructed, Admirals Land, Robinson, and I do not know who the other one was—there were three—were instructed to fly to Hyde Park.

The CHAIRMAN. Were the admirals in attendance?

Mr. WILDER. No; they were not. The admirals, so far as I know, this is, of course, hearsay—I was not present—but I was so curious to know why the awards were made exactly on the bid prices, with no reduction.

The CHAIRMAN. The admirals were instructed to fly where?

Mr. WILDER. Hyde Park, and they went up there Monday or Tuesday following that meeting.

The CHAIRMAN. What further knowledge do you have in that connection?

Mr. WILDER. Merely the evidence, sir, that the awards were made exactly on the bid prices.

The CHAIRMAN. When?

Mr. WILDER. On August 3, no reduction.

The CHAIRMAN. Four days after the meeting at the hotel?

Mr. WILDER. Yes, sir; just about a week elapsed. You see that is between the opening of the bids and the final awards.

The CHAIRMAN. You say this is hearsay, that your knowledge of this is hearsay?

Mr. WILDER. My knowledge of that is hearsay.

The CHAIRMAN. Do you have any definite knowledge of that meeting at the hotel?

Mr. WILDER. I think you could readily obtain it from the hotel records, sir. It was a private dinner. The maître d'hôtel could give you that.

The CHAIRMAN. Were you, as a result of the letter of protest written by yourself to the Secretary of the Navy, invited to personally lay your complaint before the authorities?

Mr. WILDER. I was not.

The CHAIRMAN. You had no contact other than in the letter you wrote and in the acknowledgement you had from the Secretary?

Mr. WILDER. That is all, sir.

The CHAIRMAN. The question in my mind is not yet answered as clearly as I had hoped you might be able to supply the answer. Why were not these bids thrown out, in keeping with what was understood to be an intent to throw them out?

Mr. WILDER. Mr. Nye, if I may answer that a little at length, I think that the Navy were coerced, forced by political pressure into making those awards against its will. This has been going on a long time. These yards have tremendous financial forces behind them. If you trace back the hearsay of the post-Spanish War Navy, you will first go through the armor plate period, where the Navy was forced to build ships and place all private armor plate on them, whether they wanted that type of ship or not.

There was an investigation made, I think sometime just prior or during our entry into the War, and Congress, in answer to the Navy's plea, gave an appropriation to build their own armor plant.

In I believe, 1910, Bethlehem first went into shipbuilding. Up to that time there had been a question of forcing armor on the Navy. Then it started to purchase shipbuilding plants; first I believe the Fore River plant, and then Hollingswood and Sparrows Point, and I do not know when they bought Union Iron.

From then on, as the record shows, it has been poor ships that the Navy has been forced to take.

There was an instance in 1924, and I believe Admiral Koontz made a report on it.

Senator BONE. I want you to explain the word "forced." They do not seem to be forced, when I talked to them, and seem to be very glad to go ahead with the program. I would like to have you amplify that a little bit.

Mr. WILDER. You had a specific example here in a letter from Mr. Bardo to the Secretary of the Treasury. If the Secretary—I do not know that he did—responded to that pressure, he of course was in a very powerful position. Bethlehem had a man named Colonel Thompson, who had a palace out on Massachusetts Avenue, who was the armor-plate man. In 1924, some submarines were selected from Electric Boat, a Bethlehem subcontractor, which were the T-boats, and accepted and paid for and immediately decommissioned as unseaworthy, with the statement of the admiral that they were more dangerous to the crew than to the enemy.

So it goes down the long history of the thing, the political power used to force the Navy to do things that it itself would not do. I feel that the Navy is in a vice, controlled by these three big yards.

Senator BONE. How does this political force to which you refer work? Can you not enlighten us, so that we can enlighten the country? Tell us how it works. How do they apply the "heat" or the "squeeze", or however they term it?

Mr. WILDER. The best example is that example of Mellon. They are large organizations. They have considerable political force.

Senator BONE. I understand that, but how is it applied? I want to know how it is applied. It is all right to refer to it as "force", but that does not enlighten us. How do they apply this "heat" on ships? Do they come down and threaten Congressmen with political extinction if they do not go along? They cannot fire the admirals. Why does an admiral yield to that sort of force? He is in there for life. Why does he have to yield? Is it under threat that he will not be promoted, or how does it apply?

Mr. WILDER. There was an example, sir, of a man who I understand had more hours in submarines—they were then rated as they were in the air by the hours they had in them—and I think it was Commander Welsh, stationed at the New London Ship. He disapproved of some of the work that they were doing. He was told that if he did not pass it, he would be removed.

Senator BONE. Who told him that?

Mr. WILDER. I believe Mr. Spear.

Senator BONE. Spear in the Boat Co.?

Mr. WILDER. Lawrence Spear; yes, sir.

Senator BONE. He told him that he would be removed if he did not accept the work?

Mr. WILDER. Accept the work.

Senator BONE. All right.

Mr. WILDER. I think that the explanation is that a naval officer is not overly paid. He has a family, and let us say he settled down here with his family and puts his children in school. If he misbehaves, he is threatened to be sent to Guam.

The CHAIRMAN. Now, Mr. Wilder, according to the record, July 28, 1933, witnessed the appearance in the Washington Herald of a signed article in which the Navy was quoted as being dissatisfied with the bids which had been tendered for the cruisers. When was this meeting of which you speak?

Mr. WILDER. I believe Saturday, the 29th.

The CHAIRMAN. The following day?

Mr. WILDER. Does Saturday figure out the 29th? Have you a calendar there, sir?

The CHAIRMAN. No; I have no calendar.

Mr. WILDER. The Saturday following the opening of the bids.

The CHAIRMAN. At this meeting, who was in attendance?

Mr. WILDER. The representatives of the big three, and, I understand, the Secretary.

The CHAIRMAN. The Secretary of the Navy?

Mr. WILDER. Yes, sir.

The CHAIRMAN. Then, on the 3d of August, after what you understand to have been instructions to the admirals to go up to Hyde Park, the bids were awarded?

Mr. WILDER. Yes, sir. The awards were made exactly on the bid price; no reduction. You will notice in that article that the Navy is reported to have said unless the prices were greatly reduced, they would throw the bids out, and it was in the interim there that we offered to take the cruisers for $10,000,000 each. That is, if they had accepted our offer on the 3 destroyers and on the 3 cruisers, which we were in position to build, we would have saved the Navy about $7,000,000. There is nothing new in that, as I had done that previously on the *Saratoga.*

Mr. RAUSHENBUSH. Mr. Wilder, in the examination of Mr. Bardo the other day the question was raised as to whether the fact that some of the yards had certain of the merchant-marine vessels to build had any influence on their bidding, or protective bidding on the naval vessels. In 1930, for example, New York Ship had the *Manhattan* and *Washington*, two big merchant-marine jobs. Have you followed the bidding in those years carefully enough to make any comment on whether that influenced them, or would naturally do so, or do you have enough expert experience in the shipbuilding business to know whether that would influence them in trying to get ships on the bids at that time?

Mr. WILDER. I have not any too much information on that, Mr. Raushenbush, but I would say, rather, that the merchant ships were a separate thing, that is, they were a separate kitty. I believe one of my associates testified the other day that in the instance of the *Malola*, Mr. Langell called up the estimator for Cramp as to what the complementary bid was to be, what New York Ship's complementary bid was to be. In other words, the merchant ships are treated just as the Navy ships are.

Mr. RAUSHENBUSH. We find from the Black Committee files, that Mr. Bardo was questioned about it, and that on the bidding on the *Manhattan* and *Washington*, that Newport News and Bethlehem had bid exactly the same figure, which I believe was $9,750,000, and New York Ship had bid just a little under. And there was further discussion also on the agreement between certain of these shipbuilding companies, apparently on some of the other ships. A letter from Robert Haig of the Sun Ship to Mr. Bardo was introduced, appearing at page 6734 of the record showing that Newport News and Federal and Bethlehem had promised to go along on these Gulf Pacific boats, and he was trying to get New York Ship to do so.

Do you know anything about that as a customary practice?

Mr. WILDER. It evidently is, sir. You have developed a great deal of it, and I have dug out some myself. It apparently has been going on for as long as these shipyards have been together. You see it is easier now. Prior to the War there were quite a number of independent yards, that is, before Bethlehem bought them up, and now there are only three. When we get into the 1934 question, it is a little different.

LOBBYING FOR THE JONES–WHITE ACT

Mr. RAUSHENBUSH. When the Jones-White bill was being put through, did the American public at any time have any idea that that was what was going to happen; that a few shipbuilders would get together and agree on what their bids would be on the terrifically large merchant-marine program?

Mr. WILDER. No, sir; no, sir. The Jones-White Act has been to me a horrible disappointment. My own efforts, and my own desires, were to put us back on the high seas right.

At that time I had not had sufficient time to study the situation. I believed that we could not build American vessels at competitive cost. I have changed my view completely as a result of 4 or 5 years further study, that we are designed to build new, sound, safe, fireproof ships. It has been horribly abused. I am with Senator Bone if he wants to take it off the books.

Mr. RAUSHENBUSH. Were you aware, in that connection, that the vice president of the United States Lines, Mr. Sheedy, was apparently informing shipbuilding engineers that he was giving the Shipping Board incorrect information as to the British bidding on the ships, stating that he gave the amount of the bids from British yards to the Shipping Board at a figure lower than actual for mail-contract reasons?

Mr. WILDER. When you brought it out in the testimony, it was the first I heard of it. That is just the way the act has been treated, as evidenced in the Black and Post Office investigations.

Mr. RAUSHENBUSH. This was a measure put through for the purpose of securing adequate national defence, was it not, Mr. Wilder?

Mr. WILDER. Adequate defense; yes, sir.

Mr. RAUSHENBUSH. Here we come into a situation where the American public did not know that a considerable number of things were happening: First, that the shipbuilding companies were going to agree on what the prices on those ships would be; second, that the Shipping Board was going to be incorrectly informed by responsible shipping companies concerning English figures, for mail-contract purposes; and now we have a third thing that the American public did not know that the safety at sea would not be adequately covered by those ships built under that act.

Mr. WILDER. I offer you, Mr. Raushenbush——

Mr. RAUSHENBUSH. Offer it to the committee, please.

Mr. WILDER. I offer to the committee the Senate hearings on the safety of life at sea as a result of the London Conference, 1914. The London Conference on the Safety of Life at Sea was the outgrowth of the *Titanic* disaster. Mr. Homer Ferguson, among others, was a delegate to that conference. At that conference the question of the subdivision of ships was the prime consideration. Now these London conferences are not for. " how good can we build the ships ", but " how poor a ship are we permitted to operate, will we permit to enter our ports." The different countries have different problems. If you have got to carry a lot of pilgrims to Mecca, or you are carrying a lot of standing Chinamen, that is one thing, and carrying Americans is another.

Senator CLARK. Mr. Wilder, I do not think the committee is interested in hearing a speech.

Mr. WILDER. I beg your pardon. I meant to say, that they attended this conference—I am sorry I am quite heated because I put a lot of work in on this conference—and the *Mohawk* was sunk, and if we followed the conventions put down in 1914, the *Mohawk* would be afloat now.

Senator BONE. May I point out that that clause you spoke of yesterday about the recapture of ships, is an amendment and was not in the original act.

Let me at this point, Mr. Wilder, read this queer and peculiar provision of the Jones-White Act under which ships that have been sold to private ship companies for as low as one-seventieth of their cost—I have in mind some steamers sold to a line, which got a mail contract, and for hauling one letter across the ocean that they received almost the entire price of those boats. You are aware of that weird sort of picture, are you not?

Mr. WILDER. Yes, sir.

Senator BONE. Under the Jones-White Act which made that sort of raid on the Treasury, we find this sort of language [reading]:

> The following vessels may be taken and purchased or used by the United States for national defense or during any national emergency declared by proclamation of the President—

and it goes on to define these vessels which have been sold, on which loans have been made, and which are operating under these particularly juicy mail contracts that Senator Black referred to [reading]:

> Any vessel in respect of which an ocean-mail contract is made under title IV of this act, at any time during the period for which the contract is made.
>
> In such event—

that is in the event of the Government taking them for war purposes—

> * * * the owner shall be paid the fair actual value of the vessel at the time of taking or be paid the fair compensation for her use based upon such fair actual value.

In other words, it means if we sell one of these beautiful steamers to a private outfit, or make a loan to one of these outfits, and the Government has given them the vessel almost as an outright gift, and wants to take it back, they must pay the entire fair value price if they take it back.

Mr. WILDER. That is the way it was written.

Senator BONE. And they skinned the Government out of its eyeteeth in writing into law such sort of legislation?

Mr. WILDER. I would say they did.

Senator BONE. Is that typical of the patriotism of these gentlemen? Is that the sort of 100-percent Americanism that they boast of?

Mr. WILDER. Yes, sir. Might I suggest also that you might inquire of the Treasury Department who made the overnight loan at a quarter of 1 percent at the time that Stanley Dollar got his loans from the Shipping Board at one-quarter of 1 percent for 20 years? That loan provision was supposed to be at the Government's current rate of interest on similar loans. Unfortunately, it did not say "similar length." In other words, they made overnight loans and Congress finally had to fix a definite interest rate, so that these patriotic gentlemen have gotten these big loans at an interest rate of one-quarter of 1 percent, three-eights of 1 percent, and one-half of 1 percent.

Senator VANDENBERG. That has been corrected, Mr. Wilder.

Mr. WILDER. Yes, sir; that has been corrected.

Senator VANDENBERG. I introduced the legislation.

Mr. WILDER. I salute you.

Senator BONE. We must admit that there was a tremendous amount of this before that was corrected.

Mr. WILDER. Yes. sir.

Senator BONE. The boys got in the looting before it was corrected.

Mr. WILDER. They got in when it was hot.

Senator VANDERBERG. But the loans which they got at these cheap rates could be legitimized under the legislation as it then existed?

Mr. WILDER. You had to correct it; yes, sir.

Senator CLARK. Mr. Wilder, you testified that in connection with this Jones-White bill lobby you had spent approximately a quarter of a million dollars. I have been furnished with the record of the Black committee, and I find taken from the record of the New York Shipbuilding Co. you presented a claim to them of itemized expenses in the amount of $235,434.03. Is that about correct?

Mr. WILDER. About correct. I was speaking from memory, sir.

Senator CLARK. That refreshes your recollection? Among other items are the following, Carlton Hotel, $23,995.28. Who did you have stopping at the Carlton Hotel?

Mr. WILDER. We had all those committees for about 3 months.

Senator CLARK. As a matter of fact, you had a whole floor at the Carlton Hotel?

Mr. WILDER. We had a whole floor at the Carlton Hotel.

Senator CLARK. "Other Washington Hotels, $1,142.54." "John Schuette, $10,000." Who was he?

Mr. WILDER. He bought some patents on the German dirigibles. You remember at that time the *Akron* and the *Macon* were up and we had a hearing before a subcommittee of the Appropriations Committee of the House, and I told them that I wanted to bid on the dirigibles.

Senator CLARK. "Ivy Lee, $26,321.80." Who was Ivy Lee?

Mr. WILDER. Publicity.

Senator CLARK. He was a propaganda artist, was he not?

Mr. WILDER. Yes, sir; worked for the Pennsylvania Railroad and the Rockefellers.

Senator CLARK. "William B. Shearer, $10,150." Is that the same Shearer who was hired by the "Big Three" to go over and break up the Geneva Conference?

Mr. WILDER. He was hired by the "Big Three", but not to break up the conference. That is a controversial point.

Senator CLARK. That is a question of opinion. His own testimony showed he did.

Mr. WILDER. It is a question of opinion, but the Senators could not finish with him, and I do not think were fair to him. They called him in and questioned him and did not make a complete report.

Senator CLARK. That was in connection with his own claim for services that he did testify that that was what he was doing.

Mr. WILDER. He had a contract, growing out of that, from them, to come down here and act as their contact man, and they reneged on the contract. I had a war on that subject.

Senator CLARK. Was Mr. Shearer employed by you at that time?

Mr. WILDER. Yes, sir.

Senator CLARK. In what capacity?

Mr. WILDER. Advisor.

Senator CLARK. "Addison Foster (Washington representative), $2,802.64." What did he do?

Mr. WILDER. He sat in the Mayflower Hotel and talked to people. He formerly had been with the United States Lines as passenger traffic manager, and was on the economic committee.

Senator CLARK. "John E. Slater (treasurer), $15,383.51."

Mr. WILDER. At that time he was comptroller of the company. I guess part of his time for Washington services was charged to this account.

Senator CLARK. What did he do?

Mr. WILDER. Also on the economic committee. He had been professor of transportation at the University of Illinois.

Senator CLARK. "N. R. Parker (assistant secretary), $1,473.08." What did he do?

Mr. WILDER. He was in the company.

Senator CLARK. "C. L. Bardo, $1,034.20."

Mr. WILDER. Traveling expenses.

Senator CLARK. "L. Wilder, $37,860.81." What was that?

Mr. WILDER. Expenses.

Senator CLARK. "John Libby, $8,467.98." What did he do?

Mr. WILDER. Another economist.

Senator CLARK. "Frank Lord, $3,801.38." Who was he?

Mr. WILDER. He was a contact man.

Senator CLARK. An old Washington newspaper man, was he not?

Mr. WILDER. Yes, sir; attached with the Shipping Board.

Senator BONE. Mr. Wilder, yesterday, as I recall it, you testified that Mr. Shearer had nothing to do with this Jones-White lobby, and here is an item of expense for it.

Mr. WILDER. Mr. Shearer had nothing to do with that lobby, sir. Mr. Shearer advised me, helped me tremendously, and painted some pictures which we used—you might say the pictures were used as a part of the lobby.

Senator BONE. Political pictures?

Mr. WILDER. No, sir; pictures of ships.

Senator CLARK. Was Mr. Shearer a painter?

Mr. WILDER. Shortridge would not let me put them in.

Senator CLARK. "Comdr. Herbert Hartley, $9,607.87." Who is Commander Hartley?

Mr. WILDER. He had been on the *Leviathan* and was on the economics committee.

Senator CLARK. "Commandant United States Navy Yard, $3,250." Who was that?

Mr. WILDER. Model tests, tank tests.

Senator CLARK. "Mayo & Wright, $7,500."

Mr. WILDER. Rent.

Senator CLARK. Is that the same item that is in the other column as rent?

Mr. WILDER. Lord, I don't know, man. It is 6 years ago.

Senator CLARK. "H. C. Fadler, $2,498.57."

Mr. WILDER. Dean of engineering school, Michigan.

Senator CLARK. "Capt. E. W. Higgins, $2,722.50."

Mr. WILDER. Committee on economics.

Senator CLARK. Who is Captain Higgins?

Mr. WILDER. Used to be staff captain of the *Leviathan*.

Senator CLARK. "Noble & Harris, $2,416.67."

Mr. WILDER. Engineering in relation to dirigibles. They built the all-metal dirigibles.

Senator CLARK. "E. O'Brien, $2,960.66."

Mr. WILDER. E. O'Brien?

Senator CLARK. E. O'Brien.

Mr. WILDER. I do not remember.

Senator CLARK. An item of $3,000; I guess you would not. "E. H. Rigg, $1,473.67."

Mr. WILDER. He was the naval architect of New York Ship for drafting them.

Senator CLARK. "William Hovgaard, $1,313.81."

Mr. WILDER. Professor, marine engineering and naval architecture, Massachusetts Institute of Technology.

Senator CLARK. "J. W. Davis, $650."

Mr. WILDER. Patents.

Senator CLARK. After you left the Carlton Hotel, Mr. Wilder, you rented a house up on Sheridan Circle, did you not?

Mr. WILDER. 2306 Massachusetts Avenue.

Senator CLARK. How long did you have that house?

Mr. WILDER. Couple of years.

Senator CLARK. I see an item here of rent, $7,500. That was the rent on that house?

Mr. WILDER. Yes; I presume so.

Senator CLARK. Furnishings for the house, $25,000. That was for the shipping bill, I suppose. "Consultants, $24,479.55." Are they the same?

Mr. WILDER. No, sir; that must have been paid through the company.

Senator CLARK. "Publicity, $25,634.54."

Mr. WILDER. Printing pamphlets.

Senator CLARK. "Traveling, $2,444.14." "Washington office and supplies, $17,352.78."

Mr. WILDER. Are there two sets of accounts there?

Senator CLARK. Yes, sir. There may be some duplications. I am trying to find out about that. This column which I am now reading totals $125,928.88.

Mr. WILDER. As I recall, Mr. Bardo put into the record before I was on the stand certain itemized expenditures as they were itemized on the books of the company, and then I put in a supplementary one, so that you would have to cross the two. Mine was complete and included his, as I remember now.

Senator CLARK. This itemization which I am now reading totals $125,928.88.

Mr. WILDER. Was that submitted by Mr. Bardo?

Senator CLARK. This is from the records of the Black committee, as the result of their own investigation of the New York Shipbuilding files.

Mr. WILDER. Then, that would be what he submitted, and the other would be what I submitted. I submitted the $235,000, which would include his.

Senator CLARK. "Telegraph and telephone, $1,416.35; light and heat, $732.11; house supplies, $3,436.03." Who was living out at that house with you, Mr. Wilder?

Mr. WILDER. Mrs. Wilder and her sister were in residence there continuously and, of course, we had a number of guests from time to time.

Senator CLARK. "Servants, $6,931.77; food, $3,097.32; rent, $7,500; dirigible, $32,904.29."

What was the "dirigible"?

Mr. WILDER. We asked Congress, or rather we asked that we have the privilege of bidding on what subsequently they contracted for with the Goodyear Zeppelin, in connection with the *Akron* and *Macon*. We told them that was the shipbuilders job, and it was a sort of proprietary bill, as it appeared, and it resulted in its being opened up again for rebidding, and that necessitated us getting up a design, which was charged to this account.

Senator CLARK. I guess, Mr. Wilder, that dirigible proposition was simply window-dressing to help get the Jones-White bill through, was it not?

Mr. WILDER. No, sir.

Senator CLARK. You have never put forward a serious effort to get a dirigible?

Mr. WILDER. We made a serious effort to get in a design which the Navy would accept. You will find that in the record. It went in on the same condition.

Senator CLARK. We find several items for food, and so forth, how much money did you put up for wines and liquors during that period ?

Mr. WILDER. Plenty.

Senator CLARK. You have no record of that?

Mr. WILDER. No, sir.

Senator CLARK. Where was that accounted for?

Mr. WILDER. I think in "Miscellaneous supplies." [Laughter.] I much prefer to be questioned on that now than in 1929, because I might have had to say who had it.

Senator CLARK. How much of this expenditure were you reimbursed for, Mr. Wilder?

Mr. WILDER. I think I was about $100,000 out at the end of it.

Senator CLARK. As a matter of fact, the New York Shipbuilding Corporation contended later that you had exceeded your authority in the matter, and had included items such as "women's dresses" and things of that sort in their account, did they not?

Mr. WILDER. Did they? I did not know that.

Senator CLARK. That is all.

Senator BONE. Mr. Wilder, can you tell us whether or not Members of Congress visited your house up there to discuss the pending legislation, or the legislation which was proposed to be drawn?

Mr. WILDER. Yes, indeed; they came in socially.

Senator BONE. Socially. But as a result of these social calls, this Jones-White act was discussed and its proposed terms?

Mr. WILDER. Very little.

Senator BONE. Enough to know what it was all about?

Mr. WILDER. Oh, yes.

Senator BONE. Were they advised that the Government was going to sell the ships for a song and then buy them back at full price in the event of war?

Mr. WILDER. That was not in the original draft.

Senator BONE. When was that put in?

Mr. WILDER. I have been trying to find out this morning. If you call Senator White, you can find out. It was not in the bill at the time. I would never have stood for that then. There was a deliberate clause in the bill that in the case of national necessity the Government should take the ships back at cost, less depreciation to date.

Senator BONE. If you can express an opinion on the point, why is it the Government should pay more for those ships, in the event of war, when it would have to preserve itself, than the companies paid themselves? Do you know any reason?

Mr. WILDER. Certainly it should not. That has a very salty English smell to that clause. I do not know who wrote it.

Senator BONE. It is an English smell?

Mr. WILDER. Yes, sir.

Senator BONE. It seems typical of the Americanism that we have had developed in these hearings.

Mr. WILDER. I do not know. Great Britain built 8,000,000 tons of new ships since the war, and has not paid any money to us. There was the *Belgianland*, 20,000 tons. That old tub walked out of her own way. That is what we got.

Senator BONE. There is one other thing. You referred some time ago to a meeting at the Mayflower Hotel, and you said this morning that the Secretary of the Navy was at that conference.

Mr. WILDER. I have nothing but hearsay evidence to that effect.

Senator BONE. There is nothing in the way of assurance that you can give us to show that that is a fact?

Mr. WILDER. No, sir.

Senator BONE. Is that also true of the fact that these admirals were said to have flown to Hyde Park?

Mr. WILDER. That was probably stated. That was in the press.

Senator BONE. Were these admirals at this conference?

Mr. WILDER. They were not, according to the information I have. They were instructed as a result of the conference.

Senator BONE. How were the results of this conference brought to the attention of the Navy Department, if you know?

Mr. WILDER. I presume, if the Secretary was there, through him, sir.

Senator BONE. Your only knowledge of his being there is from gossip or hearsay?

Mr. WILDER. That is it.

Senator CLARK. Mr. Wilder, during the time that you had these extensive quarters up on Sheridan Circle, were naval officers frequently guests at your place?

Mr. WILDER. No, sir; some of my old friends came in occasionally. They were not involved in that. They would drop in to see me, but not often.

Senator BONE. Were the Members of Congress who came to your place those who were interested in the expansion of the Navy?

Mr. **Wilder.** No; that was not a naval lobby in any way.

Senator **Clark.** Did one admiral in particular not spend a good deal of time with you, Mr. Wilder?

Mr. **Wilder.** Bill Moffatt used to be there occasionally.

Senator **Clark.** Was there not another admiral also?

Mr. **Wilder.** I do not remember that.

Senator **Clark.** Admiral Magruder?

Mr. **Wilder.** Yes; he is an old friend.

Senator **Bone.** What was the attitude of the Navy Department or the admirals who were in charge down there, toward this White-Jones Act? Did they give it their apostolic blessing?

Mr. **Wilder.** No; they did not. It was strange. They were not particularly interested. I could not understand why, because it was such an important element to the national defense. I would say they were apathetic toward it. I tried to get them enthused, but I could not.

Senator **Bone.** Did they not try to stop this provision which would soak the Government 100 percent?

Mr. **Wilder.** If they did not, they should. I do not know how that got through.

Senator **Bone.** Nobody else seems to know, and I wondered if you could throw any light on it.

Mr. **Wilder.** It was not in the original bill.

Mr. **Raushenbush.** One more question on this, Mr. Wilder. These expenses which were put up by New York Ship and the other shipbuilders to put through the merchant marine as a matter of national defense, were they charged to labor or materials?

Mr. **Wilder.** Gee, I do not know.

Mr. **Raushenbush.** If they were not charged to labor and materials, would they be charged to overhead?

Mr. **Wilder.** I think they would go to overhead. It is a sales expense, where they belong, sale of ships.

Mr. **Raushenbush.** We had some discussion the other day on overhead being allotted to the cost of the cruiser, and with an estimate around $7,000,000, New York Ship was bidding almost $11,000,000, and the question was raised: "What was the difference for?" We were told a large part of it was profit and a certain percentage overhead.

Mr. **Wilder.** Do you know what the labor was in the $7,000,000 item?

Mr. **Raushenbush.** I do not, but it is in the record. It was about $3,000,000, as I remember it.

Mr. **Wilder.** The overhead in that period would be roughly 50 percent in the labor, which would be one and one-half million dollars, and eight and a half from eleven, and the difference is profit.

Mr. **Raushenbush.** The question asked of you now is whether all of these expenses shared by New York Ship, Bethlehem, and Newport News, would not be allocated to the cost of the cruisers in 1927, which were building in 1928, and the cruisers in 1929?

Mr. **Wilder.** They have got to be paid for somewhere.

Mr. **Raushenbush.** A certain amount of it would be allocated?

Mr. **Wilder.** Yes, sir.

Mr. RAUSHENBUSH. Would that apply today when the shipbuilders come down and take rooms here and there are such expenses? That would be a part of the overhead which would have to be charged?

Mr. WILDER. That is sales expense.

Mr. RAUSHENBUSH. In other words, the taxpayers of the country, in the amounts paid out for these naval vessels, are paying for whatever entertainment the shipbuilders give?

Mr. WILDER. Exactly as a taxpayer in buying an automobile pays for the automobile show. I differ with Mr. Charles Schwab and others on that. I think in the Shearer investigation, for example, they should have pointed out that every industry in this country appoints salemen and advertises, and charges it off to sales and advertising expense, and when you buy an automobile or a stick of gum, you are paying for that.

Mr. RAUSHENBUSH. I do not care for the analogy in this sense, Mr. Wilder. We are told that we must buy the naval vessels, and we are not told that we should buy gum. It is suggested to us that it would be good for our welfare if we did, but naval vessels are something which we must have, we are told. They are not exactly comparable. Here are the shipbuilders handling money, which in turn is going to be charged up to the taxpayers. So that these expenses that are run up for liquors, or paintings, or what have you, are going to be charged to the taxpayers, and should be regarded in a somewhat different light.

Mr. WILDER. They should be, but that would call for a consistent naval program on the part of Congress. If Congress would free the Navy from this influence—look at the position they are in. They want adequate national defense.

Mr. LAROUCHE. What influence do you mean?

Mr. WILDER. The influence of the "Big Three" and the satellites.

Mr. LAROUCHE. We are told, on the one hand, that the "Big Three" are a part of the scheme of national defense, and now, we are told, on the other hand, that they have to advertise. Presumably, if they are a part of the national defense, no advertising is necessary.

Mr. WILDER. If you had a consistent naval building program, no advertising would be necessary. If you followed the English system—we have no system, and let us say the English system is probably the best one—what would happen? They build in the navy yard a leader ship, first of a series of ships, and they work out the errors and they make the changes on one ship, and then on the following ships they open them up for competitive bidding, and the builder knows what he is up against exactly.

Senator VANDENBERG. They make the complete design?

Mr. WILDER. Yes, sir.

Senator VANDENBERG. The Government makes it?

Mr. WILDER. The Government makes it and they take the first ship, with all the extras and changes, and they are not made on a flock of ships, but only on one ship.

Senator VANDENBERG. There is no outside aid there?

Mr. WILDER. No, sir. If you want 20 destroyers, you build one and get it right, and you can eliminate sales expense, and your vessels would not cost you one-half as much as if you have got to do it the other way. You have a known design, which is not going to be changed in the course of construction, but they carry out a consistent program.

Now we are faced with the fact that for 10 or 12 years we have not built any vessels, and we have got to build some and have no designs. Obviously the boys get their hands in and this sort of thing occurs.

Senator CLARK. Mr. Wilder, this expenditure of $250,000 or $235,000, or whatever it was, was counted as a part of the overhead of the New York Shipbuilding Corporation and the other shipbuilding companies?

Mr. WILDER. Oh, yes; sales cost.

Senator CLARK. And when the time came to build naval vessels, of course that overhead was figured in the figures?

Mr. WILDER. They have got to figure it in somehow and get paid.

Senator CLARK. So that the expenditure of $7,500 for rent, and $25,000 for house furnishings for your house, actually were figured into the cost of naval vessels actually constructed?

Mr. WILDER. Naval and merchant vessels.

Senator CLARK. Yes, sir.

Mr. RAUSHENBUSH. Mr. Chairman, in connection with the evidence given a moment ago regarding the English system, it was brought out in the testimony of the Electric Boat Co. at the hearings that some English bidders, Vickers and Vickers-Armstrong, were also altering some bids according to the information furnished from the files of the Electric Boat Co. at the time.

TESTIMONY OF AXEL B. GRAVEM

OFFER TO "FIX" NAVAL AWARDS

(The witness was duly sworn by the chairman.)

Senator VANDENBERG. Mr. Gravem, will you state your full name, please, to the committee?

Mr. GRAVEM. Axel B. Gravem.

Senator VANDENBERG. When did you come to Washington?

Mr. GRAVEM. February 13, 1932.

Senator VANDENBERG. In what capacity?

Mr. GRAVEM. Counsel, Reconstruction Finance Corporation.

Senator VANDENBERG. How long were you with the Reconstruction Finance Corporation?

Mr. GRAVEM. Until July 15, 1933.

Senator VANDENBERG. What did you do there?

Mr. GRAVEM. I was in charge of the Legal Division, having to do with the building and loan associations, credit unions, did a certain amount of work on the legal matters pertaining to relief to States, went to Ohio for the purpose of discussing a code of building loan associations, at the request of the Governor of Ohio; did a certain amount of legal work on self-liquidating loans, a certain amount of work on the legal side of agricultural loans.

Sometime in March 1933, I believe on March 2, I was asked by the then chairman of the board to go to the Treasury and be one of the legal advisers or assistants to Secretary Woodin in connection with the bank holiday.

That comprised all of my duties with the Reconstruction Finance Corporation.

Senator VANDENBERG. You carried some rather substantial responsibility in the course of that time?

Mr. GRAVEM. Yes, sir; I should say so; of a legal nature.

Senator VANDENBERG. What did you do after you left the Reconstruction Finance Corporation on July 15, 1933?

Mr. GRAVEM. On July 15, I left the Reconstruction Finance Corporation and on July 19, an interval of 4 days, I opened up an office for the practice of law in the Tower Building, in this city.

Senator VANDENBERG. Who were your associates in that law office?

Mr. GRAVEM. I had no associates.

Senator VANDENBERG. Was it your own office?

Mr. GRAVEM. It was my own office.

Senator VANDENBERG. Shared with anyone else?

Mr. GRAVEM. Shared with no one else. There were one or two people who used to come in and want to telephone, but I shared it with no one else.

Senator VANDENBERG. Since you opened your office, have you made any change in your office relationship? Do you share your office now with anyone else?

Mr. GRAVEM. I have no office of my own now. Some time, I think in January or February of 1934, I became associated with the law firm of Tilson, Frodel, Stanley & McCuen. I am there now. I am not a partner. I am an associate there.

Senator VANDENBERG. Did you call upon Mr. Laurence Wilder in the Washington Hotel on August 2?

Mr. GRAVEM. I cannot say as to the date, but some time in the summer of 1933, I did call upon Mr. Wilder in the Washington Hotel.

Senator VANDENBERG. For what purpose?

Mr. GRAVEM. On that particular day Mr. Charles S. Barrett, formerly president of the American Farmers' Union, and I were walking down the street from Childs' restaurant. As we passed the Washington Hotel, Mr. Barrett said that "as long as we have some time, let us go up to the Washington Hotel. There is a man building ships up here on one of these floors." I said, "All right." Mr. Barrett then went into the hotel with me and telephoned up to Mr. Wilder's room and said, "This is Charles Barrett, the poor downtrodden farmer", which Mr. Barrett usually terms himself, and Mr. Wilder said, "Come on up"; and we went up.

Senator VANDENBERG. Mr. Gravem, why did it occur to Mr. Barrett or to you that an interview with a shipbuilder would be of interest?

Mr. GRAVEM. I had never heard of Mr. Wilder in my life until that day. It did not occur to me to be of any importance whatsoever. I do not know why it occurred to Mr. Barrett except that Mr. Barrett apparently was a director or an officer of Mr. Wilder's then company, the Gulf Industries Co., and Mr. Barrett and I had been good friends and I saw Mr. Barrett every day, and we had been out to lunch together, but I am not certain on that, but I believe we had just returned from lunch and Mr. Barrett said, "I want you to meet a man upstairs in the Washington Hotel who is building ships."

Senator VANDENBERG. Did you ever talk to Mr. Barrett about building ships?

Mr. GRAVEM. I never had talked to Mr. Barrett about building ships; that is to say, up to that time.

Senator VANDENBERG. You mean up to the time you had lunch that day?

Mr. GRAVEM. Up to the time we had lunch that day, I had never discussed building ships with Mr. Barrett.

Senator VANDENBERG. Did you discuss it at lunch that day?

Mr. GRAVEM. We did not, sir; by no means.

Senator VANDENBERG. But just out of the clear, Mr. Barrett thought you might be interested in going up to meet this shipbuilder?

Mr. GRAVEM. That is correct, sir.

Senator VANDENBERG. Had you ever heard of Mr. Wilder before?

Mr. GRAVEM. I had never heard of Mr. Wilder before that time, as far as I remember.

Senator VANDENBERG. Did Mr. Wilder apply for a R. F. C. loan while you were connected with the Reconstruction Finance Corporation?

Mr. GRAVEM. I did not know that Mr. Wilder had applied for a loan at the Reconstruction Finance Corporation, but I knew the Gulf Industries had applied for a loan at the Reconstruction Finance Corporation. I did not know then that Mr. Wilder was connected with Gulf Industries.

Senator VANDENBERG. So that you went up to see him without any previous knowledge about his connections, and without any particular interest in meeting a shipbuilder?

Mr. GRAVEM. That is absolutely so.

Senator VANDENBERG. Then, when you got upstairs, what happened?

Mr. GRAVEM. Do you want me to state exactly what happened when we got upstairs, how we met Mr. Wilder, and what he was doing, and all that sort of thing?

Senator VANDENBERG. I am interested particularly in your discussion with Mr. Wilder.

Mr. GRAVEM. Then I will not relate the circumstances of just what Mr. Wilder was doing. I will state exactly what happened.

Senator VANDENBERG. All right.

Mr. GRAVEM. Mr. Barrett and I went into Mr. Wilder's apartment, which I think was composed of two rooms. Mr. Barrett introduced me to Mr. Wilder, saying, "I want you to meet my young friend, Mr. Gravem, a lawyer here in Washington, who has just opened his office. You are doing a lot of things, Mr. Wilder, and perhaps Mr. Gravem may be able to help you some time." We stayed in Mr. Wilder's room for not more than 5 minutes, I would say. There were two other gentlemen there. There was no discussion of business whatsoever.

Senator CLARK. Who were the two other men, Mr. Gravem?

Mr. GRAVEM. I have no recollection except that my memory was refreshed yesterday when Mr. Wilder testified that a Mr. Hyde was there, and it is my recollection that there was a Mr. Hyde. There was also another gentleman sitting at a typewriter in the other room and he was typewriting. Those are the gentlemen I have recollection of being there.

Senator CLARK. This was on the first occasion?

Mr. GRAVEM. This was on the first occasion, sir. I want to make it definitely clear that I was in that room with Mr. Barrett and those gentlemen for not over 5 minutes.

Senator VANDENBERG. What did you talk about?

Mr. GRAVEM. I have stated what we talked about. I will repeat it. Mr. Barrett introduced me to Mr. Wilder and he told him he wanted to meet Mr. Gravem, a young lawyer who had been with the Reconstruction Finance Corporation and who might be able to be of some assistance to Mr. Wilder.

Senator VANDENBERG. What kind of assistance?

Mr. GRAVEM. Legal assistance. Mr. Barrett waved his hands, as I remember, and said, "Are you still building ships?", or something to that effect. Mr. Wilder—it was testified yesterday, and I think properly—was suffering from a cold. He was in bed at the time, or was at least sitting on the edge of the bed in his dressing gown. He did not seem to be in a position to say anything but just "hello."

Senator VANDENBERG. Did you suggest to Mr. Wilder that it was possible for you to help him secure some Navy shipbuilding awards?

Mr. GRAVEM. Absolutely not, sir.

Senator VANDENBERG. Did you say to Mr. Wilder that you had participated in securing the award of two destroyers for the Bath Iron Works?

Mr. GRAVEM. Absolutely not.

Senator VANDENBERG. Did not Mr. Wilder say to you that inasmuch as the Bath Co.'s bids were higher than Gulf Industries' bids, that he was surprised?

Mr. GRAVEM. He did not, sir. There was no reference to the Bath Shipbuilding Co. or any shipbuilding company, to my recollection, at that meeting.

Senator VANDENBERG. Did you suggest to Mr. Wilder that you had a friend who was a "chiseler" and that if Mr. Wilder would subject himself to this "chiseling" your friend could get him an award?

Mr. GRAVEM. I did not, sir.

Senator VANDENBERG. And that without a little of this "chiseling" there would not be any award?

Mr. GRAVEM. I did not, sir.

Senator VANDENBERG. You had some familiarity, however, with what had been going on in connection with shipbuilding bids and contracts, had you not?

Mr. GRAVEM. I had some realization or knowledge of what was going on, largely obtained from the newspapers, and largely obtained from a friend of mine.

Senator VANDENBERG. Who was the friend you were speaking of?

Mr. GRAVEM. The friend I was speaking of was Arthur P. Homer, a man whom I have known for some 12 years, and he has known my wife since she was 2 or 3 years old, and incidentally saved my wife's life in an explosion in a motor boat. That is the man I had in mind.

Senator VANDENBERG. Had you talked with Mr. Homer about these naval bids at any time?

Mr. GRAVEM. Prior thereto; no, sir.

Senator VANDENBERG. Mr. Wilder did not ask you at that time who your friend was, did he?

Mr. GRAVEM. There was no discussion of my friend. There was no discussion of business. He asked me nothing of a friend.

Senator VANDENBERG. Did you tell Wilder when you left that you would communicate with your friend and see him later about this arrangement?

Mr. GRAVEM. I did not, sir. There was no talk of any arrangement, and there was no talk about a friend. Consequently, I could not talk about seeing him later on something which had not been talked about.

Senator VANDENBERG. Did you tell him in the 20 months you had been here you had made some valuable contact and learned the ropes?

Mr. GRAVEM. No.

Senator VANDENBERG. That you had made some contact?

Mr. GRAVEM. No more than anybody else would have made in 20 months. I worked very hard at the R. F. C. and, as I recall, every Saturday and Sunday until about 10 or 12 o'clock.

Senator VANDENBERG. Did you ever hear about Senator Trammell's letter concerning collusion in naval bids?

Mr. GRAVEM. I never heard of that letter until yesterday.

Senator VANDENBERG. You had never talked to Mr. Wilder about it?

Mr. GRAVEM. I had never talked to Mr. Wilder about Senator Trammell's letter. I heard of it yesterday for the first time.

Senator VANDENBERG. Then after a few minutes' casual conversation you left?

Mr. GRAVEM. I did, sir.

Senator VANDENBERG. After you left, did you go and see Mr. Homer?

Mr. GRAVEM. Not just after I left, but about 4 or 5 days later. I do not recall the exact number of days.

Senator VANDENBERG. Never mind that. Within the next 24 hours did you go to see Mr. Homer?

Mr. GRAVEM. I did not, sir.

Senator VANDENBERG. Did you go back to see Mr. Wilder the next day?

Mr. GRAVEM. No, sir; I did not on the next day.

Senator VANDENBERG. When did you go back to see Mr. Wilder?

Mr. GRAVEM. I went to see Mr. Wilder, if my recollection is correct, about a week later.

Senator VANDENBERG. If this first interview was on August 2——

Mr. GRAVEM. I do not recall that date, sir.

Senator VANDENBERG (continuing). And if it is testified by all concerned that the next interview was on August 3, you say that that is a mistake?

Mr. GRAVEM. It is a mistake. May I at this point, Senator, ask a question?

Senator VANDENBERG. What about?

Mr. GRAVEM. I would like to ask a question in connection with this particular matter. Perhaps after asking the question, you can tell me whether it is proper. In view of the fact that my character as a lawyer has been subjected to considerable attack by Mr. Wilder and his associates, and in view of the fact that certain statements have been made, apparently in concert, and apparently by a memorandum about me and about this first conference, which you have now completed asking about, may I at this point introduce into the records of this hearing an affidavit signed yesterday by Mr. Charles Barrett with reference to the testimony given by Mr. Wilder, and which substantiates what I have just been saying?

Senator VANDENBERG. This is an affidavit of Mr. Barrett, who was present at the first conference?

Mr. GRAVEM. Yes, indeed, sir.

Senator VANDENBERG. I think it is legitimate. You can present it.

Mr. GRAVEM. This affidavit was signed yesterday by Mr. Barrett, Charles S. Barrett. [Reading:]

District of Columbia, ss:

Charles S. Barrett, being duly sworn deposes and says:

That he is the Charles Barrett mentioned in the testimony of Mr. L. Wilder at the hearing held today before the Senate Munitions Investigating Committee.

That he was present at a meeting in Mr. Wilder's room at the Washington Hotel with Mr. Gravem in the summer of 1933 and that he was present at only one such meeting and never was in the presence of Mr. Wilder with Mr. Gravem at any other time.

That at such meeting, which did not last over 5 or 10 minutes, there was no discussion whatever of shipbuilding contracts or an offer by Mr. Gravem to do anything for Mr. Wilder or Gulf Industries, Inc., in connection with securing shipbuilding contracts.

That neither the sum of $60,000 or any other sum was mentioned and that there was no discussion of any person by Mr. Gravem and termed by him as a "chiseler", "fixer", or otherwise.

That Mr. Wilder at no time submitted a memorandum of the meeting for Mr. Barrett's approval and that he, Mr. Barrett, did not know of any memorandum ever having been made of what transpired at that meeting.

Further deponent sayeth not.

CHARLES S. BARRETT.

Dated January 30, 1935.

Subscribed to and sworn to before me, a notary public, this 30th day of January 1935.

[SEAL] ELVA RICHARDY.

Senator VANDENBERG. There was no charge that the $60,000 was mentioned in the interview when Mr. Barrett was present. It was subsequent.

Mr. GRAVEM. May I recall, Senator, that at yesterday's meeting a memorandum was read into the record here by the secretary of Mr. Wilder, that at that first meeting a matter of $60,000 was discussed by me?

Senator VANDENBERG. It is not in the first memorandum. We are coming to that now in the second memorandum, respecting the second day's conversation.

Now, as I understand it, you deny that this conversation occurred the next day?

Mr. GRAVEM. That which conversation occurred the next day?

Senator VANDENBERG. The second conversation with Mr. Wilder.

Mr. GRAVEM. It did not occur the next day. That is correct.

Senator VANDENBERG. And all of these gentlemen who participated in the conference and say that it occurred on August 3 are in error?

Mr. **Gravem**. Senator, I have no recollection that it was August 3. It was in the summer of 1933. It may or may not have been August 3.

Senator **Vandenberg**. But it was not the next day, according to your statement?

Mr. **Gravem**. It was not the next day, sir.

Senator **Vandenberg**. How did you happen to have your next meeting with Mr. Wilder?

Mr. **Gravem**. About a week after discussing the matter with Mr. Barrett, or about a week after going with Mr. Barrett to Mr. Wilder's hotel room, I was in the office of Mr. Arthur P. Homer, in the Washington Building. Mr. Homer is a man whom I have known, as I said before, for about 12 years. I went there on some other matters—I constantly called on Mr. Homer—and the thought occurred to me that perhaps Mr. Homer, being experienced in the shipbuilding business, might know something about this Gulf Industries Co.

Senator **Vandenberg**. You say you constantly called on Mr. Homer. What was the occasion of your constant calls on Mr. Homer?

Mr. **Gravem**. Mr. Homer is an old friend of mine and my family. Mr. Homer is very close to us, and I saw Mr. Homer I think at that time perhaps an average of once a week, and sometimes go 2 or 3 months, and not see him.

Senator **Vandenberg**. In all these conversations to which you refer, did you ever talk about ships with him?

Mr. **Gravem**. Prior to the time I am now speaking of, I had not discussed shipbuilding with Mr. Homer.

Senator **Vandenberg**. But you are now about to discuss ships with Mr. Homer?

Mr. **Gravem**. Yes, sir.

Senator **Vandenberg**. All right, go ahead.

Mr. **Gravem**. At this meeting with Mr. Homer, on this particular day, I asked him whether he knew anything about Gulf Industries, Inc. Mr. Homer threw up his hands, made a gesture. He said, "Yes, they have not got anything." I believe that was testified to yesterday by Mr. Wilder, that they did not have anything.

Senator **Vandenberg**. That is your conclusion. You just tell your story and we will draw our own conclusions.

Mr. **Gravem**. Mr. Homer stated that Mr. Wilder's company had a bit of shipyard down in Florida, had no personnel, had no organization, and had no financing; that they needed something like $30,000,000, in view of the fact that they had applied to the R. F. C. for a loan of $30,000.000; that Mr. Wilder had been trying for some time to do a shipbuilding business; that he had been connected with the New York Shipbuilding Co., I believe, and several other shipbuilding companies, the American Brown Boveri Co., which is the holding company or parent company of the operating company.

Mr. Homer stated that there was nothing he could do for Mr. Wilder. Thereupon, I said to Mr. Homer, "You have had a great deal of experience in the shipbuilding business. You have been with the Bethlehem Steel Co. and various other shipbuilding companies, and perhaps this is a situation which you could take hold of and make something out of the company"—I do not mean money, but make something for the company.

Mr. Homer stated that he did not see that there was anything that could be done in connection with Mr. Wilder's company, as that company had nothing.

I think I thereupon asked him, "If they had adequate financing, and if they had adequate personnel and organization, could anything be done?", and Mr. Homer said, "Well, if they could put themselves in good shape, perhaps they could bid for shipbuilding contracts like anybody else."

Mr. Homer then went on to say that the shipbuilding business of the United States was apparently in the hands of four or five companies, and that there were only four or five companies that were capable of building ships; that it took a very high-grade personnel and capitalization and equipment to bid for ships; that this took years of training, years of organization, and years of experience and management. Mr. Homer stated that Mr. Wilder's company had none of these things.

I said to him, "But this seems such a particularly good opportunity for someone that is adequately financed to break into this business."

Mr. Homer did not pay very much attention to it, but thought that if Mr. Wilder and his company could get themselves adequately financed, he might then be in a position to help them in the matter of preparing specifications and bids for Government work.

I have no recollection of anything further being said at that meeting with Mr. Homer.

Senator VANDENBERG. Was this conversation with Mr. Homer after the 1933 bids had been opened?

Mr. GRAVEM. I do not know when the 1933 bids were opened. I can only say that it was about a week after I had talked to Mr. Wilder.

Senator CLARK. Was anything said about the Bath Iron Works in that conversation with Mr. Homer?

Mr. GRAVEM. In that conversation with Mr. Homer nothing was said about the Bath Iron Works. I had met Mr. Newell, the president of the Bath Iron Works, in Mr. Homer's office some 4 months before, or perhaps 6 months before. There was nothing said about the Bath Iron Works.

Senator VANDENBERG. Was there nothing said in that conversation about the general situation with respect to the Navy's bids?

Mr. GRAVEM. There was not, so far as I remember.

Senator VANDENBERG. You are talking to Mr. Homer about the possibility of injecting a brand new shipbuilding company into the naval bidding?

Mr. GRAVEM. That is correct.

Senator VANDENBERG. At the very time when naval bidding is in progress, and you are discussing with Mr. Homer whether or not this new bidder might not have some chance at some of this business, and yet there is no discussion whatever respecting the bidding itself?

Mr. GRAVEM. I did not know that bids were then in process. There was no discussion of the bids themselves at that time.

Senator VANDENBERG. Mr. Homer volunteered all this information about Mr. Wilder, but volunteered no information whatever about the bidding with which he was connected?

Mr. Gravem. None whatever. Mr. Homer volunteered about one-half an hour's statement to me on the technical difficulties of building naval vessels, particularly emphasizing the triaton control.

Senator Vandenberg. He talked to you about a half an hour about this problem without ever once mentioning the fact that these large contracts were either just let or about to be let?

Mr. Gravem. Absolutely; he did not discuss any contemporaneous, or future, or past bidding on contracts.

Senator Vandenberg. Did you know that he was interested in some of these shipbuilding operations?

Mr. Gravem. I did not know it at that time. I knew it later.

Senator Vandenberg. If you did not know he was interested in it, why did you talk to him about it?

Mr. Gravem. Because I knew Mr. Homer had been a naval architect since 1911, and I knew Mr. Homer had gone to England in 1917 as a naval expert. I knew he went to the Admiralty in England and performed some very technical services, and that he was technically qualified as a shipbuilder.

Senator Vandenberg. You were quite familiar with Mr. Homer's general record, and you were quite close to him in a friendly sort of way?

Mr. Gravem. Yes, indeed.

Senator Vandenberg. Then you must have known that Mr. Homer was living at the time with one of the officers of the Bath Iron Works, did you not?

Mr. Gravem. I did not know that; no. I do not know it now.

Senator Vandenberg. All right. You have told of your interview with Mr. Homer, and you have not talked about anything but Mr. Wilder.

Mr. Gravem. I mean to say by that, sir, that I had not talked to him about anything except Mr. Wilder. I told you, Senator, that I talked to him about naval construction for about a half hour, and Mr. Homer told me a great deal about the technical side of shipbuilding.

Senator Vandenberg. But he told you nothing whatever about the bidding which was about to be done?

Mr. Gravem. Nothing whatever.

Senator Vandenberg. All right; then what happened?

Mr. Gravem. About a day or two afterward—I cannot say exactly—I telephoned to Mr. Wilder. Mr. Wilder testified that he telephoned to me or Mr. Hyde did. That is not so. I telephoned to Mr. Wilder and merely asked if I could go down to see him. I think that was at some time about 8 days or a week after my first talk with Mr. Wilder.

Senator Vandenberg. Why did you want to see Mr. Wilder again?

Mr. Gravem. I wanted to see Mr. Wilder again because Mr. Homer had told me that if Mr. Wilder got himself adequately financed, and if he had personnel and had equipment, that he might be able to bid on these contracts that might be next or might be coming along some time in the future.

Senator Vandenberg. Why did you think Mr. Wilder would be interested in hearing from you specifically on that matter, as he had not said anything about it at the first interview?

Mr. Gravem. Because I knew Mr. Wilder had a shipyard he could not finance in Florida, and that only 18,000 tons of private shipbuilding had been built in that year. Every bit of the tonnage built in that year was naval tonnage. The conclusion was obvious that the only purpose of Mr. Wilder's shipyard was to bid on naval vessels.

Senator VANDENBERG. The situation is, that after having had a 5-minute conversation with Mr. Wilder, 10 days before, in which there was no discussion of business whatever, you concluded that you wanted to volunteer some information to Mr. Wilder about his situation?

Mr. GRAVEM. Mr. Barrett had indicated that I might be of some help to Mr. Wilder, and it was in pursuance of that thought that I went back to Mr. Wilder. I thought myself it might be well to have independent shipyards come into the situation, as it was so closely held by 4 or 5 or 5 or 6 companies.

Senator VANDENBERG. You called on Mr. Wilder and what did you say to him?

Mr. GRAVEM. I called Mr. Wilder and I do not believe Mr. Wilder was in at that time. Mr. Wilder's office called back later on and said, "Come on down."

I went down to the Washington Hotel a little later, and I think I was there 10 minutes or perhaps 15. At this time I said to Mr. Wilder, "How are you getting along building ships down in Florida?" Mr. Wilder merely intimated, "We are getting along all right."

Senator VANDENBERG. You asked these questions because of the things Mr. Homer said to you?

Mr. GRAVEM. I cannot say why I asked those questions, Senator. That is 18 months ago. I am relying on my recollection and not on a memorandum.

Senator CLARK. Wilder had not said anything to you about his financing at all before, had he?

Mr. GRAVEM. I knew Mr. Wilder had been attempting to finance for a long time, and knew he had not succeeded.

Senator CLARK. After this casual visit which you say you had the first time, you called him up and opened up the conversation about finances?

Mr. GRAVEM. Yes, sir; because Mr. Homer told me several days prior thereto that if Mr. Wilder could get himself financed and get an organization in shape, that he might be in position to do business.

Senator CLARK. In other words, if I understand Homer's proposition correctly——

Mr. GRAVEM. Homer made no proposition, sir.

Senator CLARK. Your proposition on behalf of Homer——

Mr. GRAVEM. I was not authorized to represent Mr. Homer.

Senator CLARK. I understand, but you say you went down and opened up the business of Wilder's financing and personnel, as a result of a conversation with Homer.

Mr. GRAVEM. That is right.

Senator CLARK. It was your idea that Wilder could go out and get 30,000,000?

Mr. GRAVEM. It was my idea that Wilder could go out and get 30,000,000.

Senator CLARK. Did you not say that Homer said he needed $30,000,000?

Mr. GRAVEM. No, I did not, sir.

Senator CLARK. What is the $30,000,000?

Mr. GRAVEM. $30,000,000 came from the application which I understand Mr. Wilder made at the R. F. C. for a loan.

Senator CLARK. Put it in your own words. If Wilder could go out and raise money enough to be adequately financed and have a personnel and satisfy Mr. Homer, and had a ship to build, then he would have the inestimable privilege of hiring Mr. Homer to draw a design for it. Is that your idea?

Mr. GRAVEM. No, sir; I have not been asked about that. I will talk about that now, if you want me to.

Senator CLARK. All right.

Senator VANDENBERG. Before you come to that, how does it happen that when the investigators of this committee interviewed you in the first instance, you did not remember any of these conversations with Mr. Homer in the detail which you have now given. You seem to have refreshed your recollection.

Mr. GRAVEM. I will answer that question, Senator. I have not asked Mr. Homer——

Senator VANDENBERG. I am not asking you that. I am asking how it happens that you can tell us things in detail which you could not tell our investigators 4, 5, or 6 weeks ago?

Mr. GRAVEM. I am going to answer your question. I have refreshed my recollection as far as I could with Mr. Homer yesterday, after this hearing, at 2:30 in the afternoon, and I intentionally did not go near Mr. Homer since November 28, and I remember the date, because it is the day before my birthday, and I stayed away from Homer and went there yesterday at 2:30 in the afternoon, when I was asked to be here to be called on yesterday at 10.

Senator VANDENBERG. You went to Mr. Homer after you heard the memorandum read?

Mr. GRAVEM. After I heard Mr. Wilder testify on that conference, after Mr. Wilder stated what it was about. That was because Mr. Wilder made a misstatement yesterday under oath, which was not correct, and I went to Mr. Homer, because I realized that everything that Mr. Wilder said was not truthful, as far as that conference was concerned.

Senator VANDENBERG. Let us not have any argument on the subject. We are after information. What is it which refreshes your recollection, I repeat, which refreshes your recollection on these conferences? Is it what Mr. Homer said yesterday?

Mr. GRAVEM. No, sir.

Senator VANDENBERG. What is it?

Mr. GRAVEM. When a person is charged with the things that I am charged with by Mr. Wilder, he will do everything he can to refresh his recollection as to what happened.

Senator VANDENBERG. That is right.

Mr. GRAVEM. I have tried to the best of my ability and effort to do so, and Mr. Barrett came from Georgia yesterday, a sick man, to help me out in this particular. Mr. Barrett came up to refresh my recollection and discussed the matter with me, and

I have done everything I can to refresh my recollection, not being supplied with memoranda which were dictated by Mr. Wilder after the meeting.

Senator Vandenberg. How do you refresh your recollection regarding any conversations with Mr. Homer, except as you discuss it with Mr. Homer?

Mr. Gravem. I did everything I could to remember what was said, and I went to see Mr. Homer and definitely after the hearing yesterday, which is definite proof, I suggest, Senator, that there was no effort on my part to check notes with Mr. Homer, because I was to be called on the stand yesterday.

Senator Vandenberg. In your conversation with Mr. Homer before the second interview, did you suggest to him a 50–50 split on any arrangement you could make with Mr. Wilder?

Mr. Gravem. Definitely not.

Senator Vandenberg. If that is Mr. Homer's recollection, Mr. Homer is in error; is that right?

Mr. Gravem. I would say, sir, Mr. Homer would be in error.

Senator Vandenberg. Did you talk about that with Mr. Homer yesterday?

Mr. Graven. No, sir; I did not.

Senator Vandenberg. All right. You went back to see Mr. Wilder. What happened?

Mr. Gravem. So far as I can remember, when I went back to see Mr. Wilder, I said to Mr. Wilder, "If you are in a position to finance your plant, to get trained personnel, to get the proper equipment, it would seem to me that you should be in a position to get your share of shipbuilding business in spite of the 4 or 5 companies that are apparently to have the business."

Senator Vandenberg. You are telling Mr. Wilder now the things which Mr. Homer told you?

Mr. Gravem. You asked me to state what I told Mr. Wilder, and that is what I told Mr. Wilder.

Senator Vandenberg. Before you continue with that, may I recur just a moment to the previous question, because I want to be sure I understand your answer. You did not talk with Mr. Homer yesterday about the fact that you were told by Senator Clark and myself in a conference 4 weeks ago that Mr. Homer had indicated that you made a 50–50 split proposition to him?

Mr. Gravem. Absolutely not.

Senator Vandenberg. You were greatly surprised when you heard that suggestion, were you not?

Mr. Gravem. Which suggestion, Senator?

Senator Vandenberg. The 50–50 suggestion.

Mr. Gravem. You mean just now?

Senator Vandenberg. No; 4 or 5 weeks ago, when you talked to Senator Clark and me.

Mr. Gravem. I heard no suggestion 4 or 5 weeks ago as to a 50–50 split.

Senator Clark. You mean to say that when you had an interview with Senator Vandenberg and myself, that we did not ask you about a 50–50 split with Mr. Homer, and you denied it, and then Homer's contention was that you had made such a proposition?

Mr. Gravem. My point is that Mr. Homer's recollection was as to a figure of $250,000 and nothing as to a 50–50 split. The Senators may have said that, but that is not my recollection. I understood the Senators to say that Mr. Homer's recollection was a figure of some $250,000.

Senator Vandenberg. That is another phase of the question, Mr. Gravem. I remind you that repeatedly Senator Clark and I specifically talked about this possible 50–50 arrangement which you were suggesting to Mr. Homer, and that for some time we did not indicate to you the source of our information, and that you denied that you had ever made a 50–50 offer to Mr. Homer?

Mr. Gravem. I deny that now.

Senator Vandenberg. And when we finally suggested to you that that might be Mr. Homer's report upon your conversation with him, you expressed great surprise and were greatly disturbed about it. You have no recollection of that whatever?

Mr. Gravem. I have no recollection whatever, Senator.

Senator Vandenberg. You remember minutely all these conversations 18 months ago, but you cannot remember this thing which happened in the presence of Senator Clark and myself 4 weeks ago?

Mr. Gravem. I do not remember the conversations minutely, Senator. I am giving you my recollection of what those conversations were.

The Chairman. Let the Chair inquire: Were the Senator from Michigan and the Senator from Missouri alone in this conference with the witness?

Senator Vandenberg. No, sir. Mr. Raushenbush and Mr. La Rouche were present, and Mr. LaRouche made the first suggestion to Mr. Gravem, presenting the source of this 50–50 matter.

Senator Clark. That is my recollection.

Senator Vandenberg. You started to tell us what you said to Mr. Wilder. Please continue with your statement.

Mr. Gravem. As far as I can remember a conversation 18 months ago, I said to Mr. Wilder:

> If you can get enough to properly finance, with proper equipment and proper personnel, I know a man in Washington who is technically equipped to aid you in getting the finances, if you cannot get them yourself, and will aid you in making your bids ready for proper submission to the Navy.

Senator Vandenberg. Did Mr. Homer authorize you to do that?

Mr. Gravem. Absolutely not.

Senator Vandenberg. That is your own suggestion?

Mr. Gravem. Absolutely. Mr. Homer had made no suggestion to me on the subject.

Then I said to Mr. Wilder:

> This is a man I know well and whom I have known for some years, who is technically equipped to help you. He is a naval architect. He has been to England for the United States Government, either officially or semiofficially, and he has been connected with the shipbuilding industry for a number of years, and I know of no better person who can aid you.

There was nothing said about any fee or any compensation of any kind, and I have heard or read Mr. Wilder's testimony to the contrary.

Senator VANDENBERG. You did not tell Mr. Wilder in that interview that it was too late to do anything about this particular batch of naval awards?

Mr. GRAVEM. Absolutely not. I knew nothing about the batch.

Senator VANDENBERG. You did not tell him that for the consideration of $250,000 you and your friend could probably secure the extension of the naval program and get him ten or fifteen million dollars of awards?

Mr. GRAVEM. It is perfectly ridiculous and preposterous, Senator, and I deny it unequivocally. Mr. Wilder had nothing at the time. There could have been no such suggestion. If I may interject, Mr. Wilder testified yesterday that he had no equipment——

Senator VANDENBERG. Never mind what Mr. Wilder testified. We can draw our own conclusions from the testimony. I am simply trying to find out from you what your version of the story is.

Mr. GRAVEM. That is right, sir.

Senator VANDENBERG. If Mr. Wilder says that you discussed this $250,000 with him and that you stated that this was a very "practical administration" and that that is the way you had to do business—if Mr. Wilder says that is what you said, he is mistaken?

Mr. GRAVEM. He is definitely mistaken.

Senator VANDENBERG. And if Miss Kitchen says that she heard you say that to Mr. Wilder, she is mistaken?

Mr. GRAVEM. Miss Kitchen would be mistaken also. Miss Kitchen said yesterday that Mr. Wilder dictated that memorandum——

Senator VANDENBERG. Miss Kitchen also said she heard the entire testimony and that the memorandum was correct. You say that is false testimony?

Mr. GRAVEM. I say that is false testimony. Mr. Barrett's affidavit supports me on that.

Senator VANDENBERG. Mr. Barrett had nothing to do whatsoever with this second interview, and no one has intimated that.

Mr. GRAVEM. May I ask a question, Senator—whether or not the memorandum of the first interview does not contain some of these assertions about my offer? May I have that first memorandum which Mr. Wilder submitted read at this time?

Senator VANDENBERG. No; because it has been read repeatedly, and there is nothing in it which refers to the $60,000 or $250,000; and on the contrary there was a repeated assertion that you were not asking for anything in that interview. I am not going to argue with you, but I am trying to find out your story.

Mr. GRAVEM. Pardon me, Senator, with all due respect, I do believe and it is my recollection that at the time the first memorandum mentioned a figure of $60,000 and that I made some overtures, which are denied by Mr. Barrett.

Senator VANDENBERG. The record will answer that. You are sure you are not confusing your recollection of the memorandum with your recollection of the interview?

Mr. GRAVEM. I believe not, sir.

Senator VANDENBERG. If Mr. Calvin says that you discussed this $250,000 proposition with Mr. Wilder and made this offer to him on behalf of one whom you have described as "the chiseler", Mr. Calvin is swearing falsely in respect to the matter?

Mr. Gravem. Mr. Calvin is also mistaken. The multiplication of zero by ten would still be zero, Senator.

Senator Vandenberg. Can you think of any reason why Mr. Calvin should have an interest in misstating what he heard?

Mr. Gravem. Yes; I can think of plenty of reasons, sir, for these misstatements, if you will permit me to state them.

Senator Vandenberg. I am talking about Mr. Calvin.

Mr. Gravem. Yes, sir; you have asked me this question, and I will answer it, if I am permitted.

Senator Vandenberg. You may answer in respect to Mr. Calvin.

Mr. Gravem. Mr. Calvin is apparently one of the associates of Mr. Wilder in this testimony, along with Mr. Frey. I believe, or it is my opinion, that Mr. Wilder is a disgruntled bidder, and that Mr. Calvin and Mr. Frey are here to show that Mr. Wilder is the good boy of the industry; and Mr. Wilder is testifying to the truth of all these things, whereas everyone else is disreputable.

Senator Vandenberg. I am not asking you about Mr. Wilder; I am asking you about Mr. Calvin.

Mr. Gravem. And I am stating that Mr. Calvin is associated with Mr. Wilder in this testimony, and that the same interest and same reason which would impel Mr. Wilder would impel Mr. Calvin.

Senator Vandenberg. What interest has Mr. Calvin, except as an executive of the American Federation of Labor, to facilitate employment in shipyards? What interest has he besides that?

Mr. Gravem. I can think of no other interest except for the fact that Mr. Frey, who is associated with Mr. Wilder in this testimony, and Mr. Calvin, who is associated with him—and that Mr. Wilder saw fit to change Mr. Frey's testimony——

Senator Vandenberg. I am not talking about Mr. Frey, but Mr. Calvin.

Mr. Gravem. I will give you the answer. Mr. Calvin, being associated with Mr. Wilder, has the same ideas as Mr. Wilder.

Senator Vandenberg. So that you want us to understand that Mr. Calvin asserts that immediately after hearing this interview he dictated a memorandum containing the things indicated—that he was swearing falsely?

Mr. Gravem. Did Mr. Calvin dictate the memorandum?

Senator Vandenberg. Mr. Calvin dictated a memorandum from which I have read to you.

Mr. Gravem. I say he is mistaken.

Senator Vandenberg. What happened when you had this second interview with Mr. Wilder?

Mr. Gravem. Nothing further happened than what I have stated. I was there not more than 10 minutes. Mr. Wilder said, as I remember it, "Well, I might be seeing you", or something to that effect, and that was the end of it. I want to state to you that Mr. Wilder did ask me for the name of my friend several times, and I refused to give it to him.

Senator Vandenberg. Why did you refuse to give it to him?

Mr. Gravem. Because I was not becoming particularly impressed with Mr. Wilder, and I did not want to bother Mr. Homer with any talks about the possibility of doing things when he did not have any way to perform them.

Senator VANDENBERG. When was it you began to lose your confidence in Mr. Wilder? You had sought this interview with him?

Mr. GRAVEM. Even at the expense of my own testimony now, Senator, I want to say that I was not particularly impressed with Mr. Wilder at the first meeting.

Senator VANDENBERG. Why did you follow him up?

Mr. GRAVEM. I am saying, at the expense of my own testimony now, I will say I was not impressed with Mr. Wilder at the first meeting.

Senator VANDENBERG. That does not explain why you followed him up at all. If you were not impressed with him, why did you follow it up?

Mr. GRAVEM. I should not have followed him up.

Senator CLARK. Why did you do that?

Mr. GRAVEM. Because, in spite of the fact that he did not make a good impression on me at the beginning, something might be done about financing the company.

Senator VANDENBERG. Did you know about Mr. Homer's connection with the Bath Iron Works?

Mr. GRAVEM. At that time, no. Afterward, yes.

Senator VANDENBERG. Mr. Homer never talked to you about his various activities in which he was associated in connection with this cruiser bidding?

Mr. GRAVEM. Absolutely not.

Senator CLARK. You were familiar with shipbuilding in a general way?

Mr. GRAVEM. In a general way, yes; but very general.

Senator CLARK. How did you happen to know the tonnage of merchant construction and naval construction?

Mr. GRAVEM. Last Sunday in the New York Times, or perhaps the Tribune, there was an article on shipbuilding in the United States, and how it had fallen down and there was a table of figures showing the private construction of mercantile vessels in the United States in the last 5 years.

Senator CLARK. When do you mean?

Mr. GRAVEM. This last Sunday.

Senator CLARK. You testified a while ago that was how you happened to be interested in Wilder, because you knew, because of the figures you quoted, he would have to go out after naval construction, if he got any at all.

Mr. GRAVEM. I did not mean to testify to that, Senator, and I do not believe I did, sir. I testified that in view of the fact there were four or five companies getting apparently all the business, that Mr. Wilder's company, or any independent company, might be able to get some business.

Senator CLARK. Did you not state that only 18,000 tons of merchant construction had been handled throughout the preceding year?

Mr. GRAVEM. I did not testify that I told that to Mr. Wilder.

Senator CLARK. You testified to that as a certainty and as the reason why he would have to go out for that business.

Mr. GRAVEM. I did not testify because of 18,000 tons Mr. Wilder would have to go into the business of shipbuilding.

Senator BONE. Mr. Gravem, had you been aware prior to this that only a few big concerns had been getting practically all the naval business?

Mr. GRAVEM. Yes; I was aware of it in a general way, Senator, just as any reading member of the general public might be aware of it.

Senator BONE. How did that seem to impress you?

Mr. GRAVEM. That seemed to impress me as being on the surface mighty fine. I have spent considerable time in Europe, and I know particularly in Germany the big concerns there which are adequately equipped to do construction business generally do get together.

I believe, Mr. Raushenbush said this morning, today, that the British shipbuilding companies do get together. Inherently I think there is nothing wrong in that, Senator.

Senator BONE. I am referring now, in this question, to the monopolistic aspects of this business, whether you had at that time the impression that any monopoly in that business was healthy or unhealthy.

Mr. GRAVEM. I have had the impression that there is a monopoly in that business. I think the monopoly may be healthy but usually it is not healthy.

Senator BONE. In this particular, you do think the monopoly was healthy or unhealthy?

Mr. GRAVEM. I have not given it any thought, Senator. Judging by the figures developed during the last 2 or 3 days, I would say it is unhealthy.

Senator BONE. Did you have the impression at the time that it might be the healthiest thing for the country?

Mr. GRAVEM. I had not thought of it at that time, Senator. I knew, as everyone else commonly knows, that there were four or five companies doing most of the business.

Senator BONE. It would not have been an extraordinary thing for a man to be a little disgruntled over a situation of the kind, if he was in position to build ships?

Mr. GRAVEM. I think it is possible he might be disgruntled, and I think it is unfair that an independent shipbuilder could not build ships.

Senator BONE. That is what I am getting at.

Mr. GRAVEM. That is right.

Senator BONE. And a disgruntled attitude on the part of any man does not make for a healthy state of the industry.

Mr. GRAVEM. I can conceive that, Senator.

Senator BONE. There would not have been anything weird in that?

Mr. GRAVEM. Per se, no, there would not; but perhaps in the issues which Mr. Wilder has discussed, he might be disgruntled, from another point of view.

Senator VANDENBERG. Mr. Gravem, Mr. Homer had been talking to you about this "Big Three" monopoly, had he not?

Mr. GRAVEM. No, sir; not the "Big Three" monopoly. I testified a few minutes ago that at this meeting with Mr. Homer, Mr. Homer said that most of the business was in the hands of 4 or 5 companies. I testified to that 5 or 6 minutes ago, and that is true.

Senator VANDENBERG. Is that all he said about it?

Mr. GRAVEM. That is all that I recall, sir.

Senator VANDENBERG. Did he not tell you in view of the fact that it was in the hands of this small group, that it would be exceedingly difficult for somebody else to get in on it?

Mr. GRAVEM. Yes; I believe he did indicate that, but I am not certain of that, Senator.

Senator VANDENBERG. You do not recall any conversation with Mr. Homer about the "Big Three" monopoly?

Mr. GRAVEM. The "Big Three" monopoly, I have not heard until now from you. The expression "Big Three" I have not heard. We did discuss four or five companies having the major share of the business. I think I can repeat the names of those companies. If it is not Bethlehem Steel, Newport News, Sun Shipbuilding, perhaps, and New York Shipbuilding companies, I do not know what companies would be included.

Senator VANDENBERG. Do you know what influence was used by these companies to defeat the Gulf application for an R. F. C. loan?

Mr. GRAVEM. No, sir; I do not know anything about that. I have no recollection of any influence being used against an application for a loan at the R. F. C. in connection with Gulf Industries.

Senator CLARK. How did you happen to know of the Gulf Industries' application? It did not have anything to do with the department you were in, did it?

Mr. GRAVEM. It was a very casual matter, and came up in this way: When I was in Senator Pomerene's office, who sent me to Ohio on the other matter, and Senator Pomerene and I were discussing the kind of loans coming into the R. F. C., and dealing at that time with the rather heavy self-liquidating loans, Senator Pomerene said, "We get all kinds of things. For instance, here is a shipyard in Florida, the Gulf Industries, who wants a large loan."

I do not recall he mentioned any figure.

Senator CLARK. Where did you get the $30,000,000 which you used this morning?

Mr. GRAVEM. $30,000,000 came from Mr. Homer. I think I testified Mr. Homer made the statement as to $30,000,000. I think that is correct; it was the $30,000,000. I am not positive it is.

Senator CLARK. How did Mr. Homer know what was going on in the R. F. C.?

Mr. GRAVEM. I have not the slightest idea how Mr. Homer knew what was going on in the R. F. C. Mr. Barrett stated to me that Mr. Wilder had said $60,000,000. I have heard everything from $400,000 to $12.000,000, to $30,000,000, to $60,000,000, all in connection with Gulf Industries.

Senator VANDENBERG. How does it happen that you confused that $60,000 item with the first interview? I do not understand that.

Mr. GRAVEM. Because I was sitting here the other day, Senator, and I thought the testimony was that it was in that first memorandum.

Senator VANDENBERG. I hand you the first memorandum and ask you to find the $60,000 therein [handing paper to witness].

Mr. GRAVEM. That is my recollection of it [examining said document]. Is the memorandum of the first interview here?

Senator VANDENBERG. That is the one, of August 2.

Mr. GRAVEM. Is the memorandum here?

Senator VANDENBERG. That is it.

Mr. GRAVEM. I was in error. That is in the second memorandum.

Senator VANDENBERG. Precisely; it is in the second memorandum. Now just to conclude this matter for the record—although we will want to revert to it later—you stated some time ago the proposition, that Mr. Wilder, Miss Kitchen, and Mr. Calvin are mistaken, to put it mildly, respecting their story of your interviews with Mr. Wilder?

Mr. GRAVEM. Yes, sir

Senator VANDENBERG. That if Mr. Homer testifies to a discussion of a 50–50 split, Mr. Homer is in error?

Mr. GRAVEM. Yes, sir.

Senator VANDENBERG. That if Senator Clark and Mr. Raushenbush and Mr. LaRouche and I testify to your discussion of this 50–50 split before us 4 weeks ago, that we are in error?

Mr. GRAVEM. I am in error, then, sir.

Senator VANDENBERG. That is all for the time being.

The CHAIRMAN. Mr. Raushenbush, you have had a communication this morning, concerning the availability of another witness who was called to appear today, Mr. Homer?

Mr. RAUSHENBUSH. Yes, sir. Some days ago Mr. Homer was subpenaed.

The CHAIRMAN. How long ago was he subpenaed?

Mr. RAUSHENBUSH. My memory is about a week ago or longer. I am not quite sure on that. I will furnish that to the committee.

Last night I received this communication from Robert Oden, M. D.,

WASHINGTON, D. C., *January 30, 1935.*

MR. STEPHEN RAUSHENBUSH,
Secretary Senate Special Investigating Committee, Munitions,
Washington, D. C.

DEAR SIR: Mr. A. P. Homer has been under my treatment for more than a year. I have made an examination on him this date and find that he has a blood-pressure condition which will make it positively dangerous for him to undergo the excitement of a hearing before your committee. He will, in fact, jeopardize his life by doing so at this time.

Very truly yours,

ROBERT ODEN.

I called Dr. Oden this morning and he stated that he had signed this communication. I understand he is in the hands of the doctor at the moment.

The CHAIRMAN. There has been word, Mr. Raushenbush, that Mr. Homer is present in the chamber at this time. Are you aware of it? Do you know Mr. Homer?

Mr. RAUSHENBUSH. I have met him. I do not know whether I would remember him.

The CHAIRMAN. Is Mr. Homer present?

Mr. HOMER. Yes, sir.

The CHAIRMAN. Mr. Homer, are you counting yourself available to be heard today on this matter?

Mr. HOMER. If the committee wants to call on me, I will be present.

The CHAIRMAN. What of the circumstances set forth in the letter of your physician, Mr. Homer?

Mr. HOMER. They are true. I have been under the doctor's care for a year.

The CHAIRMAN. The committee will be in recess until 2:30 this afternoon.

(Whereupon at 11:50 a. m., the hearing recessed until 2:30 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

The committee would like to hear Dr. Oden.

TESTIMONY OF DR. ROBERT ODEN

(The witness was duly sworn by the chairman.)

Dr. ODEN. I would like to say this, that I am taken away from a deathbed by being summoned to this place right now, despite my objections. My patient is dying.

The CHAIRMAN. Were you summoned to be here?

Dr. ODEN. Yes. I told them this morning that I am at the deathbed of a patient.

The CHAIRMAN. Has a summons been served upon you? At what time was it served?

Dr. ODEN. At noon. However, I can cut this short.

Mr. RAUSHENBUSH. Mr. Chairman, the doctor did not accept the subpena himself. We were not under the impression he would be here.

Dr. ODEN. I was told to come or be fined. My secretary told me that.

The CHAIRMAN. Dr. Oden, we have a letter which you addressed under date of January 30, 1935, to Mr. Stephen Raushenbush, secretary of this committee.

Dr. ODEN. Right.

The CHAIRMAN. In this you say:

> Mr. A. P. Homer has been under my treatment for more than a year. I have made an examination on him this date and find that he has a blood-pressure condition which will make it positively dangerous for him to undergo the excitement of appearing before your committee. It will, in fact, jeopardize his life by doing so at this time.

The committee wants you only to indicate your opinion concerning the consequences of examining Mr. Homer at this time. Are you of the belief that to examine him did jeopardize his life?

Dr. ODEN. I examined him last night. His blood pressure was 220 last night over 120. I have had patients who have died with a blood pressure of 200.

Senator VANDENBERG. How long has he been your patient?

Dr. ODEN. Since April 7, 1934.

Senator VANDENBERG. What would you say as to the prospect of a subsequent examination? Would you have any view as to when it might be safe to do so?

Dr. ODEN. He is a highly emotional individual, and his pressure goes up with emotions.

Senator VANDENBERG. What would be your answer to the question as to whether in your judgment it would be safe to proceed at some subsequent date?

Dr. ODEN. When this pressure comes down to approximately 175.

The CHAIRMAN. How long since it has been down to that?

Dr. ODEN. On the 8th of November, under treatment, it was 160. Before that, I want to add this to it first: When I first saw him he had a pressure of 190 over 110. That was on April 7, 1934. June 6, 1934, he had a pressure of 200. July 14, he had a pressure of 168. This is under treatment. On March 10, 180. He is under treatment now. On December 10, 1934, 190.

The CHAIRMAN. That is the 10th of this month?

Dr. ODEN. No, no, 1934. That is 2 months ago. On the 3d of November 1934, 190. He is still under treatment. On the 4th—that is the following day—under very drastic procedure, it went down to 160. On the 8th it went to 170. On the 15th it was 150. On the 26th it was 165. On the 28th it was 155. On January 28—that is this year, 1935, now—215; and yesterday, 220.

Senator VANDENBERG. Doctor, without taking your time from your other obligations to linger here, would you have any objection to consulting with a physician representing the committee?

Dr. ODEN. Not at all.

Senator VANDENBERG. As to whether or not subsequently it will be appropriate for us to proceed to examine Mr. Homer.

Dr. ODEN. Here is the photographic action of the heart. [Indicating.]

Senator VANDENBERG. We should prefer, I think, to have you discuss it with our physician. You have no objection to that?

Dr. ODEN. Not at all, provided you do not take me away as you have done now.

The CHAIRMAN. You may understand yourself to be excused, doctor.

Dr. ODEN. Thank you.

The CHAIRMAN. Mr. Homer, if you will leave with the secretary of the committee your address, where you can be reached, the committee will be glad to excuse you for the day.

Mr. HOMER. I ask that the committee take me at the earliest possible moment that the doctor will allow me to come before your committee, that I may refute some of the statements that have been made about me.

The CHAIRMAN. Mr. LaRouche, you will take the stand, please.

TESTIMONY OF FLOYD W. LAROUCHE

1933 DESTROYER PROGRAM—ACTIVITIES OF A. P. HOMER

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Mr. LaRouche, you are an employee of this committee, are you not?

Mr. LAROUCHE. That is correct.

Senator VANDENBERG. Mr. LaRouche, for the past several weeks you have been dealing with the episode involved in the Wilder-Gravem-Homer incident, have you not?

Mr. LAROUCHE. Yes, sir.

Senator VANDENBERG. First, let me ask you if you were present in the home of Mr. Raushenbush at the time Senator Clark and I were there with Mr. Raushenbush interviewing Mr. Gravem.

Mr. LAROUCHE. That is true.

Senator VANDENBERG. At that interview was Mr. Gravem advised that Mr. Homer may have indicated to you that in the conversation between Gravem and Homer, Gravem had suggested a 50–50 split in connection with any arrangement he might make with Mr. Wilder?

Mr. LAROUCHE. That is true.

Senator VANDENBERG. Was the 50–50 split proposal discussed at some length with Mr. Gravem at that time?

Mr. LAROUCHE. At considerable length, as I remember.

Senator VANDENBERG. Subsequent to these preliminaries, you have made a careful check, have you not, with Mr. Homer respecting his activities in connection with these events in which the committee is concerned?

Mr. LAROUCHE. Yes, sir.

Senator VANDENBERG. I wish you would proceed to tell in your own way the net result of those contacts, using any memorandum which you may have available for that purpose.

Mr. LAROUCHE. In the latter part of the month of December, the 17th, as I recall it, I want to Mr. Homer's office. While there, with two other men from this committee, representatives of the committee, we conferred with Mr. Homer at some length, not only as to this incident but as to all of his activities both with regard to the Navy and any other connections he had. We were particularly interested in whether or not he really was associated in any way with Mr. Gravem, and just what that connection was. Also we wanted to find out whether or not there was any substance or any basis to these earlier reports about that connection and about this Wilder proposition. To that end we made a rather careful examination of all of Mr. Homer's files. From time to time we discussed things we found there with Mr. Homer.

One of the things that we found was a file of correspondence dealing with Mr. Homer's connection with the Bath Iron Works that seemed very pertinent to the inquiry. We pursued it. I found at one stage a document I did not understand, and so that we might have the full import of the thing, I discussed it with Mr. Homer. The document I refer to was taken from Mr. Homer's files and seemed to be in the nature of a memorandum. It was without a date. When I discussed it with Mr. Homer, he explained that it referred to an agreement that he had with the Bath Iron Works to the end that he, Mr. Homer, would get business, namely, destroyer business from the Navy for Bath Iron Works.

In this memorandum or document, which seemed to me at the time a little unusual, he sets forth the history of what he considered his service to the Bath Iron Works in 1933, to the end that Bath Iron Works was given two destroyers. I have that memorandum here. It has been thoroughly discussed with Mr. Homer, who has explained it to my satisfaction. I would like to read it.

Senator VANDENBERG. What do you mean, to your satisfaction?

Mr. LAROUCHE. I mean, he has identified it and has explained its intent and its importance, the purpose for writing it, all of which I asked him about at some length.

Senator VANDENBERG. I suggest that the memorandum be identified as an exhibit and that you proceed then to read from it, and, as you proceed, I suggest that you interrupt yourself at any time with an explanation.

(The memorandum referred to was marked "Exhibit No. 1484", and is included in the appendix on p. 4921.)

Mr. LaRouche. This is the memorandum [reading]:

> Mr. Homer, talking with Capt. Ormond L. Cox, of the Navy, discovered that a rumor had been started around the Navy Department that the Bath Iron Works Corporation was not an equipped shipyard, had no machinery or facilities for the building of destroyers, and that therefore their bid would not be considered. Checked on this rumor with Captain Oberlin, technical adviser to the Secretary of the Navy, and Captain Stark, aide to the Secretary of the Navy, and found that this rumor was general. Called Mr. Newell at Bath—

Mr. Newell is the executive head of that organization—

> and explained this situation to him. He asked for suggestions as to how to overcome it. Mr. Homer suggested that a series of photographs of the shops be taken showing the workmen, tools, etc. These pictures were taken, and on a Sunday in November 1932, at 144 East Twenty-fourth Street, New York City, Mr. Newell brought the pictures in, and Mr. Homer laid out a plan for their presentation to the Navy Department. The suggestions made were carried out on the following Monday. Mr. Homer left New York for Washington Monday night, and on Tuesday checked around the Navy Department and found that the rumor had been killed, and that the Bath bid would be considered. Result: On December 11, 1932, contract was awarded to Bath Iron Works Corporation for the destroyer *Dewey*, contract price about $3,000,000.

That, of course, precedes the period in which we are most interested, in which he claimed to have done the most service.

The next notation on this memorandum is April 6, 1933 [reading]:

> Mr. Homer, having conceived an idea for allotment of work for relief of unemployment, called Mr. Newell at Bath and asked him to come to Washington for a conference.
>
> April 7, 1933: Mr. Newell arrived and spent 2 days at Mr. Homer's office going over the labor situation, the relief of unemployment, etc., and a plan was prepared, including charts, etc., for presentation to the President.
>
> April 13, 1933: This plan was submitted to the White House by Mr. Homer, who delivered same to Mr. Marvin H. McIntyre personally, who, in turn, submitted it to the President.
>
> April 16, 1933: This plan was returned by Mr. McIntyre with the approval of the President, who asked that the matter be taken up with Assistant Secretary of the Navy Henry Roosevelt, and the idea sold to him.
>
> April 17, 1933: Mr. Homer talked with Mr. Newell at Bath and told him what had happened, and that he had arranged for a conference with Assistant Secretary Roosevelt on the morning of April 18.
>
> April 18, 1933. At 9:30 a. m. Mr. Homer had a conference with Assistant Secretary of the Navy Henry Roosevelt, Admiral Land, Chief of the Bureau of Construction and Repair; Admiral Robinson, Chief of the Bureau of Engineering; Admiral Brinser, in charge of navy yards; and Admiral Murfin, Judge Advocate General of the Navy. This conference lasted for several hours, and, at the end, it was agreed that the plan was practical, and it was turned over to the Navy Department without obligation, to be used as they saw fit.

Mr. Raushenbush. Mr. LaRouche, as you discussed with Mr. Homer those paragraphs you just read, did you take that to be the origin of this plan to allocate P. W. A. funds to shipbuilders?

Mr. LaRouche. Mr. Homer said it was. He said that was where the idea was born, that he conceived it.

Senator Vandenberg. Mr. Homer also indicated, did he not, that in times past he had been a long-time friend of the President's, and that he felt the President had his confidence?

Mr. LaRouche. Yes; he said that on numerous occasions.

Senator Vandenberg. All right, go ahead with your memorandum.

Mr. LaRouche (reading "Exhibit No. 1484"):

> Early in July, a rumor having started around the Navy Department that the Bath Iron Works wished that they did not have the *Dewey* to build, as they found that it was a large job to handle and were having difficulty in financing it, and felt that they should not go in for any further work of this kind, Mr. Homer immediately called Mr. Newell by telephone, and he came to Washington and succeeded in refuting these rumors.
>
> July 24, 1933: Mr. Newell conferred at Mr. Homer's office with Mr. L. C. Rosenkrans of the Fidelity & Deposit Co. of Maryland. While in Mr. Homer's office on this date, Mr. Newell told Mr. Homer that he had figured Mr. Homer in on the bid for the destroyers, and that he was deeply appreciative of what Mr. Homer had done, not only on the new bid, but also on the *Dewey*.

Senator Vandenberg. Did Mr. Homer indicate to you what this language means, that he had been figured in on the bid for the destroyers?

Mr. LaRouche. Yes; he said that his end of it—I think he called it a fee—was to be $50,000.

Senator Vandenberg. From the Bath Iron Works?

Mr. LaRouche. That is correct.

Senator Vandenberg. All right, go ahead.

Mr. LaRouche. Incidentally, I asked at that time at some length as to the nature of the services that he had performed in addition to what he stated here. We had a rather extended discussion not only that day but other days as to the precise services that he had performed, some of which I intimated to him were of an intangible nature. He persuaded me, or attempted to persuade me, that they were very tangible and that he had performed very real services.

Senator Vandenberg. Before you continue, the first date indicated in this memorandum was in December 1932. Mr. Homer did not have an office in Washington in 1932, did he?

Mr. LaRouche. No; he did not.

Senator Vandenberg. When did he open his office in Washington?

Mr. LaRouche. I believe it was in March 1933, but I am not positive. I will have to check. I have it noted down. It was early in 1933.

Senator Vandenberg. I confirm your recollection, because I was present at one interview in which Mr. Homer said that he opened his office the first week in March 1933.

Mr. LaRouche. Just along that line, Mr. Homer was very proud of the fact, apparently—I mean, I gathered that he was, from his attitude—that in the preceding December he had been not only without an office in Washington but he said without an office anywhere. He had been peddling paint, he told me, for $25 a week in New York. So he was considerably elated over the change in his circumstances from the preceding December until March.

Senator Vandenberg. All right, proceed now with the memorandum. You had finished with July 24. The next date is July 28.

Mr. LaRouche (reading from "Exhibit No. 1484"):

> July 28, 1933: Bids for the naval program destroyers were opened, and Admiral Murfin, Judge Advocate General of the Navy rejected the Bath Iron Works bid as being illegal, on the grounds that they had not presented fixed-price bid as well as adjusted-price bid. Mr. Newell said that afternoon that he was going home and that he hoped he would have better luck next time, that

he had felt that he was doing the right thing and that it was unfortunate that the matter had come out that way. At Mr. Homer's urging, Mr. Newell stayed here to confer as to what could be done to overcome the situation.

July 27, 1933: Mr. Homer called Admiral C. J. Peoples, Paymaster General of the Navy, who is the President's closest friend in the Navy Department, to luncheon and they conferred with him as to the best method to be followed in overcoming this awkward situation.

Senator VANDENBERG. What is the "awkward situation" to which that refers?

Mr. LAROUCHE. The awkward situation of Mr. Newell having failed to put in the kind of bids that were requested by the Navy and his failure to be considered for an award.

Senator VANDENBERG. His bid had been rejected prior to this date?

Mr. LAROUCHE. Informally rejected, Mr. Homer told me. It was not officially so. But according to Mr. Homer's statements to me, Pete Newell of Bath was out of the picture until Homer stepped in.

Senator VANDENBERG. Am I to understand now that this conference with Admiral Peoples is in relation to reinstating the Bath bid?

Mr. LAROUCHE. That is right.

Senator VANDENBERG. All right.

The CHAIRMAN. Can you identify any further than he has identified here Admiral C. J. Peoples?

Mr. LAROUCHE. Yes. He was formerly in charge of the Bureau of Supplies and Accounts of the Navy, according to my best knowledge, and is now Director of Procurement, and as I understand it, working under the direction of the Treasury Department.

The CHAIRMAN. Is this the same man who is active at the present time in the public-works program or in legislation that is pending for a continued public-works program?

Mr. LAROUCHE. Yes, sir; that is my understanding. He is the man, according to my best knowledge.

Senator VANDENBERG. Do you know what his status was during the war?

Mr. LAROUCHE. I do not.

Senator VANDENBERG. All right, go ahead.

Senator BONE. Is there a twilight zone between an informal rejection and a formal rejection, and how are these informal rejections communicated to these companies?

Mr. LAROUCHE. I do not know that I am enough of an authority on the informality of those rejections to discuss them.

Senator BONE. Are you in a position to know whether they are communicated to a company so the company can fix things up? Is that the idea?

Mr. LAROUCHE. I know this from my study of the matter, that very frequently between the time the bids are opened and the time the awards are officially announced, there are many conferences, sometimes conferences among the bidders, sometimes conferences between the bidders and the naval officials. In some cases there is no secrecy about those conferences; in some cases they are not particularly made public.

Senator VANDENBERG. I forgot to ask you one thing that I wanted to know about: Was Mr. Homer connected with the Democratic National Committee in the campaign of 1932?

Mr. LAROUCHE. I am not informed as to his precise status. I know he was very active.

Senator VANDENBERG. Have you any information about letters that he sent out to shipbuilders soliciting funds?

Mr. LAROUCHE. Yes. He sent such a letter to the Bethlehem Shipbuilding Co., and I have been told that he sent similar letters to the others, but I have not seen the others.

Senator VANDENBERG. You have seen the Bethlehem letter?

Mr. LAROUCHE. That is correct.

Senator VANDENBERG. Now we are proceeding with this memorandum on July 27, 1933.

The CHAIRMAN. Just on thing more.

Upon what stationery was that letter to the Bethlehem people written?

Mr. LAROUCHE. I cannot remember, but I have a copy of it which I will get. I just cannot recall.

Senator VANDENBERG. Now we are down to the luncheon between Mr. Homer and Admiral Peoples.

Mr. LAROUCHE. I will start at the beginning of July 27 again.

Senator VANDENBERG. All right.

Mr. LAROUCHE (reading from "Exhibit No. 1484"):

> July 27, 1933: Mr. Homer called Admiral C. J. Peoples, Paymaster General of the Navy, who is the President's closest friend in the Navy Department, to luncheon and they conferred with him as to the best method to be followed in overcoming this awkward situation. Admiral Peoples concurred in the suggestions of Mr. Homer, and made further suggestions which were immediately carried out: Ten telegrams were prepared in Mr. Homer's office and they were transmitted to Bath by Mr. L. E. Thebeau to his secretary, who, in turn, transmitted them to the parties who were to send then to the President. At 6:30 p.m. Mr. Homer called Mr. Marvin McIntyre in the presence of Mr. Thebeau and asked that these telegrams be segregated from the mass of telegrams and delivered to the President at breakfast. This was done.

Senator VANDENBERG. As I understand it, you are reading Mr. Homer's memorandum?

Mr. LAROUCHE. That is correct.

Senator VANDENBERG. This is nothing you have prepared. this is Mr. Homer's memorandum?

Mr. LAROUCHE. This is Mr. Homer's record of his accomplishment for Bath.

Senator VANDENBERG. All right.

Mr. LAROUCHE (reading from "Exhibit No. 1484"):

> July 28, 1933: At 2 p. m., the President called to the White House, Admiral Stanley, Chief of Operations; Admiral Murfin, Judge Advocate General of the Navy; Admiral Robinson, Chief of the Bureau of Engineering; Admiral Land, Chief of the Bureau of Construction and Repair; and Admiral Peoples, Paymaster General of the Navy, for a conference.
>
> July 29, 1933: Mr. Newell, acting under the advice of Mr. Homer went to the Navy Department, where he was told to call to a conference Mr. J. W. Powell, president of the United Drydocks Co, and Mr. L. I. Korndorff, president of the Federal Shipbuilding & Dry Dock Co. Mr. Newell called those gentlemen and asked them to come to Washington and confer with him and insisted that they do so.

In parenthesis—

> It will be noted at this point, that Mr. Newell's situation is completely reversed, that he is now in command of the situation, instead of being out.

The CHAIRMAN. Is that note yours?

Mr. LAROUCHE. No, sir; that is Mr. Homer's note.

Senator VANDENBERG. What is Mr. Homer's explanation of that?

Mr. LAROUCHE. He said to me that that was one of the services that he was able to perform for his client; that instead of Pete Newell being on the outside, by Homer's intervention and by his knowledge and background, he had brought about this conference between the "little three", Korndorff, Powell, and Newell. That is the Bath Iron Works, Federal Shipbuilding & Dry Docks, and United Dry Docks. And that those three, Mr. Homer told me, had a conference in his apartment—Mr. Homer's apartment in the Hay-Adams House.

Senator VANDENBERG. We are coming to that in the next paragraph. What I am interested in at the moment, before you reach that, is the implication in this paragraph. I call your attention to the first sentence:

> Mr. Newell, acting under the advice of Mr. Homer, went to the Navy Department—

where he was told to call this conference. Have you any information as to who it was in the Navy Department that told Mr. Newell to call this conference?

Mr. LAROUCHE. I have noted it down, but my memory fails.

Senator VANDENBERG. Let us not have anything about which there is any doubt. This suggestion that Mr. Newell is now in command of the situation would seem to indicate Mr. Homer's belief that as a result of these various contacts that he had made with public officials he had been able to create a situation in which Mr. Newell was again in good standing. Is that the interpretation?

Mr. LAROUCHE. Oh, that is what Mr. Homer intended to convey and did convey to me. He said that he hoped to make Pete Newell the no. 1 man of the shipbuilding industry, and that he, Homer, had aspirations to be the power behind the throne.

Senator VANDENBERG. All right; now we will proceed to July 30.

Mr. LAROUCHE (reading):

> July 1933: Mr. Powell, Mr. Korndorff, and Mr. Newell spent the entire day until 6:30 at night in Mr. Homer's apartment, no. 722 of the Hay-Adams House, and reached a definite agreement as to procedure, and that each would have two destroyers to build.

Senator VANDENBERG. What does that mean?

Mr. LAROUCHE. It meant, as explained by Mr. Homer to me, that they had this session at the Hay-Adams House, which Mr. Homer said he did not attend, but which he caused to happen; he brought it about.

Senator VANDENBERG. It was in his apartment?

Mr. LAROUCHE. It was in Mr. Homer's apartment, but he, Mr. Homer, said he did not attend that conference. I have no reason to think otherwise.

Senator VANDENBERG. He announces in this memorandum, and I understand he has raised no question with you regarding any of the statements in this memorandum——

Mr. LAROUCHE. Oh, not at all. No, no; he is very proud of it.

Senator VANDENBERG. His memorandum indicates, perhaps, that at this meeting in his apartment, he, at least, had knowledge that an agreement was reached to parcel out the results of the Naval bidding. Is not that what it means?

Mr. LaRouche. Yes; that was what Mr. Homer stated he hoped would be done at that conversation, that they would get together on a common plan, and that as a result of that plan and as a result of their agreeing to build a certain type of destroyer the business would be so divided.

Senator Vandenberg. How could they do that without collusive bidding?

Mr. LaRouche. Well, that is a long story.

Senator Vandenberg. Could they do it without collusive bidding?

Mr. LaRouche. I see no way.

Senator Bone. Was this prior, Senator, to the filing of the bids?

Senator Vandenberg. What about that?

Mr. LaRouche. The bids had been put in, but this was——

Senator Bone. They could not collude on bids after they were once in.

Mr. LaRouche. That is what I meant when I said it is a long story, Senator. I rather think that they can.

Senator Bone. Enlighten us, then, as to the technic.

Mr. LaRouche. There are certain matters—of course, I am not a naval authority; I know lots of people who can discuss it better than I can—but there are certain matters of purchases and of arrangement as to details which I think are if not collusive at least a very near approach to it.

The Chairman. Mr. LaRouche, are you meaning to say that when a bid is submitted it is not necessarily sealed and closed and final?

Mr. LaRouche. Oh no; there are always, or very often, conferences and discussions and some changes from time to time are made in bids after they are opened.

The Chairman. After they have been opened?

Mr. LaRouche. Yes, sir.

Senator Vandenberg. That is precisely what Mr. Homer was doing in behalf of the Bath Iron Works, is it not, as indicated in the preceding paragraph?

Mr. LaRouche. I think some such thing is indicated.

Senator Vandenberg. Go ahead. Perhaps this discloses its own purport.

Senator Barbour. I suppose, Senator, just to interpose for a moment, this matter of inspection during construction and that sort of thing is elastic, or might be at least elastic, and subject to discussions of that kind? A great deal depends on that.

Mr. LaRouche. I do not seem to get the question. I do not understand what you mean.

Senator Barbour. The matter of Government inspection is something which people who are building a ship might be very much interested in in relation to one another.

Mr. LaRouche. Yes.

Senator Barbour. Speaking of the things that might be done.

Mr. LaRouche. Yes.

Senator Barbour. That might be a field which is quite fertile in that respect.

Mr. LaRouche. Oh, yes; Naval inspectors have told me from time to time the Navy can ruin any yard they want to if they enforce the specifications rigidly enough.

Senator Barbour. That is the point I want to make.

Mr. LaRouche. They can put any yard out of business.

Senator Vandenberg. Let us go ahead with the story. They have now had a meeting in Mr. Homer's apartment and agreed that he should have two destroyers to build.

Senator Bone. May I ask Mr. LaRouche one question?

It is, I take it, quite customary not only in the Navy Department but in most business enterprises when a bid is filed and there is any question in the mind of the organization calling for the bids, be it a public body or private, to find out something of the financial and physical status of the bidder? There would not be anything unusual in calling the parties to Washington to find out about their equipment?

Mr. LaRouche. No; I think that is perfectly natural.

Senator Bone. The Navy would want to know that the yard could actually go through with the program.

Mr. LaRouche. I think they usually find that out, Senator, before the bids are submitted.

Senator Bone. Do they have any preliminary examination of the yard?

Mr. LaRouche. Yes.

Senator Bone. Or can any outfit bid?

Mr. LaRouche. No. The procedure is very well defined.

Senator Bone. Is it a fact that after bids are in the Navy sometimes makes an inquiry as to the condition of the yard and the equipment and personnel, and the like?

Mr. LaRouche. My understanding is—if you want to accept that; I do not hold any brief for it—that before a yard is given specifications upon which to bid, this examination is made. Everyone does not have a chance to bid.

Senator Bone. I happen to know of one case where a yard bid and was afterwards advised by the Navy that they did not think their equipment was sufficient, and the general set-up and personnel was sufficient, to assure a good job. That is why I ask. I did not know that there was any prohibition against anyone bidding.

The Chairman. Proceed, Mr. LaRouche.

Mr. LaRouche. I believe I had not finished.

Senator Vandenberg. July 30, 1933.

Mr. LaRouche (reading from "Exhibit No. 1484"):

> Mr. Homer this day took Admiral Peoples, Mr. Thebeau, treasurer of the Bath Iron Works, and Mr. Nugent of the Public Works Adminstration to Harper's Ferry for an all-day trip.
>
> July 31, 1933: Mr. Newell, Mr. Powell, and Mr. Korndorff went to the Navy Department at 9 o'clock and saw Capt. Claude Jones, of the Bureau of Engineering; there they met Admiral Robinson and Admiral Land and offered to work together, building from one set of designs.
>
> August 3, 1933—

August 3, 1933, is the date of the contracts—

> The Navy Board went to see the President at Hyde Park for his decision in regard to the contracts, which came out exactly as planned regarding the three above-mentioned yards.

Senator Vandenberg. When it says "exactly as planned", am I to understand that that refers back to the agreement made in Mr. Homer's apartment on the evening of July 30th?

Mr. LaRouche. That is the intent, as I understand it.

Senator Vandenberg. Do you have any recollection as to whether Mr. Homer made any statement to you on that subject?

Mr. LaRouche. No. I do not recall any definite statement that he made.

Senator Vandenberg. All right.

Mr. LaRouche (reading from "Exhibit No. 1484"):

> August 4, 1933: Mr. Homer went to Captain Stark's office and secured for Mr. Newell word of the award of the contracts and got an advance copy of the news release and delivered same to him.
>
> Between August 4 and August 26, Mr. Newell and Mr. Thebeau were working in New York endeavoring to get bond.
>
> August 26, 1933: Mr. Newell returned to Washington with Mr. Homer.
>
> September 5 and 6, 1933: Mr Newell and Mr. Thebeau here in regard to bond. Constantly in conference with Mr. Homer's partner, Mr. Perkins, and with Mr. Homer by long-distance telephone.

Senator Vandenberg. Do you know who Mr. Perkins is?

Mr. LaRouche. He was at that time Mr. Homer's partner. George H. Perkins, I believe the name is.

Mr. Raushenbush. At that point, is it not very unusual for an award to be given before the company has bonds?

Mr. LaRouche. There again, there are lots better people to discuss that than I, but I do not think it is customary.

Senator Bone. I am not clear on one thing: Did the Bath Iron Works get two of these destroyers?

Mr. LaRouche. Yes, sir; it did.

Senator Bone. And the Federal Shipbuilding got two?

Mr. LaRouche. That is right.

Senator Bone. And the United Dry Dock got two?

Mr. LaRouche. Yes.

Senator Bone. So there were two each to this group known as the "little three" that you have designated in that manner?

Mr. LaRouche. Yes, sir.

Senator Bone. Those were all destroyers?

Mr. LaRouche. Yes, sir; all 1,500-ton destroyers.

Senator Vandenberg. And the two to Bath were on bids which had been, let us say, informally rejected by the Navy Department in the first instance?

Mr. LaRouche. According to Mr. Homer's statement here.

Senator Vandenberg. Yes.

Mr. LaRouche (reading):

> September 7 and 17, 1933: Either Mr. Newell or Mr. Thebeau was in daily conference with either Mr.——

Then there is nothing——

> or Mr. Perkins relative to the contract and bond on the destroyers.

There is a name left out. I do not know whose it is; I think probably Mr. Homer's.

> September 18, 1933: Mr. Newell wrote a letter in the office of Mr. Homer to the Secretary of the Navy asking for an extension of time for the securing of bond. The Navy Department said that the time had expired and they did not care to hold the matter up or to have any publicity by granting a further extension of time, but that they would hold the matter in abeyance.

I think at this point I can answer Mr. Raushenbush's question of a few moments ago. Mr. Homer told me that never before in the history of the Navy, that he knew of, had a bond been held up so long, or had a contract been held up so long for lack of a bond and then the contract awarded. He said that as far as he knew, that had never happened before, but that he had been able to do it.

Senator VANDENBERG. As I understand this entry, the Navy Department is declining to extend the time for submitting the bond, apparently for fear of unfortunate publicity, but they are willing to leave the matter open for the time being. Is that the situation?

Mr. LAROUCHE. That is what Mr. Homer is apparently attempting to say.

Senator VANDENBERG. All right.

Mr. LAROUCHE (reading):

> September 19, 1933: Mr. Homer was given a full power of attorney covering these destroyers, copy of which is herewith attached.
>
> Contract was finally signed and bond secured on or about September 22, 1933, and the work was completed.

The bids were opened July 26, 1933. That is about 2 months [reading]:

> Mr. Howell—

I do not know who Mr. Howell is—

> before leaving for Bath made the statement that the fee he figured to pay Mr. Homer for this work was so large that he would have to spread it over the life of the contract. Mr. Homer agreed to that, and asked what figure he had in mind. To this question, Mr. Newell replied that they would discuss it later, but that he was sure Mr. Homer would be perfectly satisfied.
>
> Mr. Newell also stated, on being asked what he expected the profit to be on naval work in the Bath yards, that the profit on the *Dewey* would be about $450,000, and the profit on the other two destroyers would be a little over a million dollars.

Senator VANDENBERG. Are those the two destroyers that they got in this distribution in 1933?

Mr. LAROUCHE. Yes, sir.

Senator BONE. What was the *Dewey?*

Mr. LAROUCHE. The *Dewey* was awarded in 1931, in the latter part of 1931, on the design of Bethlehem, and was the particular award or one of the awards that aroused United Dry Dock to make the protest to the Comptroller General which was discussed here a few days ago.

Senator BONE. A destroyer?

Mr. LAROUCHE. Yes, sir. United at that time protested that award, and the Comptroller General made a ruling on it.

Senator BONE. Can you identify these companies as to the interests that owned them? I now refer to the so-called "Little Three." You indicated in a general way while I was here the ownership of the Bath Iron Works. What interests own or control Federal Shipbuilding?

Mr. LAROUCHE. That is owned outright by United States Steel, as I understand.

Senator BONE. United States Steel?

Mr. LAROUCHE. Yes, sir.

Senator BONE. What interests control the United Dry Dock?

Mr. LAROUCHE. I would a little rather not go into that at this time, Senator. It is quite involved. They are ostensibly privately owned. That is a separate industry.

Senator BONE. They have no affiliation with any of the big companies?

Mr. LAROUCHE. That is correct.

Senator BONE. That is the situation with respect to the Bath Iron Works?

Mr. LAROUCHE. Yes, sir.

Senator BARBOUR. When you speak of a profit there on two 1,500-ton cruisers as being a million dollars, is that per cruiser or for the two?

Mr. LAROUCHE. I take it to mean on the two, but I am not positive [reading]:

> The total amount of contracts awarded to the Bath Iron Works Corporation as a result of Mr. Homer's efforts, as outlined above, is about 9 million dollars.

That is the end of the statement.

Senator BONE. What was the average bid price on these destroyers?

Mr. LAROUCHE. We have them all. We have the exact bid prices.

Senator VANDENBERG. I will put that in the record for you, Senator Bone. The United Dry Dock adjusted price bid was $3,400,000. The Bath Iron Works Corporation adjusted price was $3,429,000. The adjusted price for the Federal Shipbuilding & Dry Dock Co. was $3,410,800.

Mr. RAUSHENBUSH. That is for each of two ships, is it not?

Senator VANDENBERG. That is for each of two ships.

That concludes, Mr. LaRouche, the statement taken from Mr. Homer's files?

Mr. LAROUCHE. Yes, sir. I think I might explain it a little by saying that Mr. Homer, at that time and subsequently, told me that he had prepared this thing as part of his general preparation for a suit against the Bath Iron Works, that he was so convinced of the justice of his fee that he intended to and was then negotiating to being a suit.

Senator VANDENBERG. I think, Mr. Chairman, that it would be unfair to attempt to cross-examine Mr. LaRouche with respect to other phases of Mr. Homer's matter, so long as there is any chance that we can deal with him subsequently. But in fairness to Mr. Homer, so far as this day's proceedings are concerned, I do think that Mr. LaRouche should state what Mr. Homer has said regarding his relations with Mr. Gravem.

Mr. LAROUCHE. We had a great deal of discussion about that. Mr. Homer made it clear that Gravem came to see him often, and discussed numerous business deals. Homer said that he had always had an interest in Gravem's family and was interested in Gravem and tried on numerous occasions to help him out, and that they had talked over a good many matters at one time or another.

Just in that connection, in order to establish and to find out what that connection was, we ran across a diary that had been kept in Mr. Homer's office very faithfully day by day over a long period of time. It had been kept by Mr. Homer's secretary. In that diary were noted a great many visits by Mr. Gravem. Sometimes the matter that they discussed was entered in the diary. On one or two occasions the notations were quite complete—that is, quite extended—but we were unable to find in that diary the period in which we are most interested. Mr. Homer explained that by saying that they had not started to keep it at that time. In other words, we wanted to know exactly who had conferred with whom.

The CHAIRMAN. Mr. Homer said they had not started to keep the diary at that time?

Mr. LAROUCHE. Yes, sir.

The CHAIRMAN. Were there any entries prior to that time?

Mr. LAROUCHE. We were unable to find any.

Senator VANDENBERG. That will be subsequently introduced as an exhibit in connection with Mr. Homer's subsequent testimony. The particular thing that I thought we should indicate this afternoon, Mr. LaRouche, is whether or not Mr. Homer had stated to you or to members of the committee in your presence that he ever authorized Mr. Gravem to make any representations to Mr. Wilder.

Mr. LAROUCHE. He did discuss that both in the presence of others and to me alone. Mr. Homer's story was that he had told Gravem that if Mr. Wilder did certain things, if Mr. Wilder would get his company in such and such a condition, and so forth, they would be able to do something for him, and that anything that was obtained as a result of that service would be divided equally between Mr. Homer and Mr. Gravem. Mr. Homer said, "We will split it 50–50."

Senator VANDENBERG. Did he or did he not deny the discussion of any such specific figures as Mr. Gravem is charged with having suggested to Mr. Wilder?

Mr. LAROUCHE. Mr. Homer's figures were much bigger than any I have heard here.

Senator VANDENBERG. Do you recall any statements that Mr. Homer made in that connection?

Mr. LAROUCHE. My recollection is that the fee would be $350,000, but I am drawing entirely on memory.

Senator VANDENBERG. This was in connection with the conversation between Mr. Gravem and Mr. Wilder after Mr. Gravem had had his first interview with Mr. Wilder; is that correct?

Mr. LAROUCHE. That is my memory.

Senator VANDENBERG. I think that is all until Mr. Homer is available.

The CHAIRMAN. Mr. LaRouche, just one thing more: What was Mr. Homer's background prior to his activities here? What have you ascertained concerning his activities?

Mr. LAROUCHE. We have a little sketch of his life that he drew up himself. He told me that for 33 years he had been associated in one way or another with shipbuilders and the shipbuilding business.

The CHAIRMAN. Were his activities exclusively in the shipbuilding business?

Mr. LAROUCHE. No. He sold paint.

The CHAIRMAN. He sold what?

Mr. LAROUCHE. He sold paint.

Senator BARBOUR. Is that marine paint used by shipbuilders?

Mr. LAROUCHE. I do not exactly know. He represented various firms in various capacities. He now represents several. He represented a revolving-door corporation for a while here.

Senator VANDENBERG. He was in the lobster business at one time, was he not?

Mr. LaRouche. So he told me.

The Chairman. In the lobster business?

Mr. LaRouche. Yes, sir. He said it did not turn out very well.

The Chairman. Was he alone in that business?

Mr. LaRouche. No. He said he was a partner of Franklin D. Roosevelt.

Senator Bone. In what business?

Mr. LaRouche. In the lobster business.

Senator Bone. So it may be in the record, would you indicate the type of destroyer that is involved in the awards to these small companies? I will ask if they were 1,500-ton.

Mr. LaRouche. You mean the 6 destroyers awarded to the 3 companies?

Senator Bone. Yes; awarded to the "little three."

Mr. LaRouche. They were 1,500-ton destroyers, usually referred to as "light destroyers."

The Chairman. Mr. LaRouche, the Homer of whom we have been speaking is A. P. Homer?

Mr. LaRouche. Yes; that is correct.

The Chairman. Is there an A. B. Homer in the shipbuilding business?

Mr. LaRouche. Yes. He is an official of the Bethlehem Shipbuilding Corporation.

The Chairman. Are they at all related?

Mr. LaRouche. In no way.

The Chairman. That will be all, Mr. LaRouche.

TESTIMONY OF W. A. CALVIN

(The witness was previously sworn by the chairman.)

Senator Vandenberg. Mr. Calvin, did you hear the testimony of Mr. Gravem this morning?

Mr. Calvin. I did.

Senator Vandenberg. Mr. Gravem indicated that you might have some special reason for cooperating with Mr. Wilder in the preparation of this report upon the Gravem-Wilder interview. Is there any truth to any such statement as that?

Mr. Calvin. The only interest I would have in Mr. Wilder would be the same interest I would have in any other shipbuilder. My only interest is putting men to work. I represent organized workers.

Senator Vandenberg. Your relationship with this entire shipbuilding situation, whether with Mr. Wilder or anyone else, has been exclusively in that phase?

Mr. Calvin. Entirely so.

Senator Vandenberg. You have no other connections with Mr. Wilder of any nature?

Mr. Calvin. None whatever, sir.

Senator Vandenberg. That is all.

TESTIMONY OF JOHN P. FREY—Resumed

Senator Vandenberg. In the course of Mr. Gravem's testimony this morning, he suggested that you had some sort of relationship with

Mr. Wilder which would make you readily amenable to cooperate with him in matters relating to shipbuilding. Is there any truth to that?

Mr. Frey. Absolutely none, Senator.

Senator Vandenberg. You have no relationship with Mr. Wilder whatever?

Mr. Frey. I have no relationship, no association with him. I have never met Mr. Wilder outside of this room and my own office. I have had an interest in Mr. Wilder because when I first met him in June 1933 the Metal Trades Department was tremendously disturbed over the 300,000 or 400,000 skilled metal workers who were out of employment. I thought that if we could get more yards opened up it would more quickly place some of these unemployed at work. That was my only interest.

Senator Vandenberg. That is all so far as I am concerned.

Mr. Raushenbush. Mr. Frey, while you are on the stand, did you ever retract any statement you have made before this committee to the press or anywhere else concerning the matter of that letter you were testifying about at your first appearance.

Mr. Frey. No; I have not, and I would like an opportunity of reaffirming my testimony on that point.

Senator Vandenberg. I think, Mr. Frey, you are entitled to that opportunity. I understand that you are reasserting that you showed this envelop to General Johnson and told him that it purported to contain a prophecy respecting the allocation of naval vessels under the bid letting which was to occur subsequently?

Mr. Frey. Yes. I am reaffirming, reasserting that I offered a sealed envelop to General Johnson approximately 3 days before the bids were opened; that I told him that my information was that the envelop contained the names of the shipyards who would be the lowest bidders for the entire category of ships; that General Johnson refused to accept the envelop; and that he said at the time, "This is too hot for me. I will not take it. I have troubles enough of my own."

The Chairman. That is all, Mr. Frey.

Let it be noted in the record that the committee means to name at once a physician to confer with Mr. Homer's physician and possibly to examine Mr. Homer, and to indicate to the committee when the committee might hope to have Mr. Homer personally before it for examination.

The committee will be in recess until 10 o'clock tomorrow morning.

(Whereupon, the committee recessed at 3:40 p.m. until tomorrow, Friday, Feb. 1, at 10 a.m.)

This concludes the first part of New York Shipbuilding Company's Hearings. See Hearings, Part XIX, for conclusion of this company's testimony.)

APPENDIX

("Exhibit No. 1412" appears in Hearings, Part XIII, appendix, p. 3154.)

Exhibit No. 1413

List of stockholders of the New York Shipbuilding Co., Camden, N. J., at Nov. 30, 1916

	Number of shares
R. Gurlick and C. B. Wells, trustees for Grace J. Day	150
R. Gurlick and C. B. Wells, trustees for M. H. Gurlick	50
Arnold F. Gerstell	20
Howard Hazlett	50
Mary A. Decamp	20
Mrs. Lida L. Spalding	50
Otis & Company	50
DeCourcy May	1
Freeman A. Ford	200
Cyrus J. Lawrence & Sons	300
Geo. A. Huhn & Sons	25
S. A. Rich	10
G. N. Field & Co	10
M. S. Wallach	100
E. I. Ford	800
Julian Kennedy	400
Jennie E. Kennedy	400
Executor and trustee of John Stambaugh	500
Estate of John Stambaugh	200
Ada M. Rodgers	100
David Tod Arrel	105
J. H. Painter	70
E. M. Ferguson	340
Henry Wick	20
Samuel Weil	100
H. A. Magoun	1
Henry Ferguson	400
John M. Lockhart	1, 600
John Marshall Lockhart	400
J. G. Butler, Jr	250
Howland R. Gary	10
Myron C. Wick	200
Executor and trustee of Myron C. Wock	1, 700
D. T. Moore & Co	1, 100
Louis F. Massa	2
Hallgarten & Co	10
Trustees of James McCrea	140
Mrs. Grace Tod Arrel	100
Grace Tod Arrel	40
Ella Scott Brown	240
Sarah Tod Bulkley	15
Grace I. McGraw	34
Mrs. Grace I. McGraw	150

	Number of shares
P. J. Murphy	2
J. K. Rice, Jr. & Co	62
Potter, Choate & Prentice	381
Chester A. Cregrer	5
Wickham Ames	10
Frederick B. Adams	150
Frederic H. Hatch & Co	45
Nathan Fleischer	35
Chas. H. Morse	100
Adam P. Leighton	50
Chas. Koonce, Jr	20
E. and E. Brown & Co	230
D. Leet Wilson	140
Henry Walters	4, 000
Geo. C. Jenkins	745
Jos. W. Jenkins, Jr	415
Samuel M. Knox	105
B. M. Baruch	420
Chas. S. Hall	400
Robert Garrett	500
Ralph A. Stoddard	18
Thomas L. Manson & Co	450
Estate of Henry T. Oliver	2, 750
Henry C. Frick	3, 205
Elizabeth Y. Stephenson	800
James H. Lockhart	2, 020
William S. Hackett	51
Frank J. Lonahan	100
Dollar Saving & Trust Co. (trustee)	500
Do	400
Philip Wick	300
W. Scott Bonnell	150
J. Craig Smith	5
A. Powers Smith	495
John Tod	250
Robert Trimtle	5
Thomas Rodd	150
Joseph Wood	140
Martha F. Mason	400
Janet W. McCune	420
J. D. Callery	250
A. W. Mellon	11, 536
R. B. Mellon	4, 769
Geo. A. Huhn & Sons	25
Total	47, 457

Exhibit No. 1414

Directory of American International Corporation

[Information compiled from Moody's Manuel of Investments, pt. 2, 1916–20]

HISTORY

Incorporated under the laws of New York, in Nov. 1915, as a financial, trading, and holding company. In May 1916 a substantial interest was acquired in the International Mercantile Marine Corp. and the United Fruit Co.

Directors	1916	1917	1918	1919
F. A. Vanderlip, Ch. of Bd	x	x	x	x
J. O. Armour	x	x	x	x
Newcomb Carlton	--------	--------	--------	x
C. A. Coffin	x	x	x	x
W. E. Corey	x	x	x	x
Robert Dollar	x	x	x	x
P. S. Du Pont	x	x	x	x
J. P. Grace	x	x	x	x
J. J. Hill	x	--------	--------	--------
Robert F. Herick	--------	x	x	x
Otto H. Kahn	x	x	x	x
R. S. Lovett	x	x	x	x
A. Monell	x	x	x	x
H. S. Pritchett	x	x	x	x
P. A. Rockefeller	x	x	x	x
John D. Ryan	x	x	x	x
W. L. Saunders	x	x	x	x
James A. Stillman	x	x	x	x
Chas. A. Stone	x	x	x	x
Guy E. Tripp	x	x	x	
P. A. S. Franklin	--------	--------	x	x
T. N. Vail	x	x	x	x
G. J. Baldwin	--------	--------	x	x
E. S. Webster	x	x	x	x
A. H. Wiggin	x	x	x	x
Beekman Winthrop	x	x	x	x
William Woodward	x	x	x	x

DIRECTORY OF DIRECTORS OF AMERICAN INTERNATIONAL CORP., 1913 TO 1920

[Info. compiled from Directory of Directors in the City of N. Y. unless otherwise noted; munitions connection from firms mentioned How America Went to War, by Crowell & Wilson]

War-time directorships and connections of Frank A. Vanderlip

	1913–14	1915–16	1917–18	1919–20
The Nat'l City Bank of N. Y., Pres. & Dir	x	x	x	x
Amer. Security & Trust Co., Wash., D. C., Dir	x	x	--------	--------
Carolina, Clinchfield & Ohio Ry. Co., Dir	x	--------	--------	--------
Chamber of Comm. in the State of N. Y., Mem. of the Exec. Comm.	x	x	x	x
Chesapeake & Ohio Ry. Co., Dir	x	--------	--------	--------
Consolidated Gas Co. of N. Y., Trustee [1]	x	x	x	x
Cumberland Corporation, Dir	x	--------	--------	--------
Farmers Loan & Trust Co., The, Dir	x	x	--------	--------
Hooking Valley Ry. Co., The, Dir	x	--------	--------	--------
John L. Roper Lumber Co., Dir	x	--------	--------	--------
Mercantile Burglar Alarm Co., Dir	x	x	x	x
Mercantile Safe Deposit Co., Trustee	x	x	x	x
Missouri, Kansas & Texas Ry. Co., Dir	x	--------	--------	--------
Nat'l Bank of Commerce in N. Y., Dir	x	x	--------	--------
N. Y. Edison Co., Dir	x	x	x	x
N. Y. University, Trustee	x	x	x	x
Norfolk Southern R. R. Co., Dir	x	x	--------	--------
Northern Westchester Lighting Co., Trustee	x	x	x	x
Oregon Short Line R. R. Co., Dir	x	x	x	x
Oregon Short Line R. R. Co., Dir	x	x	x	x
Peekskill Lighting & R. R. Co., Dir	x	x	x	x
Riggs National Bank, Wash., Dir	x	x	--------	--------
Seaboard Air Line Railway, Dir	x	--------	--------	--------
Stevens Institute, Trustee	x	--------	--------	--------
Union Pacific R. R., Dir	x	x	x	x
U. S. Realty & Improvement Co., Dir	x	x	xx	x

[1] War contracts with U. S. Gov't.

War-time directorships and connections of Frank A. Vanderlip—Continued

	1913–14	1915–16	1917–18	1919–20
White Sulphur Springs, Inc., Dir	x			
Allied Machinery Co. of America, Dir		x		
Century Opera Co., Inc., Dir		x		
McIntosh & Seymour Corp., Dir		x	x	x
National City Co., Dir		x	x	x
The Rail Joint Co., Dir		x	x	
American International Corp., Chr. Bd. Dir			x	x
Carnegie Foundation Trustee			x	x
Haskell & Barker Car Co., Inc., Dir			x	x
International Mercantile Marine Co., Chr. of the Finance Comm. & Dir			x	x
Letelworth Village, Pres. of Bd. of Mgrs			x	x
Midvale Steel & Ordnance Co., Dir.[1]			x	x
N. Y. Queens Elec. Lt. & Power Co., Dir			x	x
N. Y. Clear. Hse. Ass'n., Pres. & Dir			x	
S K F Ball Bearing Co. Dir			x	
Freeport Sulphur Transportation Co., Dir				x
Motor Starter Corp., Dir				x
Freeport Tesas Co., Dir				x
U. S. Rubber Co., Dir.[1]				x
S K F Industries, Inc., Dir				x

[1] War contracts with U. S. Gov't.

War-time directorships and connections of Jonathan Ogden Armour

[Compiled from: Who's Who in Finance & Banking, 1920–1922]

	1813–14	1915–16	1917–18	1919–20	1920–22
Armour & Co., Pres					x
Continental & Commercial Nat'l Bk., Dir					x
Northwestern Nat'l Insurance Co					x
Illinois Central R. R. Co					x
Chicago, Milwaukee & St. Paul R. R. Co					x
Nat'l City Bk. (N. Y.)					x
Hiberian Banking Assoc					x
Armour Grain Co					x
Armour Car Line					x
Armour Institute of Tech., Trustee					x
Prussian Nat'l Insurance, American Trustee (Stettin, Ger.)					x

War-time directorships and connections of Newcomb Carlton

	1913–14	1915–16	1917–18	1919–20
Western Union Telegraph Co., P. & D	x	x	x	x
American District Telegraph Co. of N. J., V. P. & Dir	x	x	x	
Amer. District Telegraph Co. of N. Y., V. P. & Dir	x			x
Holmes Elec. Protective Co., Dir	x			
Internat'l Ocean Telgh. Co., Dir	x	x	x	x
Liberty Nat'l Bk. of N.Y., The, D	x	x		
Amer. Telgh. & Cable Co., P. & Dir		x	x	x
Celluloid Co., The, Dir.[1]		x	x	
Gold & Stock Telgh. Co., P. & Dir		x	x	x
Industrial Finance Corp., Dir		x	x	
Missouri Pacific Ry. Co., Dir		x		
Nat'l Employ't Exch., Dir		x	x	x
St. Louis, Iron Mt. & Southern Ry. Co., Dir		x		
Amer. Surety Co., of N. Y., Trustee			x	x
Chase Nat'l Bk., Dir. (N. Y.)			x	x
Columbia Trust Co., Dir			x	x
Columbia University in the City of N. Y., The T			x	x
Stock Quotation Telgh. Co., Dir			x	x
American Internat'l Corp., Dir				x
Stevens Institute of Tech., Trustee				x

War-time directorships and connections of C. A. Coffin

	1913–14	1915–16	1917–18	1919–20
General Elec. Co., Pres. & Dir.[1]	x	x	x	x
British-Thomson-Houston Co., Ltd., London, Dir	x	x	x	x
Campagnie d'Electricite Thomson-Houston de la Mediterranee, Brussels, Germany, Dir	x	x	---------	---------
Campagnie Francaise pour l'Exploration des Procedes Thomson-Houston, Paris, Dir	x	x	x	x
Detroit Edison Co., Dir	x	x	x	x
Electric Bond & Share Co., Dir	x	x	x	x
Electrical Securities Corp., Dir	x	x	x	x
Montana Power Co., Dir	x	x	x	x
North American Co., Dir	x	x	x	x
American International Corp., Dir	---------	---------	x	x
Illuminating & Power Sec. Corp., Dir	---------	---------	x	x
Union Carbide & Carbon Corp., Dir	---------	---------	---------	x
United Utilities Co., Dir	---------	---------	x	x

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[1] War contracts with U.S. Gov't.

War-time directorships and connections of W. E. Corey

	1913–14	1915–16	1917–18	1919–20
American Bank Note Co., Dir	x	x	x	x
American Mining Co., Dir	x	x	---------	---------
American Sheet & Tin Plate Co., Dir.[1]	x	x	---------	---------
American Steel & Wire Co. of N.J., Dir.[1]	x	x	---------	---------
Calumet & Arizona Mining Co., Dir	x	x	x	---------
Carnegie, Phipps & Co., Ltd., Dir	x	x	---------	---------
Carnegie Steel Co., Dir.[1]	x	x	---------	---------
Carnegie Steel Co., Ltd., The, Dir	x	x	---------	---------
Carnegie Steel Co. of Pa., Dir	x	x	---------	---------
Chi. Lake Shore & Eastern Ry. Co., Dir	x	x	---------	---------
Clairton Steel Co., Dir	x	x	---------	---------
Edgar Zinc Co., Dir	x	x	---------	---------
Gary Land Co., Dir	x	x	---------	---------
Greene Cannanea Copper Co., Dir	x	x	x	x
H. C. Frick Coke Co., Dir	x	x	---------	---------
Illinois Steel Co., Dir.[1]	x	x	---------	---------
Inspiration Consolidated Copper Co., Dir	x	x	x	x
International Motor Co., Dir	x	---------	---------	---------
International Smelting & Refining Co., Dir	x	---------	---------	---------
Mechanics and Metals Nat. Bank of the City of N.Y., Dir	x	x	x	x
Minnesota Iron Co., Dir	x	x	---------	---------
Minnesota Steel Co., Dir	x	x	---------	---------
Montana Power Co., Dir	x	x	x	x
Mount Pleasant Water Co., Dir	x	x	---------	---------
National Tube Co., Dir.[1]	x	x	---------	---------
National Tube Works Co., Dir	x	x	---------	---------
Norfolk & Southern Railway, Dir	x	x	---------	---------
Pittsburgh Steamship Co., Dir	x	x	---------	---------
Sharon Tin Plate Co., Dir	x	x	---------	---------
Shelby Steel Tube Co., Dir	x	x	---------	---------
Trotter Water Co., Dir	x	x	---------	---------
Troy Steel Products Export Co., Dir	x	x	---------	---------
Union Steel Co., Dir	x	x	---------	---------
U.S. Coal & Coke Co., Dir	x	x	---------	---------
U.S. Steel Corporation, Dir.[1]	x	---------	---------	---------
U.S. Steel Products Co., Dir.[1]	x	x	---------	---------
Youghiogheny Northern Ry. Co., Dir	x	x	---------	---------
International Nickel Co., Dir	---------	x	x	x
American International Corp., Dir	---------	---------	x	x
Baldwin Locomotive Works, Dir.[1]	---------	---------	x	x
Cambria Steel Co., Dir.[1]	---------	---------	x	x
Cuba Sugar Cane Corp., Dir	---------	---------	x	x
Haskell & Barker Car Co., Dir	---------	---------	x	x
Headley Gold Mining Co., Dir	---------	---------	x	x
Midvale Steel & Ordnance Co., Pres. & Dir.[1]	---------	---------	x	---------
Midvale Steel Co., Dir	---------	---------	x	x
New Cornelia Copper Co., Dir	---------	---------	x	---------
Remington Arms Co., of Dela., Pres. & Dir.[1]	---------	---------	x	---------
Wasson Piston Ring Co., Dir	---------	---------	x	x
Worth Bros. Co., Dir	---------	---------	x	x
Midvale-Cambria Co., Dir	---------	---------	---------	x

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[1] War Contracts with U.S. Gov't.

War-time directorships and connections of Robert Dollar

	1913–14	1915–16	1917–18	1919–20
Robert Dollar & Co	---------	---------	x	x
Amer. Internat'l Corp., Dir	---------	---------	x	x

War-time directorships and connections of Pierre S. du Pont

[Compiled from N. Y. C.'s Directory of Directors]

	1913–14	1915–16	1917–18	1919–20
E. I. Du Pont De Nemours Powder Co., P. & Dir.[1]	---------	x	x	x
Century Bk. of City of N. Y., Dir	---------	x	---------	---------
Chatham & Phenix Nat'l Bk. of N. Y., Dir	---------	x	x	x
American Internat'l Corp., Dir	---------	---------	x	x
General Motors Co., Dir.[1]	---------	---------	x	x
Bankers' Trust Co., (N. Y.) Dir	---------	---------	---------	x
Philadelphia Nat'l Bk., Phil., Pa., Dir	---------	---------	---------	x

[1] War Contracts with U. S. Gov't.

War-time directorships and connections of Joseph P. Grace

[Compiled from N. Y. C.'s Directory of Directors]

	1913–14	1915–16	1917–18	1919–20
W. R. Grace & Co., Pres. & Dir	x	x	x	x
Atlantic & Pacific Steamship Co., Dir.-Pres	x	x	x	x
Bklyn. Term. Co., Pres. & Dir	x	x	x	x
Emigrant Industrial Savings Bank Trustee	x	x	x	x
Ingersoll Rand Co., Vice-Pres. & Dir.[1]	x	x	x	x
Kings Co. Trust Co., Trustee (Trustee)	x	x	---------	---------
Lincoln Nat. Bank of the City of N. Y., The, D	x	x	x	---------
Lincoln Safe Deposit Co., The, Dir	x	x	x	---------
National City Bank of N. Y., The, Dir	x	x	x	x
N. Y. Trust Co., The, Trustee	x	x	---------	---------
Northern Ins. Co. of N. Y., Dir	x	x	x	x
Terminal Warehouse Co., Dir	x	x	x	x
"The Evergreens" Cemetery, Trustee	x	x	x	---------
American International Corp., Dir	---------	---------	x	---------
Belgrave Realty Co., Inc., Pres. & Dir	---------	---------	x	x
Gilchrest Realty Corporation, Vice pres. & Dir	---------	---------	x	x
Grace Steamship Co., Pres. & Dir	---------	---------	x	x
National City Co., Dir	---------	---------	---------	x
N. Y. Shipbuilding Corporation, Dir.[1]	---------	---------	---------	x
Trustees of Columbia University in the City of N. Y., The, Trustee	---------	---------	---------	x

[1] War Contracts with U. S. Gov't.

War-time directorships and connections of J. J. Hill

	1913–14	1915–16	1917–18	1919–20
Chase Nat'l. Bank, City of N.Y., Dir	x	x	---------	---------
Colorado & Southern Ry. Co., Dir	x	x	---------	---------
First Nat'l. Bank of Chic., Dir	x	x	---------	---------
First Nat'l. Bank of (N.Y.), Dir	x	x	---------	---------
First Nat'l. Bank of (St. Paul), Dir	x	x	---------	---------
First Security Co., of the City of N.Y., Dir	x	x	---------	---------
Great Northern Ry., Co., Dir	x	x	---------	---------
Northern Securities Co., Pres., Dir	x	x	---------	---------
Northwestern Trust Co. (St. Paul), Dir	x	x	---------	---------
St. Paul, Minneapolis & Manitoba Ry. Co., Dir	x	x	---------	---------

War-time directorships and connections of Robert F. Herrick

	1913–14	1915–16	1917–18	1919–20
Smith, Donald, & Farley, Mem. of Firm			x	x
Allied Machinery Co., of Amer., Dir			x	
Amer. International Corp., V. P., & Dir			x	x
Amer. Felt Co., Dir				x
Calumet & Hecla Mining Co., Dir			x	x
J. Spencer Turner Co., Dir			x	x
United Fruit Co., Dir				x
United Shoe Machinery Corp., Dir				x

War-time directorships and connections of Otto H. Kahn

	1913–14	1915–16	1917–18	1919–20
Kuhn, Leob & Co., Member	x	x	x	x
Equitable Trust Co., of N.Y., Trustee	x	x	x	x
Metropolitan Opera Co., Chr. Bd. of Dirs	x	x	x	x
Morristown Trust Co., Dir	x	x	x	x
New Theatre, The, Treas. & Founder	x	x	x	x
Oregon Short Line R.R. Co., Dir	x	x	x	x
Union Pacific R.R. Co., Dir	x	x	x	x
American International Corp., Dir			x	x
Research Corporation, Trustee				x

War-time directorships and connections of Robert S. Lovett

	1913–14	1915–16	1917–18	1919–20
Balt. & Ohio R.R. Co., Dir	x			
Central of Ga. Ry. Co., Dir	x	x	x	x
Chi. & Alton R.R., Dir	x	x	x	x
Delaware & Hudson Co., The, Dir	x	x	x	
Erie R.R. Co., Dir	x			
Fox Point Co., Dir	x	x	x	
Harriman Nat. Bk., The, Dir	x			
Illinois Cent. R.R. Co., Dir	x	x	x	x
Nat. City Bk. of N.Y., Dir	x	x	x	x
N.Y. Susquehanna & West. R.R. Co., Dir	x			
Northern Pacific Term. Co., of Oreg., Dir	x			
Oregon Short Line R.R. Co., Dir	x	x	x	x
Ore. Wash. R.R. & Navigation Co., Dir	x	x	x	x
Portland & Asiatic Steamship Co., P. & Dir	x			
Railroad Securities Co., Pres. & Dir	x	x	x	x
Union Pacific R.R. Co., Dir	x	x	x	x
Western Union Telegraph Co., The, Dir	x	x	x	x
Cleveland, Cincinnati, Chicago & St. Louis Ry. Co., Dir		x	x	x
Mich. Cent. R.R. Co., Dir		x	x	x
N.Y. & Harlem R.R. Co., Dir		x	x	x
N.Y. Cent. R.R. Co., Dir		x	x	x
N.Y., Chi. & St. Louis R.R. Co., Dir		x		
San Pedro, Los Angeles & Salt Lake R.R. Co., Dir		x		
American International Corp., Dir			x	x
Lake Erie & West. R.R. Co., Dir			x	
Los Angeles & Salt Lake R.R. Co., Dir			x	x
West Shore R.R. Co., Dir			x	x
Yazoo & Mississippi Valley R.R. Co., Dir			x	x
Walkill Valley R.R. Co., Dir			x	
Western Union Tel. Co., Dir			x	x
Canada Southern Ry. Co., Dir				x
Detroit River Tunnel Co., Dir				x
N.Y. State Realty & Term. Co., Dir				x
Ocean Steamship Co. of Savannah, Dir				x
Pacific Fruit Express Co., Dir				x
St. Joseph & Grand Island Ry. Co., The, Pres. & Dir				x

War-time directorships and connections of Ambrose Monell

	1913–14	1915–16	1917–18	1919–20
International Nickel Co., P. & Dir	x	x	x	x
American Bank Note Co., Dir	x	x	x	---------
Canadian Copper Co., Dir	x	x	---------	---------
Coronet Phosphate Co., Dir	x	x	x	x
Internat'l Motor Co., Dir	x	x	x	x
Liberty Nat'l Bk. of N.Y., Dir	x	x	x	---------
Air Reduction Co., Inc., Dir.[1]	---------	---------	x	x
American Internat'l Corp., Dir	---------	---------	x	x
Haskell & Barker Car Co., Inc., Dir	---------	---------	x	x
Midvale Steel & Ordnance Co., Dir.[1]	---------	---------	x	---------
Internat'l Motor Truck Corp., Dir	---------	---------	---------	x

[1] Compiled from N.Y.C.'s Directory of Directors.

War-time directorships and connections of H. S. Pritchett

[Compiled from N. Y. C.'s Directory of Directors]

	1913–14	1915–16	1917–18	1919–20
Carnegie Corp. of N.Y. Dir	x	x	x	x
Atchison, Topeka & Santa Fe Ry. Co. The, Dir	---------	x	x	x
Carnegie Foundation Adv. of Teaching, P. & Dir	---------	x	x	x
American Internat'l Corp., Dir	---------	---------	x	x

War-time directorships and connections of Percy A. Rockefeller

	1913–14	1915–16	1917–18	1919–20
Chicago, Milwaukee & St. Paul Ry. Co., Dir	x	x	x	x
Farmers Laon & Trust Co., The, Dir	x	x	---------	---------
Mechanics & Metals Nat. Bank of the City of N. Y., The Dir	x	x	---------	---------
Provident Loan Society of N.Y., The, Dir	x	x	x	x
Second Nat. Bank of the City of N. Y., Dir	x	x	x	x
Star Seal Co., Dir	x	x	x	x
Western Union Telegraph Co., The, Dir	---------	x	x	---------
Air Reduction Co., Inc., Dir	---------	---------	x	x
American International Corp., Dir	---------	---------	x	---------
Midvale Steel & Ordnance Co., Dir.[1]	---------	---------	x	---------
Midvale Steel Co., Dir	---------	---------	x	x
National City Bank of N. Y., Dir	---------	---------	x	x
National City Co., Dir	---------	---------	---------	x
United Metals Selling Co., Dir	---------	---------	---------	x
Western Union Telegraph Co., Dir	---------	---------	---------	x

[1] War contracts with U. S. Govt.

War-time directorships and connections of John D. Ryan

	1913–14	1915–16	1917–18	1919–20
Amalgamated Copper-Co., Pres. & Dir	x	x	x	---------
American Surety Co. of N. Y., Trustee	x	x	x	x
Anaconda Copper Mining Co., Dir	x	x	x	x
Cananea Central Copper Co., Dir	x	---------	---------	---------
Chicago, Milwaukee & St. Paul Ry. Co., Dir	x	x	x	x
Emigrants Industrial Savings Bank, Trustee	x	x	x	x
Green Cananea Copper Co., Dir	x	x	x	---------
Guaranty Trust Co. of N. Y., Director	x	x	---------	---------
Inspiration Consolidated Copper Co., Dir	x	x	x	x
International Smelting & Refining Co., P & D	x	x	---------	---------
Mechanics and Metals Nat. Bk. of the City of N. Y., The, Dir	x	x	x	x
Montana Power Co., Pres. & Dir	x	x	x	x
Tobacco Products Corp., Dir	x	x	---------	---------
United Metals Selling Co., Pres. & Dir	x	x	x	x
American International Corp., Dir	---------	---------	x	x
Cuba Cane Sugar Corp., Dir	---------	---------	x	x

War-time directorships and connections by William L. Saunders

	1913–14	1915–16	1917–18	1919–20
A. S. Camera Steam Pump Works, Dir	x	x	x	x
American Institute of Mining Engineers, P. & D	---------	x	x	x
American International Corp., Dir	---------	---------	x	x
American Manufacturers Export Assn., Dir	---------	---------	---------	x
Federal Reserve Bank of N.Y., Dir	---------	---------	x	x
India House, Dir	---------	---------	x	x
Ingersoll-Rand Co., Chrm. Bd. of Dir.[1]	x	x	x	x
Ingersoll-Sergeant Drill Co., Dir	x	x	x	x
Latin American Public Works Corp., Dir	---------	---------	x	x
Machinery Club, Dir	---------	---------	x	x
N. Y. & Honduras Rosario Mining Co., Dir	---------	---------	x	x
Edison-Saunders Compressed Air Co., Dir	x	x	---------	---------
International Harvester Co. of N. J., Dir.[1]	x	x	x	---------
International Harvester Corp., Dir	x	x	x	---------
International Pneumatic Tube Co., Dir	x	x	---------	---------
N. Y. Imperial Tool Co., Pres. & Dir	x	---------	---------	---------
Peoples Nat. Bank of Westfield, The, Dir	x	x	---------	---------
Rand Drill Co., Pres. & Dir	x	x	---------	---------
Milliken Bros., Dir	---------	---------	x	---------

[1] War contract with U.S. Gov't.

War-time directorships and connections by James A. Stillman

	1913–14	1915–16	1917–18	1919–20
Delaware Lackawanna & Western Coal Co., Dir	x	x	x	x
The Farmers Loan & Trust Co., Dir	x	x	---------	---------
Fidelity Bank, Vice Pres. & Dir	x	x	---------	---------
The National City Bank of N. Y., Vice Pres., Dir	x	x	x	x
National Golf Links of America, Treas., Dir	x	x	---------	---------
Second Nat. Bank of the City of N. Y., Dir	x	x	x	---------
Fifth Avenue Safe Deposit Co., Dir. & Vice Pres	---------	x	x	x
American International Corporation, Dir	---------	---------	x	x
The National City Co., Dir	---------	---------	x	x
Tlahualilo Agricultural Co., Dir	---------	---------	x	x
American Alliance Insurance Co., Dir	---------	---------	---------	x
Chicago & Northwestern Ry. Co., Dir	---------	---------	---------	x
Discount Corporation of N. Y., The, Dir	---------	---------	---------	x
Great American Insurance Co., Dir	---------	---------	---------	x
Montana Farms Corporation, Dir	---------	---------	---------	x
N. Y. & Brownsville Improvement Co., Vice Pres., Dir	---------	---------	---------	x
Queens Insurance Co. of America, Dir	---------	---------	---------	x
Terminal Warehouse, Dir	---------	---------	---------	x

War-time directorships and connections of Charles A. Stone

	1913–14	1915–16	1917–18	1919–20
American International Corp., P. & Dir	---------	---------	x	x
Freeport Texas Co., Dir	---------	---------	x	x
International Mercantile Marine Co., Dir	---------	---------	x	x
N. Y. Shipbuilding Corp., Dir.[1]	---------	---------	x	x
Pacific Mail Steamship Co., Dir	---------	---------	x	x

[1] War contract from U.S. Government.

War-time directorships and connections of Guy E. Tripp

	1913–14	1915–16	1917–18	1919–20
American Surety Co. of N.Y., Trustee	x	x	x	x
Bryant Electric Co. Dir	x	x	x	x
Canadian Westinghouse Co., Ltd., Dir	x	x	x	x
Electric Properties Co., Dir	x	x	---------	---------
Lackawanna & Wyoming Valley Rapid Transit Co., Dir	x	---------	---------	x
N.Y. Railways Co., Dir	x	---------	---------	---------
Niagara, Lockport & Ontario Power Co	x	---------	---------	---------
Perkins Electric Switch Mfg. Co., Dir	x	x	---------	---------
R. D. Nuttall Co., Dir	x	x	x	x
U. S. Mortgage & Trust Co., Dir	x	x	---------	---------
Westinghouse, Church, Kerr & Co., Dir	x	x	x	x
Westinghouse Elec. & Mfg. Co., Chrmn. of Bd.[1]	x	x	x	x
Westinghouse Lamp Co., Dir	x	x	x	x
American Water Works & Electric Co., Dir	---------	x	x	---------
Franklin Trust Co., Trustee	---------	x	---------	---------
145th St. Crosstown R.R. Co., Dir	---------	x	x	x
Pennsylvania Electric Co., Dir	---------	x	x	x
Westinghouse Machine Co., Dir	---------	x	x	x
Westinghouse Metal Filament Lamp Co., Ltd., of London, Chrmn. of Bd. of Dir	---------	---------	x	x
Westinghouse Metallfaden Gluhlampenfabrik-Gesellschaft m. b. H. Vienna, Chrmn. of Bd. of Dir	---------	x	---------	x
West Penn Railways Co. Pres. & Dir	---------	x	x	---------
West Penn Traction & Water Power Co. Pres. & Dir	---------	x	x	---------
West Penn Traction Co. Pres. & Dir	---------	x	x	---------
Wheeling Traction Co., Pres. & Dir	---------	x	---------	---------
American International Corp., Dir	---------	---------	x	---------
Baldwin Locomotive Works, Dir.[1]	---------	---------	x	---------
Bryant Electric Co., Dir	---------	---------	x	---------
Butterworth-Judson Corp., of N.J., Dir	---------	---------	x	---------
Chase Nat. Bank of the City of N.Y., Dir	---------	---------	x	x
Federal Light & Traction Co., Dir	---------	---------	x	---------
Interborough Consolidated Corp., Dir	---------	---------	x	x
Interborough Rapid Transit Co., Dir	---------	---------	x	x
J. Stevens Arms & Tool Co., Dir	---------	---------	x	x
Morris Plan Co., of N.Y., The, Dir	---------	---------	x	x
New England Westinghouse Co., Dir	---------	---------	x	x
Pan-American Debenture Corporation, Dir	---------	---------	x	---------
Pittsburgh Meter Co., Dir	---------	---------	x	x
Wabash Ry. Co., Dir	---------	---------	x	x
Western Light & Power Co., Dir	---------	---------	x	---------
Westinghouse Electric Export Co., Dir	---------	---------	x	---------
Westinghouse Gear & Dynamometer Co., Dir	---------	---------	x	x
West Penn Power Co., Dir	---------	---------	x	---------
Westinghouse, Church, Kerr & Co., Inc., Pres. & Chrmn. of Bd. of Dir	---------	---------	x	x
Westinghouse Elec. International Co. Chrmn. of Bd. of Dir	---------	---------	x	x

War-time directorships and connections of P. A. S. Franklin

	1913–14	1915–16	1917–18	1919–20
International Mercantile Marine Co., Pres	x	x	x	x
Atlantic Mutual Insurance Co., Dir	x	x	x	x
Atlantic Transport Co., Pres., Mgr. & Dir	x	x	x	x
Atlantic Transport Co., Ltd., Dir	x	x	---------	x
International Elevating Co., Dir	x	x	x	x
National Surety Co., Dir	x	x	x	x
N.Y. & Queens Elec. Lt. & Power Co., Dir	x	---------	---------	---------
N.Y. Bd. of Trade & Trans. Dir	x	---------	---------	---------
Subscribers at U.S. Lloyds, Mem. of Advisory Comm	x	x	x	x
Terminal Warehouse Co., Dir	x	x	x	x
Amer. Exch. Nat. Bk., The, Dir	---------	x	---------	---------
Cham. of Comm. of the State of N.Y. Mem. of Exec. Comm	---------	x	---------	---------
Landale Ry. Ball-Bearing Co., Inc., Dir	---------	x	---------	---------
Mercantile Safe Deposit Co., The, Trustee	---------	x	x	x
Seamans Bk. for Savings in the City of N.Y., Trustee	---------	x	x	x
Nat. City Bk. The, Dir., N.Y.	---------	---------	x	x
American International Corp., Dir	---------	---------	---------	x
Chelsea Lighterage Co., Dir	---------	---------	---------	x
N.Y. Shipbuilding Corp., Dir.[1]	---------	---------	---------	x
U.S. "Lloyds" Inc., Dir	---------	---------	---------	x

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[1] U. S. war contract.

War-time directorships and connections of T. N. Vail

	1913–14	1915–16	1917–18	1919–20
American District Telegraph Co. N. J., Pres., Dir	x	--------	--------	--------
" " Co. N. Y., Pres., Dir	x	--------	--------	--------
" Surety Co. of N. Y., trustee	x	x	x	x
" Telegraph & Cable Co., Pres., Dir	x	--------	--------	--------
" " Co., Pres., Dir	x	--------	--------	--------
" Tel. & Tel. Co., Pres., Dir	x	x	x	x
Astor Trust Co., Dir	x	x	--------	--------
Bell Telephone Co. of Canada, Ltd., Dir	x	x	x	x
Blaugas Co. of Amer., Dir	x	x	--------	--------
Boston & Maine R. R., Dir	x	--------	--------	--------
Boston R. R. Holding Co., Dir	x	--------	--------	--------
Chicago Telephone Co., Dir	x	x	x	x
Cincinnati & Suburban Bell Telphone Co., Dir	x	x	x	x
Cordoba Lgt. Pwr. & Traction Co., Dir	x	x	x	x
Cumberland Tel. & Tel. Co., Dir	x	x	x	x
Gold & Stock Telegraph Co., Dir., Pres	x	--------	--------	--------
International Ocean Telegraph Co., Dir., Pres	x	--------	--------	--------
Iowa Telephone Co., Dir	x	x	x	x
Lyndonville (Vermont) Creamery Assoc., Pres., Dir	x	x	x	x
Lyndonville (Ver.) National Bk., Pres., Dir	x	x	x	x
Marine & Inland Telegraph Co., Pres., Dir	x	--------	--------	--------
Michigan State Telephone Co., Dir	x	x	x	x
Missouri & Kansas Telephone Co., Dir	x	x	--------	--------
Mountain States Tel. & Tel. Co., Dir	x	x	x	x
National Shawmut Bank, Dir	x	x	x	x
Nebraska Telephone Co., Dir	x	x	x	x
New England Casualty Co., Dir	x	--------	--------	--------
" " Navigatiln Co., Dir	x	--------	--------	--------
" " Tel. & Tel. Co., Dir	x	x	x	x
N. Y. Mutual Telegraph Co., Pres., Dir	x	--------	--------	--------
N. Y., New Haven & Hartford R. R. Co., The, Dir	x	--------	--------	--------
N. Y. Telephone Co., Ch. of Bd., Dir	x	x	x	x
Pacific Tel. & Tel. Co., Dir	x	x	x	x
Providence Telephone Co., Dir	x	x	x	x
Southern & Atlantic Telegraph Co., Pres., Dir	x	--------	--------	--------
Southern Bell Tel. & Tel. Co., Pres., Dir	x	x	x	x
Southern New England Telephone Co., Dir	x	x	x	x
Southwestern Tel. & Tel. Co., Dir	x	x	x	x
U. S. Rubber Co., Dir.[1]	x	x	x	x
Western Electric Co., Dir.[1]	x	--------	--------	--------
Western Tel. & Tel. Co., Pres., Dir	x	--------	--------	--------
Western Union Telegraph Co., Pres. and Dir	x	--------	--------	--------
Wisconsin Telephone Co., Dir	x	x	x	x
Cleveland Telephone Co., Dir	--------	x	x	x
Cordova Light & Power Co., Pres. and Dir	--------	x	x	x
Empire City Subway Co., Ltd., Dir	--------	x	x	x
First Nat'l Bk. of N. Y., Dir	--------	x	x	x
Northwestern Telephone Exchange Co., Dir	--------	x	x	x
Advanced Agricultural Pubs. Co., Inc., Dir	--------	--------	x	--------
American Internat'l Corp., Dir	--------	--------	x	x
Quebradas Co., The, Dir	--------	--------	x	--------
First Security of the City of N. Y., Dir	--------	--------	--------	x

War-time directorships and connections of G. J. Baldwin

	1913–14	1915–16	1917–18	1919–20
Sr. V. Pres. & Dir. of American Internat'l Corp., 120 Bdw'y	--------	--------	x	x
Allied Machinery Co. of Amer., Dir	--------	--------	x	--------
Columbus, Ga., R. R. Co., Vice Pres. Dir	--------	--------	x	x
Gainesville, Ga., Midland Ry., Pres., Dir	--------	--------	x	x
Jacksonville, Fla., Tractions Co., Pres., Dir	--------	--------	x	x
Key West, Fla., Elect. Co., Pres., Dir	--------	--------	x	x
N. Y. Shipbuilding Corp., Chrm. of Bd. of Dir.[1]	--------	--------	x	x
Pacific Mail Steamships Co., Pres., Dir	--------	--------	x	x
Pensacola, Fla., Elect. Co., Pres., Dir	--------	--------	x	x
Rosin & Turpentine Export Co., of Ga., Dir	--------	--------	x	x
Savannah, Ga., Elect. Co., Pres., Dir	--------	--------	x	x
Tampa, Fla., Elect. Co., Pres. & Dir	--------	--------	x	x
American Balso Co., Inc., Dir	--------	--------	--------	x
American International Shipbldg. Corp. Chm. of Bd. of Dir	--------	--------	--------	x
Chatham Bank & Trust Co., Dir	--------	--------	--------	x
G. Amsinck & Co., Inc., Dir	--------	--------	--------	x

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[1] Compiled from N. Y. C.'s Directory of Directors.

War-time directorships and connections of Edwin S. Webster

	1914	1915	1916	1917	1918	1919
Stone & Webster	x	x	x	x	x	x
Blackstone Valley Gas & Elect. Co. Dir	x	x	x	x	x	x
Blue Hill St. Ry. Co., Dir	x	x	x	x	---------	---------
Brocton & Plymouth, St. Ry. Co., Dir	x	x	x	x	x	x
Cape Breton Elect. Co., Ltd., Dir	x	x	x	x	x	x
Chase Shawmut Co., Dir	x	x	x	x	x	x
Columbus Elec. Co., Dir	x	x	x	x	x	x
Commonwealth, Tr. Co., D. Y. M. ex. Comm.	x	---------	---------	---------	---------	---------
Connecticut Power Co., Dir	x	x	x	x	x	x
Connecticut Valley Lumber Co., Trustee	x	x	x	x	x	x
Dallas Elec. Co., Dir	x	x	x	x	---------	---------
El Paso Elec. Co., Dir	x	x	x	x	x	x
Fall River Gas Wks., Co., Dir	x	x	x	x	x	x
Fort Hill Chem., Co., Dir	x	x	x	x	---------	---------
Gen. Electro Chem. Co., Dir	x	x	---------	---------	---------	---------
Haverhill Gas Co., Dir	x	x	x	x	x	---------
Houghton Co. Elec. Lgt. Co., Dir	x	x	x	x	x	x
Houghton Co., Traction Co., Dir	x	x	x	x	x	x
Jacksonville Traction Co., Dir	x	x	x	x	x	x
Key West Elect. Co., The Dir	x	x	x	x	x	x
Lowell Elec. Light. Corp., The, Dir	x	x	x	x	x	x
Mass. Fire & Marine Ins. Co., Dir	x	x	x	---------	---------	---------
Mass. Inst. of Tech., Mbr. of Corp	x	x	x	x	x	x
Miss. River Power Co., Pres. & Dir	x	x	x	x	x	x
Northern Texas Elec. Co., Dir	x	x	x	x	x	x
Paducah Traction & Lgt. Co., Dir	x	x	x	x	x	x
Pensacola Elec. Co., Dir	x	x	x	x	x	x
Ponce Elec. Co., Dir	x	x	x	x	x	x
Public Serv. Invest. Co., Dir	x	x	x	x	x	x
Puget Sound Elec. Ry. Dir	x	x	---------	---------	---------	---------
Puget Sound Traction, Light & Power Co., Dir	x	x	x	x	x	x
Ry. & Lgt. Securities Co., Dir	x	x	x	x	x	x
Savannah Elec. Co., Dir	x	x	x	x	x	x
Stone & Webster Engrg. Corp., Dir	x	x	x	---------	---------	---------
Stone & Webster Mgmt. Assoc., Dir	x	x	x	---------	---------	---------
Tampa Elec. Co., Dir	x	x	x	x	x	x
Boston Consolidated Gas Co., Dir	---------	---------	x	x	x	x
Chicago, Wilmington & Franklin Coal Co., Dir	---------	---------	x	x	x	x
Federal Coal & Coke Co., Dir	---------	---------	x	x	x	x
Galveston-Houston Elec. Co., Dir	---------	---------	x	x	x	x
Haskell & Barker Car. Co. Inc., Dir	---------	---------	x	x	x	x
Massachusetts Gas Co., Trustee	---------	---------	x	x	x	x
New England Coal & Coke Co., Dir	---------	---------	x	x	x	x
New England Gas & Coke Co., Dir	---------	---------	x	x	---------	---------
Sierra Pacific Elec. Co., Dir	x	---------	x	x	x	x
American Internat'l Corp., Dir	---------	---------	---------	x	x	x
Latin American Corp., Dir	---------	---------	---------	x	x	x
Massachusetts Horticultural Society, Trustee	---------	---------	---------	x	x	x
First Nat'l. Corp., Dir	---------	---------	---------	---------	x	---------
New England Fuel Transportation Co., Trustee	---------	---------	---------	---------	x	x
New England Mfg. Co., Dir	---------	---------	---------	---------	x	x

War-time directorships and connections of Albert H. Wiggin

	1913–14	1915–16	1917–18	1919–20
Aachen & Munich Fire Ins. Co., U. S. Trustee	x	x	x	x
American Cities Co., Dir	x	x	---------	x
American Locomotive Co., Dir.[1]	x	x	x	x
American Security Co. of N. Y., Trustee	x	x	x	x
Astor Trust Co., Director	x	x	x	---------
B. F. Goodrich Co., The, Dir.[1]	x	---------	---------	---------
Bankers Elec. Protective Ass'n., Dir	x	x	---------	---------
City of N. Y. Insurance Co., Dir	x	x	---------	---------
Chase Nat. Bk. of the City of N. Y., Pres. & Dir	x	x	x	x
Fidelity-Phenix Fire Ins. Co. of N. Y., Dir	x	x	x	x
Greenwich Savings Bank, The, Dir	x	x	x	x
Guaranty Safe Deposit Co., Dir	x	x	x	x
Hale & Kilburn Co., Dir	x	x	---------	---------
Hospital Sat. & Sun. Ass'n., Trustee	x	x	---------	---------
Inspiration Consolidated Copper Co., Inc., Dir	x	---------	x	x
International Agricultural Corp., Dir	x	---------	x	x
International Paper Co., Dir	x	x	x	x
Lawyers Title Insurance & Trust Co., Dir	x	---------	---------	---------
Liberty Nat. Bank of N. Y., The, Dir	x	x	---------	---------
Mercantile Safe Deposit Co., Trustee	x	x	x	---------
Montana Power Co., Dir	x	x	x	x
Music School Settlement, Mem. Bd. Mgrs	x	x	---------	---------

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[1] War contracts with U. S. Government.

War-time directorships and connections of Albert H. Wiggin—Continued

	1913–14	1915–16	1917–18	1919–20
Mutual Trust Co. of Westchester Co., Portchester, N. Y., Dir	x	x		
Nat. Bank of Commerce in N. Y., Dir	x	x		
Northwestern Mutual Life Ins. Co., Trustee	x			
Philadelphia Co., Dir	x	x	x	
Plymouth National Bank, Plymouth, Mass., Dir	x	x		
Ridgefield School for Boys, Ridgefield, Conn., Trustee	x	x		
Seaboard Airline Ry., Dir	x	x	x	x
St. Louis, Iron Mountain & South. Ry. Co., Dir	x		x	
Tobacco Products Corp., Dir	x	x		
Union Exchange Nat. Bank of N. Y., Dir	x	x		
Westinghouse Elec. & Mfg. Co., Dir.[1]	x		x	x
American Sugar Refining Co., Dir		x	x	x
Bankers Trust Co., Dir		x		
East Side House, Mem. Bd. of Mgrs		x		
Erie R. R. Co., Dir		x	x	
First Nat. Bank of Hempstead, L. I., Dir		x		
Hudson & Manhattan R. R. Co., Dir		x	x	x
Lawyers Title & Trust Co., Dir		x	x	x
Mercantile Stores Corp., Dir		x	x	x
Metropolitan Life Insurance Co., Dir		x	x	x
Pacific Coast Co., The, Dir		x	x	x
Western Union Telegraph Co., The, Dir		x	x	x
American Internalonal Corp., Dir			x	x
Cincinnati, Indianapolis & Western R. R. Co., Dir			x	
Great Falls Power Co., Dir			x	x
Midvale Steel & Ordnance Co., Dir.[1]			x	x
National Acme Mfg. Co., Dir			x	x
Adams Express Co., Dir			x	x
American Foreign Banking Corp., Ch. Bd. Dirs				x
Missouri Pacific R. R. Co., The, Dir				x
American Ry. Express Co., Dir				x
Astor Safe Deposit Co., Dir				x
Chase Securities Corp., Pres. & Dir				x
Rail Joint Co., The, Dir				x
Southern Express Co., Dir				x
American Foreign Securities Corp., Dir				x
N. Y. Clearing Hse. Assn., Mem. of Comm				x
National Conduit & Cable Co., Dir				x

[1] War contracts with U. S. Government.

War-time directorships and connections of Beekman Winthrop

	1913–14	1915–16	1917–18	1919–20
Robert Winthrop & Co., member		x	x	x
Farmers' Loan & Trust Co., Dir		x	x	x
Lackawanna Steel Co., Dir.[1]		x	x	x
Nat'l City Bank of N. Y., Dir		x		
American International Corp., Dir			x	x
Deer Range Corp., Dir			x	x
Dela., Lack. & Western R. R. Co., Dir			x	x
Pere Marquette Ry. Co., Dir			x	x
Roslyn Savings Bank, trustee			x	x
America Balsa Co., Inc., Dir				x
Cayuga & Susquehanna R. R. Co., Dir				x
National City Co., Dir				x
N. Y. Shipbuilding Co., Dir.[1]				x

[1] War contracts with U. S. Government.

War-time directorships and connections of William Woodward

	1913–14	1915–16	1917–18	1919–20
Hanover Nat'l Bk. of City of N. Y., Pres., Dir	x	x	x	x
Birmingham Realty Co., Dir	x	x	x	x
Colonial Bk., The, Dir	x	x	x	x
Hanover Safe Deposit Co., V. P. & Dir	x	x	x	x
Union Trust Co. of N. Y., Trustee	x	x	x	
United Shoe Machinery Corp., Dir	x	x	x	x
Fed. Reserve Bk. of N. Y., Dir		x	x	
Greenwich Savings Bk., The, Trustee		x	x	x
American Internat'l Corp., Dir			x	x
Royal Ins. Co., Ltd., Mbr. of Bd. of Mgmnts				x
Continental Fire & Ins. Co., The, Dir				x
Central Union Trust Co., of N. Y., Trustee				x

DIRECTORS OF AMERICAN INTERNATIONAL CORPORATION, 1934

[Information compiled from Moody's Manual of Investments, American & Foreign, 1934]

M. C. Brush
H. A. Arthur
Charles Hayden
Steele Mitchell
F. E. Notebaert
F. W. Scott
Frank Altschul
Buford Scott
Arthur Lehman
Gordon Auchincloss
D. G. Millar
G. H. Walker

DIRECTORSHIPS OF DIRECTORS OF AMERICAN INTERNATIONAL CORPORATION, 1934

[Information compiled from Poor's Directory of Directors, 1934]

Matthew C. Brush, Chrm. of Board, Chrm. of Exec. Comm. & Dir.

1. Abilene & Southern Ry. Co., Dir.
2. American Hawaiian S. S. Co., Dir.
3. Air Reduction Co., Dir.
4. Brooklyn Manhattan Transit Co., Mem. Exec. Comm. & Fin. Comm. & Dir.
5. Foster Wheeler Corp., Dir.
6. Continental Can Co., Inc., Mem. Exec. Comm. & Dir.
7. New York Rapid Transit Co., Mem. Exec. Comm. & Dir.
8. Williamsburg Power Plant Corp., Dir.
9. Brooklyn & Queens Transit Corp., Dir.
10. Cisco & Northeastern R. R. Co., Mem. Exec. Comm. & Dir.
11. Denison & Pacific Suburban Ry. Co., Mem. Exec. Comm. & Dir.
12. Equitable Office Bldg. Corp., Vice Pres., Chrm., Exec. Comm., & Dir.
13. Empire Trust Co., Mem. Exec. Comm. & Dir.
14. Madison Square Garden Corp., Mem. Exec. Comm. & Dir.
15. Texas-New Mexico Ry. Co., Mem. Exec. Comm. & Dir.
16. Texas & Pacific Motor Transport Co., Mem. Exec. Comm. & Dir.
17. Texas & Pacific R. R. Co., Dir.
18. Plymouth Rubber Co., Inc., Dir.
19. United States & International Securities Corp., Dir.
20. U. S. Industrial Alcohol, Dir.
21. Vanadium Corp. of America, Dir.

Harry A. Arthur, Pres. & Dir.

1. Allied Machinery Co. of America, Dir.
2. American International Corp., Vice Pres. & Dir.
3. Baton Rouge Electric Co., Dir.
4. China Corp., Dir.
5. Eastern Texas Electric Co., Dir.
6. Gulf States Utilities, Dir.
7. Key West Electric Co., Dir.
8. Louisiana Electric Co., Inc., Dir.
9. Mesilla Valley Electric Co., Dir.
10. Ponce Electric Co., Dir.
11. Siems Carey Railway & Canal Co., Dir.
12. Ulen & Co., Dir.
13. Western Public Service Co., Dir.

Charles Hayden, Dir.

1. Hayden, Stone & Co., Senior Partner.
2. Adams Express Co., Chr. Bd. of Mgrs. & Mem. Exec. Comm.
3. Allis-Chalmers Mfg. Co., Dir.
4. American Agricultural Chemical Co., Mem. Exec. Comm. & Dir.
5. American Express Co., Dir.
6. American Express Co., Inc., Dir.
7. American Locomotive Co., Mem. Exec. Comm. & Dir.
8. American Woolen Co., Inc., Mem. Exec. Comm. & Dir.
9. Art Metal Construction Co., Dir.
10. Bingham & Garfield Ry., Vice Pres. & Dir.
11. Braden Copper Co., Dir.
12. Brooklyn Bus Corp., Dir.
13. Brooklyn-Manhattan Transit Co., Mem. Exec. & Fin. Comm. & Dir.
14. Brooklyn & Queens Transit Corp., Mem. Exec. Comm. & Dir.
15. Burns Bros. of N. J., Dir.

Charles Hayden, Dir.—Continued.

16. Burns Bros. of N. Y., Dir.
17. Butte & Superior Mining Co., Vice Pres., Mem. Exec. Comm. & Dir.
18. Carib Syndicate, Ltd., Dir.
19. Chicago, Rock Island & Pacific Ry. Co., Chr. Fin. Comm. & Bd. of Dir.
20. Coca-Cola Co., Dir.
21. Colon Oil Corp., Dir.
22. Cuban Portland Cement Corp., Dir.
23. Curtiss Aeroplane & Motor Co., Inc., Dir.
24. Curtiss-Wright Corp., Mem. Exec. Comm. & Dir.
25. Curtiss-Wright Export Corp., Dir.
26. Devon Corp., Dir.
27. Eastern Steamship Lines, Inc., Dir.
28. Eastern Massachusetts Street Rys. Co., Dir.
29. 87th & East End Ave. Corp., Dir.
30. Electric Power & Light Co., Mem. Exec. Comm. & Dir.
31. Equitable Trust Co. of N. Y., Dir.
32. Gallup American Coal Co., Chr. of Bd. of Dir.
33. General Realty & Utilities Corp., Mem. Exec. Comm. & Dir.
34. Georgia & Florida R. R. Co., Voting Trustee.
35. Granby Consolidated Mining, Smelting & Power Co., Ltd., Chr. Bd. of Dir.
36. Granite City Steel Co., Chr. Bd. of Dir.
37. Hotel Waldorf Astoria Corp., Chr. Bd. of Dir.
38. Hupp Motor Car Corp., Mem. Exec. Comm. & Dir.
39. Interborough Rapid Transit Co., Mem. Exec. Comm. & Dir.
40. Intercontinental Rubber Co., Mem. Fin. Comm. & Dir.
41. International Cement Corp., Dir.
42. International Motor Co., Mem. Exec. Comm. & Dir.
43. International Nickel Co., Inc., Chr. Bd. of Dir.
44. International Nickel Co. of Canada, Ltd., Chr. Bd. of Dir.
45. International Products Corp., Mem. Exec. Comm. & Dir.
46. Kennecott Copper Corp., Chr. Fin. Comm. & Dir.
47. Knickerbocker Cement Co., Dir.
48. Mack Trucks, Inc., Mem. Exec. Comm. & Dir.
49. Mass. Institute of Technology, Life Mem. of Corp.
50. Matauzas Sugar Co., Mem. Exec. Comm. & Dir.
51. Mathieson Alkali Works, Inc., Mem. Exec. Comm. & Dir.
52. Metropolitan Opera Assn., Inc., Dir.
53. Montreal Locomotive Wks., Ltd., Mem. Exec. Comm. & Dir.
54. National Enameling & Stamping Co., Mem. Exec. Comm., Chr. Fin. Comm. & Bd. of Dir.
55. National Horse Show Ass'n. of America, Ltd., Dir.
56. National Surety Corp. of N. Y., Dir.
57. Nevada Consolidated Copper Corp., Vice Pres. in chge. of Fin., Mem. Exec. Comm. & Dir.
58. Nevada Northern Ry. Co., Vice Pres. & Dir.
59. N.Y. Rapid Transit Co., Mem. Exec. Comm. & Dir.
60. N.Y. Trust Co., Mem. Exec. Comm. & Trustee.
61. Otis Elevator Co., Mem. Exec. Comm. & Dir.
62. Pacific Commercial Co., Dir.
63. Pacific Fire Ins. Co., Dir.
64. Petroleum Corp. of America, Exec. Comm. & Dir.
65. Pond Creek Pocahontas Co., Dir.
66. Punta Alegre Sugar Co., Dir.
67. Ritz-Carlton Hotel Co., of Boston, Dir.
68. Shell Union Oil Corp., Mem. Exec. Comm. & Dir.
69. Southern Phosphates Corp., Dir.
70. Sterling Securities Corp., Dir.
71. Thompson Starrett Co., Inc., Mem. Fin. Comm. & Cir.
72. Twin Cities Rapid Transit Co., Dir.
73. Underwood Elliott Fisher Co., Mem. Fin. Comm. & Dir.
74. United Gas Corp., Mem. Exec. Comm. & Dir.
75. United States & International Securities Corp., Mem. Exec. Comm. & Dir.

Charles Hayden, Dir.—Continued.

76. Utah Copper Co., Vice Pres., Chr. Fin. Comm. & Dir.
77. Utah Power & Light Co., Mem. Exec. Comm. & Dir.
78. Ward Baking Corp., Mem. Exec. Comm., Chr. of Bd. & Dir.
79. Williamsburgh Power Plant Corp., Dir.
80. Wright Aeronautical Corp., Mem. Exec. Comm. & Dir.

Steele Mitchell, Dir.

1. Hayden Stone & Co.
2. Adams Express Co., Dir.
3. Southern Express Co., Dir..

Frederick William Scott, Dir.

1. Scott & Stringfellow, Partner.
2. New York Stock Exchange, Member.
3. Atlantic Coast Line R.R. Co., Dir.
4. Chicago, Rock Island & Pacific Ry. Co., Dir.
5. Louisville & Nashville R. R. Co., Dir.
6. General American Investors Co., Dir.

Frank Altschul, Mem. Exec. Comm. & Dir.

1. Lazard Freres, Partner.
2. General American Investors Co., Inc., Pres. & Dir.
3. Commercial Investment Trust Corp., Dir.
4. Gulf States Steel Co., Mem. Exec. Comm. & Dir.
5. Internationale Bank te Amsterdam, Amsterdam, Dir.
6. American Eagle Fire Insurance Co., Dir.
7. Minerals Separation No. American Corp., Voting Trustee & Dir.
8. U. S. Leather Co., Voting Trustee.
9. New York Stock Exchange, Mem. Governing Comm. & Chr. Comm. on Stock List.
10. Radio Keith-Orpheum Corp., Dir. & Mem. Exec. Comm.
11. B. F. Keith Corp., Dir.

Buford Scott, Dir.

1. Scott & Stringfellow, Partner.
2. Virginia Carolina Chemical Corp., Dir.
3. Continental Insurance Co., Dir.
4. Wesson Oil & Snowdrift Co., Dir.

Arthur Lehman, Dir.

1. Lehman Brothers, Partner.
2. Continental Can Co., Inc., Dir.
3. General American Investors Co., Inc., Dir.
4. Cuban Tobacco Co., Inc., Dir.
5. Southern States Land & Timber Co., Dir.
6. General Development Co., Dir.
7. Underwood Elliott Fisher Co., Dir.
8. Pennsylvania-Dixie Cement Corp., Dir.
9. City Housing Corp., Dir.
10. Jewel Tea Co., Inc., Dir.
11. Lehn & Fink Products Co., Director.
12. Bing & Bing, Inc., Dir.
13. Amalgamated Leather Co., Inc., Dir.
14. Federated Department Stores, Inc., Dir.
15. Associated Rayon Corp., Dir.
16. Radio-Keith-Orpheum Corp., Dir.
17. Lehman Corp., Pres. & Dir.
18. Abraham & Straus, Inc., Dir.
19. Commercial Investment Trust Co., Inc., Dir.
20. The Studebaker Corp., Dir.
21. Marine Midland Trust Co. of N. Y., Dir.

Gordon Auchincloss, Dir.

1. Auchincloss & Duncan, Partner.
2. Compania Hispano Americano de Electricidad, Dir.
3. Societe Financiere de Transports et d'Enterprises Industrielles, Dir.
4. The Chase National Bank of N. Y., Dir.
5. The Equitable Trust Co. of N. Y., Dir.
6. Electric Overseas Investment Co., Pres. & Dir.
7. Solvay American Investment Corp., Pres. & Dir.

Gordon Auchincloss, Dir.—Continued.
  8. Crosse and Blackwell, Inc., Dir.
  9. York Royalty Co., Dir.
  10. Libbey Owens Securities Corp., Dir.
  11. Z. & F. Assets Realization Corp., Dir.
  12. Jandon Corporation, Pres. & Dir.
  13. International Paper and Power Co., Dir.
  14. International Paper Co., Dir.
  15. Canadian International Paper Co., Dir.
George Herbert Walker, Dir.
  1. Cuba Distilling Co., Dir.
  2. National Bearing Metals Corp., Dir.
  3. Silesian American Corp., Dir.
  4. Silesian Holding Corp., Dir.
  5. U.S. Industrial Alcohol Co., Dir.

Officers of American International Corporation, 1934

[Information compiled from Moody's Manual of Investments, American & Foreign, 1934]

M. C. Brush, Chairman.
H. A. Arthur, President.
D. G. Millar, Vice-President & Sec.
G. P. Healy, Treasurer.

DIRECTORSHIPS OF OFFICERS OF AMERICAN INTERNATIONAL CORPORATION, 1934

[Information compiled from Poor's Directory of Directors. 1934]

George P. Healey, Treas.
  1. Allied Machinery Co. of America, Treas. & Dir.
  2. G. Amsinck & Co., Inc., Dir.

Board of Managers of American International Corporation

[Information Compiled from a Broadside purporting to be issued by the Depositors Mutual Fund December 31, 1931]

Pierre S. du Pont:
  Chrm. of Board, E. I. du Pont de Nemours & Co.
  General Motors Corp., Dir.
  Bankers Trust Co., Dir.
  Philadelphia National Bk., Dir.
John J. Raskob:
  General Motors Corp., Dir.
  Missouri Pacific Railroad, Dir.
  American Surety Co., Dir.
  Emigrant Industrial Savings Bk., Dir.
Percy A. Rockefeller:
  Bethlehem Steel Corp., Dir.
  National City Bank, N. Y., Dir.
  N. Y. Edison Co., Exec. Comm. & Dir.
Frank Altschul:
  N. Y. Stock Exchange-Chrm. Comm. on Stock List.
  Chase National Bank, N. Y., Dir.
  Amer. Eagle Fire Ins., Exec. Comm.
Harry A. Arthur:
  Allied Mach. Co., Dir.
  Eastern Texas Elec. Co., Dir.
  Louisiana Elec. Co., Inc., Dir.
Gordon Auchincloss:
  Marshall & Auchincloss.
  Solvay Amer. Invest. Co., Dir.
  Libbey Owens Securities Corp., Dir.
Matthew C. Brush:
  Pres. Amer. International Corp.
  Bank of Manhattan Co., Dir.
  Empire Tr. Co., Exec. Comm.
  Brooklyn-Man. Trans. Co., Exec. Comm.

- Robert K. Cassatt:
  - Fidelity-Phila. Trust Co., Dir.
  - Penn. Co. for Ins. on Lives, Phila., Dir.
  - Western Savings Fund, Phila., Dir.
- Halstead G. Freeman:
  - Pres. Chase Securities Corp.
  - American Express Co., Dir.
  - Northwestern Mutual Life Ins. Co., Truste
- Arthur Lehman:
  - Continental Can Co., Dir.
  - American Light & Traction, Dir.
  - County Tr. Co., Dir.
- Donald G. Millar:
  - Allied Machinery Co., Dir.
  - Atlantic & Pacific Inter. Corp., Dir.
  - Ulen & Co., Dir.
- Buford Scott:
  - Continental Ins. Co., Dir.
  - Virginia-Carolina Chem. Corp., Dir.
  - State-Planters Bk. & Tr. Co., Richmond, Va ,
- Frederick W. Scott:
  - Member New York Stock Exchange.
  - Chicago, Rock Island & Pacific Ry. Co., Dir.
  - Louisville & Nashville R. R. Co., Dir.
- George H. Walker:
  - U. S. Industrial Alcohol, Dir.
  - Atlantic Fruit & Sugar Co., Dir.
  - American Airways, Dir.
- Albert H. Wiggin:
  - Chrm. of Bd., Chase National Bank.
  - Metropolitan Life Ins. Co., Dir.
  - Western Union Teleg. Co., Chrm. Exec. Comm.
- Beekman Winthrop:
  - Del. Lack. & West. R. R., Dir.
  - National City Bk. of N. Y., Dir.
  - City Bank Farmers Tr. Co., Dir.

EXHIBIT No. 1415

[Copy]

AMERICAN INTERNATIONAL CORP.,
120 Broadway, New York, Feb. 15, 1918.

MR. CHESTER W. CUTHELL,
Asst. Genl. Counsel,
U. S. Shipping Board Emergency Fleet Corp.,
Washington, D. C.

DEAR SIR: We have your letter of the 12th inst., enclosing copy of Mr. Mellon's statement of the 11th instant concerning the sale by the New York Shipbuilding Co. to the New York Shipbuilding Corporation and requesting our comment.

The second, third, and fourth paragraphs are substantially correct.

When negotiations looking to a reconsideration of the proposition (after we had on Oct. 5th declined the first option) had been so promptly reopened by Mr. Mellon on the basis of my letter of Oct. 5th, in which I spoke of a material reduction, I naturally felt that the possibilities were very great of a substantial reduction in the first purchase price of $12,900,000.

In the negotiations which were so resumed at the conference of Oct. 18th, I presented very few arguments towards securing a reduction. My figure of $10,000,000 was based on $1,500,000 annual earnings and was eventually met by Mr. Mellon's suggestion that "we split the difference at $11,500,000", which I promptly agreed to, provided he would take $7,500,000 in bonds.

My position during the negotiations was based upon the reports following the investigations we had had made of the properties under the first option. My recollection is that at no time were we so very far apart upon the question of realized and prospective earnings, so far as such earnings were based on contracts in hand. My recollection, borne out by a memorandum made by me at the time, is that I told Mr. Mellon that I estimated the profit of his then contracts to be only at about the rate of $1,500,000 per annum, assuming the costs of materials and wages to remain the same, and that possibly we could not count on more than $1,250,000. Mr. Knox, who then was with Mr. Mellon's company, stated that he was entirely protected by steel purchases on all vessels and that he could safely count on $1,500,000. It may very well be that in the course of negotiations I may have advanced the trading argument that such a rate of earnings did not justify the price of $12,900,000, but it is also true that to obtain a reduction I advanced some other arguments, and principally the one that we had found we would have to put into the proposition $800,000 more than we had expected, if we were to retire the old first-mortgage bonds so that the new bonds that Mr. Mellon was to receive would have a first lien.

Another matter that had entered into the discussion was the necessity of making provision for immediate additional construction to take care of prospective Government contracts. I estimated such provision as $1,500,000. Mr. Knox stated that only $550,000 would be required at once, but it might or it might not be advisable to go on with other expenditure for such Government work.

Our estimate of the shipyard's earnings, based on examinations by our experts of the company's books, etc., showed a profit earned or to be earned of nearly $2,400,000 on the contracts in hand, of which approximately $700,000 had already been entered up as earnings. A normal profit was indicated on every one of the contracts. We therefore went into the trade on the basis of net profits at the rate of $1,500,000 per year (with a possible shrinkage due to threatened labor advances limited to $250,000). In this we had the assurances of both Mr. Mellon and Mr. Knox.

We also had in mind the possibility of further profits from new Government work and new merchant construction. The latter possibility was particularly attractive by reason of the unusual profits then current in new merchant construction.

To no extent whatever was the trade on the basis of losses incurred or to be incurred in the contracts on hand; that is to say, Mr. Mellon did not make his price, nor did we ask him to make his price, lower by reason of claimed losses already or to be incurred in the contracts on hand. Nor did we make any argument to that effect. The trade was made, so far as we were concerned with earnings, on the basis of profits in hand and to be earned, and we have not since learned of anything then existing which would have changed our estimates of profits.

What really induced Mr. Mellon to reduce his price we have never known, as he never confided in us. We suppose he was anxious to make a sale.

Nor did we ask him to make his price in any way based on any argument that there were "unfavorable prospects of earnings."

I absolutely deny the statement that my chief, or any, argument was to that effect (even after I make all allowances for the claims that a purchaser may be expected to advance in his endeavor to have a seller lower his price). Mr. Mellon is also in error as to the claim that any agreement was made between him and myself that the sale was not to be allowed in any way to interfere with the Gulf Refining Co. receiving their ships according to the contracts that covered them. There was no such agreement. The only agreement in the transaction (as stated in my letter to you of the 8th inst.) was the usual one, made as a part of the entire transfer, by the New York Shipbuilding Corporation that the new company was to assume all liabilities and to complete all contracts, except certain specified guaranteed liabilities on bonds which the old company had guaranteed.

Even as Mr. Mellon puts it, his statement is no stronger than that the new company, in the ordering of its work, should not discriminate against the Gulf Refining Company ships.

There was no thought on our part that the profits, in reliance upon which we had made the purchase, had by reason of subsequent events sustained any shrinkage until we made a reestimate, at the end of March 1917. The two Gulf Refining boats continued each to show a profit at that date.

The contracts for such two boats were cost plus 10% with a maximum and the maximum had not then been reached.

It was not until still further changes in labor conditions in the summer and fall of 1917 that the cost on such two boats went well beyond the maximum and produced a loss, but of the exact amount we were not aware until the later reestimate of October 1917.

The Gulf Refining Co. situation should not be confused, either, by the fact that in May 1917 the new company made a claim (subsequently withdrawn) against the old company for upwards of $400,000 on the ground that certain liabilities were undisclosed at the time of the sale. Such liabilities were exclusively liabilities on Government contracts, in the nature of penalties, failure to come up to speed requirements, income tax, etc., etc. The claim as initiated was directed against the $1,000,000 bond deposit provided for under paragraph "second" of the November 10, 1916, agreement.

As to that part of your letter relating to Standard Transportation Company:

Prior to Aug. 3, 1917, the Shipbuilding Corp. and the Standard Company had been considering a supplementary contract whereby the Standard Company would pay cost plus 10% as to Hulls 174 and 175, not to exceed an increase of $100,000 additional as to each vessel. Such contract failed of consummation.

After the requisition of Aug. 3, it is true that Mr. Veit of the Standard Co., and Mr. Knox, then President of the New York Corp., went to Washington and on or about Aug. 15th submitted to Admiral Capps a proposed arrangement which contemplated the completion of Hulls 174 and 175 by the New York Corporation on the basis of the proposed supplementary contract to which the Standard people were then ready to agree, *provided the boats were released from requisition.* Admiral Capps refused to approve such an arrangement, and insisted that the boats continue under requisition.

By the supplementary contract, the New York Corporation hoped to wipe out a loss of $51,255 as to both such boats, as shown by the reestimate of April 1, 1917 (the August 31, 1917, estimate having shown a profit of $186,440.)

Later developments proved that the figures considered in such supplementary contract were no criterion of what was necessary to properly adjust the situation at the time of the December 14, 1917, agreement with the Fleet Corporation, which developments were forecasted by the reestimate of October 1917.

Inasmuch as I saw Mr. Carey and Mr. Fitzgerald at your office on Wednesday, the 13th inst., I assume that they will not now desire to discuss the matter with me as intimated in your letter.

We shall be interested to receive a copy of the statement which you say that they propose to file with you so that we can make our comments upon it, if you should still think our comments necessary.

As requested by you, the New York Shipbuilding Corporation already has communicated to the Standard Transportation Company, Gulf Refining Co., and the so-called owners of the Darrow-Mann boats, your instructions for a further extension, which we have fixed as of Feb. 20, 1918.

The Petroleum Transport Company's extension as now fixed expires March 4, 1918.

Very truly yours,

(Sgd.) GEO. J. BALDWIN,
Senior Vice President.

EXHIBIT NO. 1416

A. W. MELLON,
514 SMITHFIELD STREET,
Pittsburgh, Pa., February 11, 1918.

DEAR MR. CUTHELL: Pursuant to promise, I am sending you the following statement concerning negotiations and sale of the New York Shipbuilding Company's property to the American International Corporation as they related to the concession in price made on account of the unfavorable aspect of the contract work then under construction.

Negotiations resulted in an optional contract signed by myself and dated September 11th, 1916, upon behalf of myself and associates owning more than two-thirds in amount of the New York Shipbuilding Company stock, and the American International Corporation, in which we gave to the corporation the exclusive right to purchase for the option period (until noon of October 9th, 1916) the property of every kind and character of the New York Shipbuilding Company, at the price or sum of $12,900,000, payable upon terms set forth in the optional contract. We agreed to furnish to the corporation the right to examine all of the properties, assets, books, records, contracts, papers, and accounts of the Shipbuilding Company. Pursuant to this, the American International Corporation made a complete examination of the books and records, including the contracts for ships.

The option provided that the properties of the Shipbuilding Company were to be purchased as a going concern and the purchaser should agree to assume and pay all the liabilities of the Shipbuilding Company and agree to perform all contracts and obligations of the Shipbuilding Company.

On October 5th, 1916, Mr. Baldwin, vice president of the American International Corporation, wrote to me stating that—

"We are compelled to notify you that we are unwilling to purchase the property on the terms hitherto discussed, as set forth in the option of September 11th, 1916.

"We are still deeply interested in the subject, and if you are now disposed to continue the discussion based upon a materially lower price, we should be most glad to consider the purchaser."

Later, at a conference following this letter, Mr. Baldwin stated that his people were desirous of acquiring the property, but that it appeared to them from their examination, taking into consideration the nature of the contracts on hand, the available space for future contracts, that the prospective earnings would not be sufficient to justify the option price. This was the chief objection to the price, although the amount of funds required for the cash portion of the purchase price he will be willing to recommend to his board. After further discussion the negotiations finally resulted in a compromise as to price, and $11,500,000 was agreed upon. The sale contract was finally concluded dated November 10th, 1916, in which the assets and properties of the Shipbuilding Company were purchased as a going concern and the corporation or its nominee assumed all liabilities and agreed to perform all contracts and obligations of the Shipbuilding Company. As stated, Mr. Baldwin's chief argument in the discussion, which resulted in a reduction of $1,400,000 from the option price, was based upon the unfavorable prospects of earnings from the contracts on hand.

As stated to you at the time of making this sale, knowing the importance to our Gulf Refining Company of getting their ships completed as contracted for, I was particularly careful about the matter, and it was distinctly understood and agreed between Mr. Baldwin and myself that the making of the sale would not be allowed in any way to interfere with our receiving these ships according to contracts for the same.

It may seem to you that my present statement is not as explicit as I made my oral statement at the time of our conference at Washington; and if so, the reason is this: Since my return I find from examination of papers and correspondence the matter of the loss to the New York Shipbuilding Corporation on the contracts existing at the time of the sale was a matter of discussion between Mr. Baldwin and myself in the summer of 1917 in connection with certain claims which the American International Corporation made under the guarantee given in connection with the sale of the shipyard. At the time of my conference with you I did not distinguish between the different conversations and, in fact, did not have in mind the bearing upon the points in the question of the difference in dates.

I think I have fully covered the matters about which you asked me to write you. If I have not, and you will kindly advise me, I shall be pleased to comply with your wishes.

Very truly yours,

(Signed) A. W. Mellon.

Mr. Chester W. Cuthell,
Emergency Fleet Corporation Shipping Board,
Washington, D. C.

Exhibit No. 1417

[Copy]

White & Case,
14 Wall Street,
New York, May 25, 1923.

CJF/R.
New York Ship.

James W. Talbert, Esq.,
Emergency Fleet Corporation, Washington, D. C.

My Dear Mr. Talbert: This is to confirm the appointment you gave Mr. Neeland and myself for Thurdsay morning, the 31st inst. Mr. Neeland and I will endeavor to be on hand promptly, and my thought is to be there at 9:45 a. m. (standard time). If you cannot see us at that time we can wait until you are free.

I enclose a memorandum re this plant acquisition matter by the New York Ship of the improvements made at the cost of the fleet.

As the situation now stands, the acquisition arrangement (which was formulated in 1918 to avoid a possible war (gift tax*) cash liability for the "Ways" and "Shop" improvements which Director General Schwab intended and proposed should be acquired by N. Y. Ship without specific payment therefor but in the nature of a gift or added fee or compensation) was, and is, based on the improvements themselves, proving their valuation through earnings. The probability of earnings both for the north yard and south yard has been largely, if not entirely, removed by causes occurring since 1918, and some since the appraisal dates (January 1, 1922). The proposed new arrangement has the plant improvement acquisition based on the present realizable value, or that within the next 5 years, proportioned to N. Y. Ship's present and probable cash resources, available for this acquisition.

N. Y. Ship cannot make a present immediate cash outlay which the E. F. C. can justify for two reasons. N.Y. Ship must conserve its cash and postpone, for local tax reasons, taking title as late as possible.

The only arrangement N.Y. Ship can consider is one which permits if necessary of producing, over a period, the cash through a liquidation of the items acquired.

With best wishes,

Yours very truly,

Enclosure.

(Signed) Charles J. Fay.

Exhibit No. 1418

[Memorandum]

Dec. 2, 1929.

IT:C.
FBR.

Mr. David Burnet,
Deputy Commissioner:

In re: New York Shipbuilding Company, Camden, New Jersey.
Period: 3 months ended November 30, 1916.
Collection barred: $58,435.91.

The return for the three months' period ended November 30, 1916, was filed by the above-named taxpayer on March 30, 1917. The additional assessment of $58,435.91 was made on the March 30, 1922, list. No waiver extending the statutory period of limitations on assessment and collection was ever filed. It appears that the account was transferred back and forth between the Camden, New Jersey, district and the Pittsburgh, Pennsylvania, district several times, and it is now outstanding on the books of the collector at Camden, New Jersey. The Accounts and Collections Unit has taken the matter up with this office and requested that a certificate of overassessment be prepared, stating that it was the opinion of the taxpayer that the assessment was made after the expiration of the statutory period of limitations on assessment. No forms 53 and 843 have been filed.

It is apparent that the assessment was timely made, but since the collection has not been enforced the outstanding amount cannot now be collected. No abatement claim, bond, or collection waiver was ever filed.

Inasmuch as the assessment was made on the last day of the statutory period, it does not appear that the collector of internal revenue may be charged with the responsibility for failure to collect the amount in question. Neither should any member of the unit be so charged, for the reason that the time the assessment was made, the unit was holding that where an assessment was properly made within the statutory period applicable thereto, collection by distraint could be made at any time in accordance with the provisions of IT–1446, Cumulative Bulletin I–2, page 218. The Bureau did not change its position with respect to the statutory period until September 1, 1925, at which time collection of the tax was barred, the statutory period having expired five years from the date the return was made, or March 30, 1923.

(Signed) Chas. P. Suman,
Head of Division.

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*Penciled notation.

Exhibit No. 1419

EXCERPT FROM COMPANY'S PROTEST AGAINST 1917–21 TAXES, FILED NOVEMBER 1927

(P. 16)

The adjustment in the report whereby the depreciable assets were reduced $2,929,573.34 and the amount set up as " good will " is entirely arbitrary and in utter disregard of the bona fide acts of the board of directors and of the officers of the corporation at the time the opening entries were made upon its books. No justification is given in the report for this unwarranted adjustment. The sum was not paid for good will. The earnings of the predecessor company for the five-year period prior to the purchase would not justify any computation of good will. The fact that one corporation may be able to sell its tangible assets for more than their book value (but less than the cost of reproduction) merely shows the then market value of the properties and is no basis for computation of good will of the selling corporation.

Exhibit No. 1420

October 24, 1934.

Mr. Robert F. Muir,
Investigator, Special Committee Investigating the Munitions Industry, United States Senate.

In re: American Brown Boveri Electric Corporation (formerly the New York Shipbuilding Corporation), Camden, N. J.

Sir: You have requested that you be advised of the taxable net income, invested capital, and income and profits tax liability of the above-named taxpayer for the years 1917 to 1925. inclusive, as determined by the Bureau of Internal Revenue.

The information requested is being furnished to you herein in your capacity as a duly authorized representative of the Special Committee Investigating the Munitions Industry, bearing credentials signed by Senator Gerald P. Nye, chairman of the committee. Inspection of income-tax returns by the committee is authorized by Executive order dated June 15, 1934, and the chairman has requested in writing that the returns of this taxpayer be made available for inspection by the committee.

The question of the correct tax liability of this taxpayer for most of the years in question was in dispute for a period of several years following filing of returns and payment of the taxes originally shown to be due thereon. Several additional assessments were made against the taxpayer by the Bureau which were unpaid during the period when the matter was in controversy. The Bureau claimed additional taxes of $2,296,442.95 were due, together with interest, for the years 1918 to 1921, inclusive, whereas the taxpayer admitted liability for additional taxes for such years of only $861,809.09, with interest. The difference between the amount charged by the Government for such years and the amount admitted by the taxpayer to be due for those years, inclusive of interest, was approximately $1,700,000.00. The liability for the later years was also in dispute. The issues involved were difficult and debatable.

While the question of correct tax liability was in controversy, the taxpayer's representatives advised the Bureau that only a certain amount of money could be raised to meet the tax obligations, that if attempts were made to enforce payment of a larger sum the company would be forced into liquidation and, in that event, it was doubtful if any greater amount of tax could be realized. The amount stated as the limit which the corporation could make arrangements to pay at that time was $1,088,397.56. The Bureau thereupon turned its attention to the financial condition of the corporation and its ability to meet the demands made for taxes. Following investigation along these lines, the taxpayer filed an offer in compromise, pursuant to section 3229 of the Revised Statutes, tendering the sum of $2,350,000.00 in full settlement of its liability for all income, excess- and war-profits taxes, penalties and interest for the taxable years 1918 to 1925, inclusive. It was stated in the offer that there was a difference in opinion as to interpretation of the laws and regulations and the reasons submitted as grounds for acceptance of the offer were:

(1) The taxpayer denied liability for the alleged deficiency.
(2) The taxpayer was financially unable to pay the deficiency asserted.

The taxpayer further agreed to waive all demands for refund or credit of tax paid for the years prior to 1918.

After due consideration of the evidence of record, including that filed in support of the offer, the Commissioner of Internal Revenue on May 8, 1928, with the advice and consent of the Secretary of the Treasury, accepted the offer in compromise and the case was thus closed.

At the time the case was closed in this manner, the Bureau and the taxpayer were not in agreement as to the correct taxable net income, correct invested capital and consequent correct tax liability for each year. Under such circumstances, I am sure you will appreciate that the figures furnished below in no way represent figures conceded by the taxpayer to be correct. They are the figures tentatively determined by the Bureau before acceptance of the offer in compromise and it is most probable that had the Bureau and the taxpayer proceeded to a final determination of taxable net income, invested capital and tax liability, such figures would be materially altered.

The corporation sustained a net loss for the year 1917, consequently, no determination of invested capital was made for that year. There was no liability under the law for excess- or war-profits taxes for years subsequent to 1921, therefore, invested capital for such years is not indicated herein. The work papers covering computations of taxable net incomes and tax liabilities for the years 1922 to 1925, inclusive, are not available at the present time and, in order to furnish you with figures indicating taxable net incomes for such years, it has been necessary to compute assumed incomes arrived at by use of the amount known to have been tentatively determined as the tax liability for each such year and the known rate of tax for each such year.

Prior to acceptance of the offer in compromise, the invested capital, taxable net income, tax liability and unpaid balances on the basis of the Bureau's determinations which had not been conceded as correct by the taxpayer, as aforestated, were as follows:

Taxable year	Invested capital	Taxable net income	Tax liability	Unpaid balances
1917	(1)	($1, 096,862.15)	------------	------------
1918	$7, 197, 649. 82	$2, 984, 621. 08	$1, 949, 744. 95	$234, 424. 92
1919	7, 741, 951. 50	3, 852, 183. 13	1, 812, 224. 21	1, 233, 927. 26
1920	9, 123, 887. 24	4, 270, 500. 12	1, 503, 203. 69	437, 954. 64
1921	10, 835, 685. 12	2, 133, 651. 74	440, 136. 13	390, 136. 13
1922	(1)	1, 895, 994. 08	236, 999. 26	110, 492. 06
1923	(1)	1, 260, 030. 08	157, 503. 76	155, 826. 41
1924	(1)	588, 686. 40	73, 585. 80	73, 585. 80
1925	(1)	1, 371, 562. 85	178, 303. 17	65, 316. 09
Total	------------	------------	6, 351, 700. 97	2, 701, 663. 31

[1] Not involved.

The above figures do not include interest.

Upon acceptance of the offer in compromise, all unpaid additional assessments were abated since the Government had agreed to accept, in lieu of payment thereof, the total sum of $2,350,000.00. After the case had been closed in such manner, no attempt was made to recompute invested capital and taxable net income in such manner as would reflect a total tax liability equivalent to the total sum which had been received from the taxpayer for the years in question. Such a computation would be meaningless under the circumstances and would serve no useful purpose.

I trust that the above furnishes fully the information desired by the committee.

In the event that further correspondence relative to this matter is necessary, reference should be made to IT:E:RRR.

Very truly yours,

GUY T. HELVERING, *Commissioner.*

CWC/her

Exhibit No. 1421

New York Shipbuilding Corporation

	Invested capital	Income 1918	Taxes	P/C of income to capital
1. Company's return	$8,906,595.97	$1,595,042	$684,422	17.9
2. 1926 revenue agts. findings	7,773,293.96	4,563,844	3,210,500	58.9
3. Final settlement 1928	7,197,649.82	2,984,621	1,949,744	41.5

	Invested capital	Income 1919	Taxes	P/C of income to capital
1. Company's return	$9,815,375.13	$1,674,386	$535,296	17.1
2. 1926 revenue agts. findings	8,830,812.43	6,495,913	4,419,109	73.6
3. Final settlement 1928	7,741,951.50	3,852,183	1,812,224	49.8

	Invested capital	Income 1920	Taxes	P/C of income to capital
1. Company's return	$10,878,175.46	$3,370,170	$1,288,790	31.0
2. 1926 revenue agts. findings	11,927,947.21	8,708,894	5,361,611	73.0
3. Final settlement 1928	9,123,887.24	4,270,500	1,503,203	46.8

	Invested capital	Income 1921	Taxes	P/C of income to capital
1. Company's return	$11,987,974.85	$2,296,417	$433,117	19.2
2. 1926 revenue agts. findings	14,502,501.24	3,707,360	1,569,870	25.5
3. Final settlement 1928	10,835,685.12	2,133,651	440,136	19.7

RECAPITULATION OF TAXES

	Company reported taxes	1926 revenue agts. reported	Final settlement, 1928
1918	$684,422	$3,210,500	$1,949,744
1919	535,296	4,419,109	1,812,224
1920	1,228,790	5,361,611	1,503,203
1921	433,117	1,569,870	440,136
Total	2,941,627	14,561,091	5,705,308

EXHIBIT No. 1422

REPORT ON REDETERMINATION OF AMORTIZATION CLAIM NEW YORK SHIPBUILDING CORPORATION, CAMDEN, NEW JERSEY, SUBMITTED JULY 12, 1927, W. S. TANDROW, ENGINEER

OFFICE OF THE RESIDENT AUDITOR, EMERGENCY FLEET CORPORATION AT NEW YORK SHIPBUILDING CORPORATION

Statement to show nature and amount of items of cost disallowed, from gross overhead. To determine approximately Emergency Feet Corporation share use 50%

To support general claims (page 3)-------Amount $617,393.21

Item	Amount	
Outside audit	$4, 323. 64	Exp.
Pittsburgh office	153. 75	"
New York office	15, 733. 64	"
Assets	186, 697. 90	Out
Cash discounts	165, 138. 94	Out
Inventory adjustment on tools	30, 414. 07	Out
Legal expense	67, 774. 93	Exp.
Income tax	377, 004. 56	Out
Life insurance	96, 018. 30	Out
Special Services—Pinkerton, etc	52, 918. 75	Ok.
Capital stock tax	23, 379. 06	Ok.
Restaurant loss	122, 438. 40	Ok.
Deferred expense charges	32, 818. 65	Out
Executive's and director's expense	7, 543. 04	Ok.
Postage and office expense	83. 33	Ok.
Telephone and telegraph	467. 54	Ok.
Taxes	200. 00	Out
Listing N. Y. S. O. stock on curb	100. 00	Ok.
Donations	32, 457. 67	Out
Advertising	5, 724. 52	Ok.
Athletic expenses	9, 664. 35	Ok.
Welfare expense	9, 429. 83	Ok.
Foremen's yearly bonus	350. 00	Ok.
Traveling expenses	15. 00	Ok.
Interest on securities	49, 579. 13	Out
Rent of Gloucester property	450. 00	Ok.
Chinese representative	2, 000. 00	?
Pensions	10, 375. 14	?
Moving household goods	247. 76	Ok.
Cigars, wines and liquors	17, 651. 06	Ok.
Patent fees	125. 00	Out
Personal expense	336. 26	
Financial advertising	377. 00	
Stock certificates	500. 00	
Stock transfers	300. 00	
Yorkship news	2, 359. 52	
Christmas presents	5, 300. 00	Out
Special investigation	297. 79	
Japanese representative	3, 000. 00	
Disallowed salary increases	5, 883. 40	
Experiments on model basin	739. 46	
Transportation of employees	958. 69	
Industrial advice	7, 074. 99	
	1, 348, 406. 05	

GWW/JL
7/31/20
5 copies.

NOTE.—Reading matter at end of figures are pencil markings.

AUGUST 28, 1919.

Mr. TILDEN ADAMSON, *Comptroller.*

NEW YORK SHIPBUILDING CORPORATION—DEPRECIATION

No one would contenance the revaluation of a plant at various intervals in order to ascertain the replaceable value at the respective periods upon which to place a fair valuation of depreciation of such plant and equipment. We contend that depreciation when rate is once set, has to be applied against the original cost of the equipment.

6. If, in order for a corporation to affect the purchase of a plant, it is necessary to make payment on any other basis than that of cost to the owner, we cannot see how that affects the plant appreciation. It might be an interesting field for thought as to what would have been the result if the plant was acquired at less than the original valuation. In the present case, where they paid more than the actual cost, we must view this excess as the element of good will for "good will" it is.

7. In the above arguments, we have considered the appraisal as correct. This we know is not the case. The writer was informed by Assistant Treasurer Parker of the New York Shipbuilding Corporation, about 15 months ago, that Stone & Webster's appraisal was nothing but the acceptance of a list of plant and equipment items made up by Mr. Parker, and revalued by him. This assertion of Mr. Parker seems to be fully corroborated by the facts, for regardless of the life of the machine or item of equipment or any other condition which might affect its value, an almost uniform percentage of increase was applied.

8. We further wish to point that an appraisal, unless made by disinterested party, cannot be regarded as being unbiased. The president of Stone & Webster, the appraising company, was at that time one of the directors of the New York Shipbuilding Corporation. Further, Stone & Webster is a subsidiary of the same parent company, as that of the New York Shipbuilding Corporation. For these reasons we do not regard the appraisal in any event to be a proper basis of revaluation of the plant and equipment.

9. One point, altho, not necessarily an argument in this case, is that one Government body, namely the United States Navy, thru Admiral Capps has ruled against allowing depreciation on these inflated values, and we feel it would be unwise for two Government bodies to be inconsistent on any item of this importance.

10. To summarize the entire proposition:

The New York Shipbuilding Corporation claims—

(1st*) That inasmuch as the replaceable value, at the time of their purchase, was in excess of their cost, such cost is a proper basis for depreciation calculation.

(2nd) Since the Fleet Corporation made contracts subsequent to the time at which the plant values were inflated on the books of the corporation, and the Fleet Corporation not having made specific mention and provisions thereon, the Fleet thereby became estopped from further discussion in this connection.

EXHIBIT No. 1423

UNITED STATES SENATE,
COMMITTEE ON INTEROCEANIC CANALS,
Ventnor, N. J., August 27, 1927.

Hon. D. H. BLAIR,
Commissioner of Internal Revenue,
Washington, D. C.

MY DEAR MR. COMMISSIONER: I trust before any final action is taken in the matter of the reexamination of the returns of the New York Ship Building Corporation, of Camden, N. J., for the years 1917, 1918, and 1919, that you will personally review the situation.

This corporation changed hands recently, as you know, and from all the information I have the reassessments are based upon conditions which could in no way be visited on the present corporation. I have already presented briefs in connection with the whole transaction so I will not attempt to review them by letter, but I don't want to see the present corporation unfairly embarrassed and would personally appreciate it if you would give it your own careful attention.

With kindest personal regards, I am,

Sincerely,

(Signed) WALTER E. EDGE.

EXHIBIT No. 1424

DECEMBER 23, 1927.

Mr. L. R. WILDER.
Mr. C. L. BARDO.

"SARATOGA" & "LEXINGTON" COSTS—PROPOSED CONGRESSIONAL INVESTIGATION

I have just received copy of House Resolution No. 55, introduced by Congressman McClintic December 13, copy of which is attached hereto. I had a short talk this morning with Judge Parker, who stated that on your return from Washington you had requested that certain information be developed by Mr. Parker with the thought of inviting the investigation referred to.

Publicly, of course, we could not say other than that we welcome an investigation. Privately, we want to use every honorable means to see that the investigation is not started and that the resolution referred to dies a natural death in the Committee on Rules, to which it has been referred.

There is altogether too much dynamite in a congressional investigation, and we are altogether too vulnerable from the standpoint of political attack to leave anything undone which will forestall the investigation. We have troubles enough with our tax situation and our new high-speed line development without having the waters muddied up by a congressional investigation, the effect of which would be harmful either to ourselves or to the industry as a whole.

Who can say what statements Admiral Capps, for instance, if he were called before a congressional investigation, might make with respect as to what he regards as inefficiency and the lack of proper administration of the yard? He made these charges in one of our conferences. If he made them before a congressional committee, we never could catch up with the story, and it may well be that we would be confronted not only with our tax situation but in addition by a resolution from Congress directing somebody to investigate all of these things which obviously would be dragged out in an investigation of this kind.

I expect to have a conference with Congressman Wolverton on Wednesday next.

The names of the House Naval Affairs Committee and the House Rules Committee are shown on the attached list.

Personally, I am strongly opposed to any encouragement of this investigation, for the reasons which I have generally outlined.

C. L. B.

HOUSE NAVAL AFFAIRS COMMITTEE

Majority: Thos. S. Butler (Pa.), chairman; Fred A. Britten, Ill.; Geo. P. Darrow, Pa.; Clark Burdick, R. I.; A. Piatt Andrew, Mass.; John F. Miller, Wash.; Roy O. Woodruff, Mich.; Ralph E. Updike, Sr., Ind.; Fletcher Hale, New Hampshire; W. E. Evans, Calif.; Chas. Tatgenhorst, Jr., Ohio; Chas. A. Wolverton, N. J.; Clarence E. Hancock, New York; Victor K. Houston, Hawaii,

Minority: Carl Vinson, Georgia; Jim McClintic, Oklahoma; Herbert J. Drane, Fla.; Patrick Henry Drewry, Virginia; Morgan G. Sanders, Texas; John F. Quayle, New York; Stephen W. Gambrill, Md.; Claude Williams, Missouri.

HOUSE RULES COMMITTEE

Majority: Bertrand H. Snell (N. Y.), chairman; Theodore E. Burton, Ohio; Thos. S. Williams, Illinois; Fred S. Purnell, Indiana; Earl C. Michener, Mich. igan; Harry G. Ransley, Pa.; C. William Ramseyer, Iowa; Louis A. Frothingham, Mass.

Minority: Edward W. Pou, North Carolina; Finis J. Garrett, Tennessee; Wm. B. Bankhead, Alabama; John J. O'Connor, New York.

(U. S. Daily, 12/15/27.)

EXHIBIT No. 1425

EXCERPTS FROM "AUDITOR'S COMMENTS ON ITEMS AT ISSUE IN 1926"

IT: AR: G-1
ECE

Issue #9. Loss on contract #199.

At the time of the examination of the books and records of account was made for the taxable year under discussion no attempt was made to examine the subsequent years as the order requesting the investigation was limited to the taxable year under discussion. The taxpayer willingly furnished the examiners with a photostat copy of the material, labor, and expenses (which is now in the possession of the auditor making the investigation for the taxable year 1927) applicable to contracts under construction as at December 31, 1927, and it is from this schedule that the total profit to be realized on contract number 199 was determined.

The Bureau was without information to the fact that an adjustment in the amount of $884,204.76 was reflected therein.

It is now contended that it realized a profit in the amount of $2,456,508.07 on this contract.

Assuming that the alleged profit is correct no such loss as now claimed was sustained during the taxable year under discussion. The earned profit as reflected in the balance sheet (copy attached and marked "Exhibit-4") furnished the taxpayer at its request is the basis upon which this issue is protested. That balance sheet is adjusted in accordance with the information then before the unit and not upon information to be furnished at some subsequent date. It was assumed that the information furnished by the taxpayer was correct, that the photostat copy was in accord with the books and records of account and the total profit to be realized from the contract was determined accordingly.

The taxable years ended December 31, 1922 to 1925, inclusive, were not closed by a proper audit, but upon the basis of an estimated tax liability to be determined within one-half hour and assessed so that such years might be included in the total tax to be considered in the acceptance of an offer in compromise, covering the taxable years 1917 to 1925, inclusive.

EXHIBIT NO. 1426

MARINE ENGINEERING CORPORATION,
Philadelphia, Pa., August 6, 1927.

Subject: Plans for light cruisers building at navy yards.

Mr. S. W. WAKEMAN,
Vice President, Bethlehem Shipbuilding Corporation, Ltd.
Mr. F. P. PALEN,
Vice President, Newport News Shipbuilding & Dry Dock Company.
Mr. C. L. BARDO,
Vice President, American Brown Boveri Electric Corporation.

DEAR SIRS: I enclose herewith copy of joint letter dated August 5, from the Bureau of Construction and Repair and Bureau of Engineering, in reference to the above subject.

My inclination is to stand pat on the $400,000, as, entirely aside from obtaining plans and schedules, the Bureaus expect the navy yards to participate in the saving through joint purchasing to an extent that from present indications will probably pay for the plans. I think we might as well recognize the fact that the navy yards are competitors in the present program and expect to be competitors in the future programs. However, there are matters of policy involved that representatives of the three yards should consider and I would like to have an expression of opinion at the earliest possible date in order to reply to the Bureaus' letter in such a way as will meet your views.

Yours very truly,

J. F. METTEN, *President.*

JFM–d.
Enclosure.

EXHIBIT NO. 1427

NOVEMBER 21, 1927.

Mr. J. F. METTEN,
President Marine Engineering Corporation,
Philadelphia.

DEAR MR. METTEN: Your joint letter of November 15 having reference to turbine changes and spares proposed by Newport News.

The general matter of loose correspondence such as referred to was discussed at one of the recent meetings of the board of directors of Marine Engineering Corporation, and my recollection is that it was quite clearly understood and agreed upon by all concerned that matters of this kind where the interest of all the yards would be affected would not be originated as a matter of correspondence by the individual yards but would be handled in conference between themselves and the Marine Engineering Corporation from time to time as necessity arose. The thought, I think, was further expressed that in order to provide a definite clearing house arrangement for the handling of these matters, that you would arrange with the yards for such conferences as would be necessary to dispose of these questions promptly and in the most satisfactory way. Instructions were then issued to our organization accordingly.

The contract between the three shipyards which brought the Marine Engineering Corporation into existence contemplates if it means anything, that Marine Engineering Corporation is to be the official mouthpiece of the three yards insofar as their relations with the Department for the cruiser construction are concerned. Any departure from this understanding will, I am sure, have the effect of gradually repudiating the standing of Marine Engineering Corporation with the Department and result in serious embarrassment in many directions later on. Personally, I am strongly opposed to the practice complained of.

We put ourselves in a very embarrassing and inconsistent position when we voluntarily propose to do something the effect of which is going to materially increase the cost. The margin between the cost of producing these ships and the selling price is narrow enough without further reducing it by a voluntary action which, so far as we can now see, will not improve either the efficiency of the particular units nor have the assurance that it will prolong their lives.

I hope the situation from now on can be handled in accordance with the understanding reached at the recent meeting above referred to.

Very truly yours,

C. L. Bardo, *Vice President.*

Copies to:

Mr. S. W. Wakeman.
Mr. F. P. Palen.

cc/ Mr. E. I. Cornbrooks: Please pass this correspondence around to Mr. Torbet, and if necessary to the heads of other departments so that they may understand fully just what the plan is.

The arrangement I have described is outlined in a memorandum to Mr. Newell immediately following the directors' meeting referred to.

C. L. B.

Return for our files.

Exhibit No. 1428

MEMORANDUM

December 9, 1926.

Mr. H. B. Robinson,
Head, Consolidated Returns Audit Division.

(In re: New York Shipbuilding Corporation, Now named American Brown Boveri Electric Corporation, Camden, New Jersey.)

A brief history of the above-named case, prior to our present assignment for field examination of the years 1918 to 1921, inclusive, follows:

A field examination was made by representatives of the Trenton, New Jersey office, covering the years 1918 to 1921, inclusive, which resulted in a recommendation of a net overassessment of $181,820.33 for the four years. A second field examination was made out of Trenton, New Jersey, covering the years 1919 to 1921, inclusive, which resulted in a recommendation of a net additional tax of $99,057.55. The taxpayer agreed to the results of both examinations at the times of their completion.

An office audit of the last revenue agent's report reflected adjustments that resulted in a net overassessment for the years 1919 and 1920, of $836,964.64 and a deficiency for 1921 of $487,763.34.

The case then went forward to the Solicitor of Internal Revenue Claims Section, where objections were raised with reference to certain of the allowances applying against gross expense applicable to Government contracts. A copy of the Solicitor's memorandum returning the case to the unit is attached.

After the receipt of the file in the case from the Solicitor, investigation was made with reference to the points raised, and visits were made by the resident auditor and an engineering representative of the Appraisal Section of the Bureau to the United States Navy and the Emergency Fleet Corporation offices in Washington, and developments occurred through such visits that indicated that a thorough examination should be made of the taxpayer's books and of the records of the cost inspector of the United States Navy, located at the plant of the taxpayer at Camden, New Jersey.

A recommendation for field audit was prepared by the resident auditor, a copy of which is attached.

A field examination was ordered and the resident auditor assigned with a member of the travel unit to make such investigation.

The undersigned proceeded to Camden, New Jersey, and first visited the office of the cost inspector of the United States Navy at the plant of the taxpayer, and spent considerable time examining his records of transactions with the taxpayer; and many things were developed through such examination that indicated a further field examination of the taxpayer's books and records to be a good judgment. Many leads were obtained through examination of the cost inspector's records that proved beneficial in the examination thus far of the taxpayer's books, and have resulted in the determination of considerable additional income.

The taxpayer, during the period under review, had contracts on several bases—flat price, cost plus fixed fee, cost plus stated profit per dead weight ton and cost plus 10%.

"Estimated earned profit" as reported on the return and as reflected by the books, forms the heart of the taxpayer's income.

"Estimated earned profit" is computed on certain schedules by the taxpayer, monthly, apart from the books, and determinations journalized and then transferred in total to the ledger, the figure transferred reflecting the aggregate of income for all contracts. The single amount for each month is credited into the profit and loss account.

To verify the correctness of the taxpayer's returns, or books, it is most essential to procure the schedules referred to and to examine the computations of earned profit on each contract that were made by the taxpayer and appear thereon. Such schedules have been requested of the taxpayer, first over three weeks ago, and photostats thereof were promised by Mr. Norman F. Parker, Assistant Treasurer, almost daily after the first request.

Last Saturday, on request again for the schedules, Mr. Parker informed us that he had been "stalling" and that we knew it, but that the corporation's counsel had advised him to delay giving the schedules to us. He called his counsel by telephone, a Mr. O r, connected with White and Case, attorneys, while we were present and explained the situation, and stated to Mr. Orr that he believed we were entitled to the schedules and should get them. Mr. Orr's advice, we were informed, was not to deliver them.

To date, the situation remains the same, the schedules have been refused on the advice of counsel, so we are informed by Mr. Parker and Mr. J. T. Wickersham, the treasurer.

The points raised by the Solicitor have developed other points that make it imperative, in the opinion of your examiners, after their investigation thus far, that a reexamination be made of the taxpayer's books for the period extending from 1918 to 1921, inclusive.

Their investigation thus far, with the information we have been able to gather, results in an increase in income over income as determined by the revenue agent from Trenton, who made the last examination for the period 1918 to 1921, inclusive, of approximately $8,000,000.00.

It is the positive opinion of your examiners, with the information gained thus far, that there should be recommended to the Commissioner that a reexamination be made of all of the taxpayer's books *and records* for the years 1918 to 1921, inclusive; and that the taxpayer should be duly notified under the provisions of section 1105, of the Revenue Act of 1926 that such investigation has been ordered.

(Signed) L. K.
(Signed) E. C. E.

Exhibit No. 1429

Oct. 23, 1925.

IT:CR:G—
WTC

Collector of Internal Revenue,
Camden, New Jersey.
Attention: IT:CCG:HK.

(In re: New York Shipbuilding Corporation, Camden, New Jersey.)

Reference is made to your letter dated October 13, 1926, which is in reply to office letter to you dated October 11, 1926, wherein your were advised that the six-year statutory period for collection under the provisions of section 278 (d) of the Revenue Act of 1926, in the case of a claim for abatement of $322,197.56, filed by the above-named taxpayer in connection with the income tax liability for the year 1920 would expire in March 1927.

From your letter referred to above, it appears that your effort to obtain from the taxpayer a collection waiver as provided under A. & C. Col. Mimeograph #3459 was met with a statement from the taxpayer to the effect that properly executed waivers covering the years 1919, 1920, and 1921, were forwarded to the Bureau under date of October 11, 1926.

Your attention is called to the fact that the waivers submitted to this office provide for an extension of the statutory period within which additional taxes may be *assessed* against the taxpayer, but do not provide for an extension of the statutory period for *collection* of taxes already assessed. It is suggested that the difference in forms of waiver be pointed out to the taxpayer and that proper collection waiver be obtained as provided in A. & C. Mimeograph #3459.

In this connection you are advised that this office now has under consideration in this case the question of the application of the provisions of section 280 of the Revenue Act of 1926. Bureau travel auditors now are engaged upon an examination of the taxpayer's books of account and records as a result of which the application of section 280 will be determined. In the event section 280 applies to the case of this taxpayer you will be advised promptly of the action taken by this office to protect the interests of the Government as provided therein.

(Signed) C. R. NASH,
Assistant to the Commissioner.

EXHIBIT NO. 1430

GEORGE W. JESSUP & SON,
JESSUP BUILDING, 531 & 533 FEDERAL ST.,
Camden, N. J., August 19, 1927.

AMERICAN BROWN BOVERI ELECTRIC CO.,
Camden, N. J.
(Attention: Mr. Wilder.)

DEAR SIR: In accordance with your instructions we have carefully inspected your Camden plant with a view to determining the present market value of land, buildings, machinery, and equipment.

The firm of Geo. W. Jessup & Son has specialized during the past thirty-seven years in the sale of industrial plants and sites in Camden County and has been particularly active in the sale of river-front property. We do, however, appreciate the value of joint appraisals and in valuing the real estate we have employed Mr. Ralph G. Van Hart to collaborate with us. Mr. Van Hart has been in the real-estate business in Camden during the past seventeen years, and is generally accepted by the courts and institutions of this section as an able real-estate appraiser. He was appointed as one of the three appraisers of the Joint Bridge Commission of Pennsylvania and New Jersey, and both firms are regularly employed as appraisers for the Camden County real-estate board.

In valuing machinery, power plant, equipment, ways, etc., we have employed the services of Samuel T. Freeman & Co. and we are attaching hereto the result of their findings. It is our opinion that this firm is as well equipped as any firm in the country to appraise this class of property. They have sold plants, equipment, machinery, tools, etc., averaging over $7,000,000.00 per year for the past ten years. These sales include at least fifteen automobile plants as well as resale for speculators of machinery purchased at sales of the Downey Shipbuilding Company, National Ship Supply Company, Pusey & Jones, etc. Their Army & Navy wool sales total $300,000,000.00 and they have also successfully sold for the Army Ordnance, Quartermasters Department, Navy Department, Post Office Department, and U. S. Shipping Board.

We appraise the property of your company as follows:

Real estate:		
Ground	$1, 850, 000. 00	
Buildings	650, 000. 00	
		$2, 500, 000. 00
Machinery, power plant, equipment, cranes, locomotives, ways, etc		1, 750, 000. 00
Total		4, 250, 000. 00

In making this appraisal we are giving the ground and buildings actual market value, based on the highest prices paid by industries in the purchase of property for their own needs, and prices which could only be obtained through piecemeal sales over a term of years. We are convinced that your market would not be a large industry which could use the whole tract, and even if such a purchaser were procured, it would not be a shipbuilding concern, and any other industry would scrap most of the buildings and build according to their needs.

The history of other shipbuilding concerns during recent years should prove conclusively that there is no market for your property as a shipbuilding plant. Cramps, Pusey & Jones, Neafy & Levy, Dialogue, Bristol and the Merchants Shipbuilding Company of Chester have all gone out of business and your plant is the only large shipbuilding plant still operating on the Delaware.

In a carefully planned and well handled liquidation we are convinced that the ground and buildings would be interesting only to a syndicate of speculators and according to past experience they would pay not over 50¢ on the dollar of valuation, and it would then take them a term of years to retail the property to ultimate users. It is our opinion that such a liquidation would net your company $1,250,000.00 for the ground and buildings and $1,750,000.00 for machinery, equipment, etc., or a total of not over $3,000,000.00.

In this connection we refer you to the sale of the Pusey & Jones property in Gloucester. This property had one-half as much Riparian frontage as your property, with a greater depth and the group of speculators who were high bidders paid $516,000.00 for ground, buildings, machinery, and equipment which were valued at well over $1,500,000.00. Most of this property is still on the market.

In case you desire our detailed figures for arriving at values of different portions of your property and information on sales of comparable property we will gladly furnish them.

Very truly yours,

Geo. W. Jessup & Son,
By Geo. W. Jessup.
Ralph G. Van Hart,
R. G. Van Hart.

Samuel T. Freeman and Co.,
1808–1810 Chestnut St., Philadelphia, Pa., August 17, 1927.

George W. Jessup & Son,
531 Federal St., Camden, N. J.

Dear Sir: Complying with your instructions we have made a careful and detailed examination of the machinery, equipment, and buildings of the plant of the American Brown Boveri Electric Corporation in Camden, New Jersey, having in mind the amount which could be realized at a widely advertised liquidation.

It is our opinion, based on many years experience in liquidating plants throughout the eastern part of the United States and Canada for the United States Government as well as private individuals and fiduciaries, that this plant could by careful and widespread publicity be liquidated in the course of several months on the following basis:

Machinery, tools, and power plant	$1, 000, 000
Equipment, cranes, locomotives, etc	675, 000
Ways, etc., which could be sold apart from the ground	75, 000
Total	1, 750, 000

This valuation is based on price we have realized for similar equipment in other large plants, but consideration has been given to the fact that at a liquidation of this plant higher prices would undoubtedly rule on account of the quantity and condition of the equipment.

Trusting this meets with your approval, we are

Yours respectfully,

Samuel T. Freeman & Co.

CCF:EW

Exhibit No. 1431

(Attached to 151, 151 Supplement 418, 420, 419 and 453)

Settlement Agreement Supplementing Contracts Nos. 151, 151 Supplement 418, 420, 419 and 453, and Relating to "Requisitioned Ships"

This agreement made this 27th day of July 1920 by and between New York Shipbuilding Corporation, a New York corporation, having a place of business in the city of Camden, State of New Jersey (hereinafter called the "shipbuilder"), party of the first part, and the United States Shipping Board Emergency Fleet Corporation, a corporation of the District of Columbia (hereinafter called the "owner"), representing the United States of America, party of the second part.

Whereas the shipbuilder and the owner have heretofore entered into certain contracts providing for the construction by the shipbuilder of ships for the owner, and which contracts may be briefly described as follows:

Contract dated the 14th day of December 1917 by which the owner employed the shipbuilder to construct three transports.

Contract dated July 1st, 1918, by which the owner employed the shipbuilder to construct seven transports.

Contract dated August 5th, 1918, by which the owner employed the shipbuilder to construct four transports.

Contract dated August 10th, 1918, by which the owner employed the shipbuilder to construct two transports.

Contract dated October 18th, 1918, by which the owner employed the shipbuilder to construct one steel cargo ship; and

Whereas, on or about August 3, 1917, the shipbuilder was directed to complete for the owner nine (9) ships requisitioned by the owner, which the shipbuilder had theretofore undertaken to construct for private owners upon a basis of cost plus ten (10) percent for profit; and

Whereas by another agreement, dated December 14th, 1917, to which the American International Corporation was also a party, the shipbuilder agreed to complete for the owner certain boats therein scheduled, which originally and prior to August 3, 1917, were in process of construction by the shipbuilder for various private corporations, partnerships or individuals; and

Whereas by instrument dated January 21, 1918, the owner directed the shipbuilder to complete two certain ships (shipbuilders' hull nos. 202 and 203), the construction of which the owner had theretofore and in the transport agreement of December 14, 1917, directed to be terminated; and

Whereas all of the said contracts numbered by the owner, respectively 151, 151 supplement, 418, 420, 419 and 453, and the said communication of January 21, 1918, provided for the payment to the shipbuilder of the cost of such construction as defined in said contracts and, in addition to such cost, compensation or profit to the shipbuilder; and

Whereas, with respect to contract "No. 151", dated December 14, 1917, it was provided that the compensation or profit to be paid shipbuilder by the owner should be equal to ten (10) percent of the cost of the transport ships, as cost is defined in that contract, and the compensation or profit in the other contracts hereinabove mentioned was provided to be a fixed sum in addition to the cost as defined in each of said contracts, except that with respect to the "requisitioned" vessels (including those referred to in the communication of January 21, 1918), which the shipbuilder prior to August 3, 1917, was constructing for private owners on a cost and percentage basis, it was provided that the compensation or profit to the shipbuilder should be equal to ten (10) percent of the actual cost, as defined in the agreement of December 14, 1917; and

Whereas from time to time various questions have arisen between the owner and the shipbuilder as to the application of "actual cost", as defined in said contracts, and numerous questions have arisen, particularly with reference to whether or not various items claimed as repairs, maintenance, etc., are properly to be included as items of cost as defined in said contracts; and

Whereas the character and original general type and design of the vessels referred to in all or some of the contracts have been changed from time to time by the owner, during the war, and *because of the termination of hostilities incident to the war existing with Germany* at the time said contracts were entered into, and the shipbuilder claims to be entitled to compensation upon the contracts, other than contract no. 151 (December 14, 1917), in excess of the amounts stated in said contracts, because of the very considerable amount of additional work required by said changes and the necessity for occupying its yard and ways with the construction of said ships for a much longer period of time than would have been necessary if the vessels had been completed in accordance with the original specifications; and

Whereas *the shipbuilder claims to have expended very large sums in the erection of special plants or structures for the construction of the work covered by the contracts* and *therefore to be entitled in accordance with the express provisions of said contracts to exceptional allowances for depreciation and excess war depreciation upon the special plants and structures erected by the shipbuilder;* and

Whereas some or all of the claims of the shipbuilder are disputed by the owner; and

Whereas both parties recognize that to determine the actual cost of the said vessels, as defined in the contracts, and to determine the correctness of the claims made by the shipbuilder against the owner would necessitate long negotiations and expense to both parties, and possibly complicated litigation and delays to the owners in the delivery of the ships with the consequent loss to the owner; and

Whereas both parties are desirous of setting, adjusting, or compromising all questions that have arisen in connection with the operation of said contracts to this date, and of effecting a method by which all questions of the character which have been heretofore raised may be obviated in the future construction of the ships by the shipbuilder and in the settlement of all accounts for the said ships:

Now, therefore, in consideration of the conditions hereinabove set forth and of the mutual covenants and agreements herein expressed, it is covenanted and agreed by and between the parties hereto as follows:

A. The actual cost of the ships to be paid by the owner to the shipbuilder for work heretofore performed or hereafter to be done in their construction and completion, in lieu of, and to make more certain, the definition thereof appearing in the said contracts and to facilitate computation thereof, shall be made up of the cost of labor, the cost of material, and a percentage allowance for overhead and all other charges, as herein defined, and no other amounts, as follows:

1. The cost to the shipbuilder of the direct or apportioned labor entering into the construction of said vessels. The cost of direct or apportioned labor is hereby defined to be the cost to the shipbuilder of all direct labor as distributed under the shipbuilder's present method of accounting employed in the construction of the vessels for the owner, including gang foremen, quartermen, and leadermen for such time as they may be employed exclusively upon work in connection with any of said vessels, respectively, but not including any other labor of an indirect or supervisory nature.

2. The cost to the shipbuilder of the direct material entering into the construction of such vessels for the owner. Direct material cost is hereby defined to be the cost to the shipbuilder of all direct material, machinery, and equipment incorporated into or required to be furnished in order to build such vessels for the owner, respectively, which said costs are to be the net cost to the shipbuilder, f. o. b. shipbuilder's yard, including freight and other transportation charges actually paid by the shipbuilder, after deducting any and all rebates, commissions and discounts actually obtained.

3. A fixed charge with respect to each of such vessels constructed under said agreements for the owner at fifty (50) percent of said direct or apportioned labor cost for each of such vessels. For this purpose the direct and apportioned labor costs, as they now appear and shall appear upon the books and records of the shipbuilder shall be used for work already performed so far as those items fall within the definition of direct and apportioned labor herein contained, and for work still to be performed under the said several contracts the direct and apportioned labor costs shall include items of a nature similar to those now appearing upon such books and records, so far as they shall fall within the said definition herein contained. *Said fixed charge shall cover all other costs and charges of every nature whatsoever, for such respective vessels, including all overhead charges of the shipbuilder with respect to the construction of such vessels for the owner, bond interest, taxes, all costs of administration, all maintenance, all repairs, all depreciation* and all insurance (but not including insurance on hulls of vessels during construction, which insurance is a material charge).

4. Nothing herein contained shall be construed as depriving the shipbuilder of the right to receive from the owner, and it shall receive compensation or shipbuilder's profit of ten (10) percent above actual cost specified in the transport contract of December 14, 1917 (151), and upon the "requisitioned ships" (including those referred to in the communication of January 21, 1918), or the fixed sum per ton or per vessel agreed to be paid as compensation in connection with the other contracts.

5. From the final amounts otherwise due from the owner to the shipbuilder, with respect to the seventeen vessels constructed under contracts (owner's nos. 151 (for three transports), 418, 419, 420, and 453), *there shall be deducted* the net proceeds of the sale of scrap or any other *salvage produced from* direct materials, *machinery and/or equipment charged to cost of direct materials*, such net proceeds to be apportioned annually among such respective vessels and the vessels constructed during that year by the shipbuilder other than those covered by said contracts in proportion to the direct labor expended respectively thereon. This provision

with respect to deducting the net proceeds of the sale of scrap or other salvage from the amounts otherwise due shipbuilder shall not be applicable to the remaining vessels constructed by the shipbuilder, namely, all the so-called "requisitioned vessels" (including those vessels referred to in the said communication of January 21, 1918).

B. The shipbuilder has heretofore completed and delivered to the owner vessels which prior to August 3, 1917, were under contract for delivery to private persons, firms, or individuals, some of which are referred to in the said agreement of December 14, 1917, and in the communication of January 21, 1918, and it is agreed by and between shipbuilder and owner that final settlements for the said vessels (sometimes referred to as "requisitioned vessels"), shall be effected on the basis of the actual cost as in this agreement defined and the settlements upon such basis shall be promptly made between the parties, and after such actual cost, as herein in this instrument defined, has been determined, the said amount shall be deemed for all purposes the actual cost, and the shipbuilder shall be entitled to receive for profit, in addition thereto, the respective amounts in each of the said contracts provided to be paid as above set forth, it being understood that where such profit is provided to be determined with reference to the cost of the respective ships, such cost shall be calculated in the manner herein provided.

C. The shipbuilder agrees and covenants to and with the owner that in consideration of the definition of actual cost, as hereinabove provided, the shipbuilder will and does hereby release, remise and discharge the owner from any and all claims of every kind and character whatsoever, including claims for increased compensation, for depreciation of any kind, including depreciation on special plants or structures, or any other matter or thing whatsoever, except as expressly herein agreed to be paid, and in consideration of the release and discharge by said shipbuilder, the owner hereby releases and discharges the shipbuilder from any and all claims, causes of action, debts, or any matter or thing whatsoever which it may have against the said shipbuilder, except the faithful performance of the said contracts as hereby modified and hereby adjusted, and the delivery of the vessels agreed to be constructed thereunder.

D. "*Except only as herein expressly modified and adjusted, each and all of the said contracts of December 14, 1917, July 1st, 1918, August 5th, 1918, August 10th, 1918, and October 18, 1918, and the said letter of instructions dated January 21, 1918, and the provisions for the completion of the said "requisitioned ships", are hereby continued in full force and effect.*

In witness whereof the parties have caused these presents to be executed in duplicate by their respective proper corporate officers and their corporate seals to be hereto affixed on the day and year above written.

[SEAL] NEW YORK SHIPBUILDING CORPORATION,
By M. A. NEELAND, *President.*

Attest:
J. T. WICKERSHAM, *Secretary.*

[SEAL] UNITED STATES SHIPPING BOARD EMERGENCY FLEET CORPORATION,
By W. S. BENSON, *President.*

Attest:
JOHN J. FLAHERTY, *Secretary.*

Approved 7/21/20.
THOS. D. PITTS, *Mgr. Const.*

Approved as to Form 19.
D. S. EDMONDS,
District Counsel, Delaware River District.

Approved.
J. J. EASON, *District Manager.*

O. K.
R. A. D.
Approved.
MARTIN J. GILLIN, *Trustee.*

Approved.
D. S. EDMONDS.

Approved:
A. TWEEDALE.

Noted in accordance with conference with M. Gillin.
MCKEON.

CITY OF PHILADELPHIA,
State of Pennsylvania, ss.:

Be it remembered that on this 27th day of July, in the year of our Lord one thousand nine hundred and twenty before me, a notary public for Pennsylvania, personally appeared Jno. J. Flaherty who, being duly sworn, on his oath, made due proof to my satisfaction that W. S. Benson is president and deponent is secretary of the United States Shipping Board Emergency Fleet Corporation, one of the parties in the above agreement named; that deponent well knows the common seal of said corporation; that the seal affixed to said agreement is the common seal of said corporation, and was so affixed thereto and said agreement was signed and delivered by said W. S. Benson in the presence of deponent as a voluntary act and deed of said corporation pursuant to resolution of the directors thereof; and that deponent thereupon signed his name thereto as a witness thereof.

JOHN J. FLAHERTY.

Sworn and subscribed before me the day and year aforesaid. All of which I do hereby certify.

[SEAL] D. S. EDMONDS, *Notary Public.*
Commission expires Feb'y 17, 1923.

STATE OF PENNSYLVANIA,
County of Philadelphia, ss.:

Be it remembered that on this 27th day of July in the year of our Lord one thousand nine hundred and twenty (1920) before me, a notary public for Pennsylvania residing in Philadelphia, appeared J. T. Wickersham who, being duly sworn on his oath, made due proof to my satisfaction that M. A. Nieland is president and deponent is Secretary of the New York Shipbuilding Corporation, one of the parties in the above agreement named; that deponent well knows the common seal of said corporation; that the seal affixed to said agreement is the common seal of said corporation and was so affixed thereto and said agreements was signed and delivered by said M. A. Nieland in the presence of deponent as a voluntary act and deed of said corporation, pursuant to resolution of directors thereof; and that deponent thereupon signed his name thereto as a witness thereof.

J. T. WICKERSHAM.

Sworn and subscribed before me the day and year aforesaid. All of which I do hereby certify.

[SEAL] D. S. EDMONDS, *Notary Public.*
Commission expires Feb'y 17, 1923.

EXHIBIT NO. 1432

OFFICE OF THE RESIDENT AUDITOR EMERGENCY FLEET CORPORATION AT NEW YORK SHIPBUILDING CORPORATION

Statement to show comparison of actual overhead and amount paid under 50% overhead contract dated July 27, 1930

Month, 1920	Total direct labor	Total actual overhead for yard	Actual percent	Actual O. H. chargeable to total E. F. C. contracts	Rate at 50% billed to E. F. C.	Excess of 50% over actual cost
January	$2, 064, 697. 23	$876, 797. 78	42. 466	$511, 667. 27	$602, 314. 99	$90. 647. 72
February	1, 770, 560. 99	818, 350. 00	46. 220	492, 072. 51	532, 004. 99	39, 932. 48
March	2, 231, 958. 45	728, 317. 32	32. 631	437, 348. 50	670, 129. 36	232, 780. 86
April	2, 185, 102. 09	712, 443. 19	32. 604	416, 369. 37	638, 524. 96	222, 155. 59
May	1, 970, 190. 59	755, 039. 22	38. 323	422, 030. 72	550, 628. 92	128, 598. 20
June	2, 045, 410. 58	743, 535. 57	36. 351	407, 467. 63	560, 464. 89	152, 997. 26
July	2, 052, 007. 56	808, 788. 15	39. 415	429, 109. 05	544, 339. 15	115, 230. 10
August	2, 037, 129. 89	887, 340. 45	43. 558	445, 459. 19	511, 330. 63	65, 871. 44
September	1, 987, 461. 71	875, 841. 26	44. 068	447, 954. 29	508, 252. 91	60, 298. 62
October	2, 182, 972. 41	900, 729. 58	41. 262	466, 332. 43	565, 094. 63	98, 762. 20
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	22, 649, 914. 53	9, 048, 105. 13	39. 948	4, 974, 226. 05	6, 245, 222. 65	1, 270, 996. 60

AS-12/23/20-4 copies.

EXHIBIT NO. 1433

[Copy]

IT:CR:G-1
ECE

SEPTEMBER 14, 1920.

S. F. COSGROVE, Esq.,
Chief of Investigation, Emergency Fleet Corporation,
Philadelphia, Pennsylvania.

DEAR SIR: (1) It is our understanding that your department bears to the Fleet Corporation the same relationship as a doctor or lawyer bears towards his patient or client and in order to get the best service we could not too freely advise.

(2) We are sending you herewith a report showing certain conditions regarding a yard in your district, which facts disclosed leads us to believe that this yard either through accident or design appears to be securing advances which we believe is not the intention of the Fleet Corporation. Should this information be of any use, you are authorized to use same, should it, on the other hand, be proven on investigation that there is nothing in it, this department will feel that at least it has done its duty and advised you of the facts as we know of for such action and investigation as your department may deem advisable.

(3) In the meantime from the nature of this report it must of necessity be considered as confidential as it is not the desire of this department to stir up a tempest in a teapot in order to make a mountain out of a molehill. It is our firm belief, however, that the yard referred to is preparing to take advantage of the Fleet Corporation and we earnestly trust that you will give the facts we have presented earnest thought and investigation, bearing in mind that these facts are those which we have ascertained without special effort and they may be only indications of large and more important facts which have not been presented to us but which nevertheless may exist.

Very truly yours,

(Signed) ARTHUR C. FREEMAN, Jr.,
District Plant Engineer.

GENERAL DISCUSSION OF THE NEW YORK SHIPBUILDING COMPANY METHODS AND PRESENT ATTITUDE TOWARDS ME AS VIEWED BY THE WRITER

(1) When the district plant engineer's office of the Delaware River district was created in the fall of 1918 there was no representative at the plant in this district. The appointee of district plant engineer was Arthur C. Freeman, Jr., formerly connected with the Delaware River district, first as assistant engineer, executive assistant, and assistant district officer on ship construction and served in that department, taking an active interest in the work of the district as second in authority until his appointment as district plant engineer. Mr. Freeman reported at that time to Mr. F. W. Grogan, district officer.

(2) The records show that he was very actively engaged in the work of the Emergency Fleet Corporation in the Delaware River district from the creation of said district then known as "District No. 10", and he should have been in a position to have acquired considerable knowledge of the district, its workings and its personnel.

(3) Mr. Freeman reports that upon his assuming the duties of the district plant engineer having charge of ship construction reporting directly to the division of ship yards plant head, Admiral Roussear, the affairs of the Emergency Fleet Corporation expenditures at the New York Shipbuilding Corporation were turned over to him in the form of three contracts "Emergency ways, emergency shop, and equipment contracts" and that he found large charges to the yard on the pay roll of the Emergency Fleet Corporation but found that proper records were not being kept of the work; that the expenditure fund was not properly checked and that the New York Shipbuilding Corporation appeared to run things their own way without any check and as far as he could see with little restriction. In fact, it appeared that the work was practically run by the New York Shipbuilding Corporation, as they willed and desired, all of which is substantiated by the records. In one special case, that of the emergency shop, an estimate was made to complete same by the New York Shipbuilding Corporation which apparently was a safe estimate and an appropriation was asked for a certain amount. Subsequent events show that at the date of this letter there was an actual overdraft of $110,000.00, this showing the difficulty of doing work under the conditions which the New York Shipbuilding Corporation presented matters.

(4) Mr. Freeman cut down the force from thirty-five to ten at the New York Shipbuilding Corporation and also discovered that there was no check on maintenance at this yard, the cost of which was a cost against the ships in general overhead and on some contracts an additional 10% profit was allowed. This matter was pointed out by Mr. Freeman and he was allowed to place four engineers on maintenance, a record of maintenance, month by month, by the New York Shipbuilding Corporation was kept in regular schedule and at the date of Mr. Freeman starting activities, had reached an amount of $448,805.00 per month which was charged against ship construction at a time when only the north yard was in operation as the south yard had just gotten started. By the untiring efforts of Mr. Freeman's department, maintenance was brought down to as low as a figure of $91,756.00 for the month of July 1920, this being for full operation of both the north and south yards. As this maintenance was brought down attention was given to see that it was not placed and paid for through other channels, in other words this saving was a direct saving to the Emergency Fleet Corporation not only for the amount per month as given but on some contracts 10% was added and it represents a saving to the Fleet Corporation by a less payment to the New York Shipbuilding Corporation and it was to be expected that this showing would cause considerable alarm on the part of the New York Shipbuilding Corporation and much activity on their part to stop the activities of this department.

(5) Matters were brought somewhat to a head by the New York Shipbuilding Corporation receiving a letter dated February 20, 1920, from our resident engineer in which their attention was called to the fact that they were doing considerable work in the yard and charging same to maintenance which was an improper charge as it was being done without authority and eleven items were cited on which the work was going on at that time and the said corporation was advised that we were requesting our resident auditors to withhold payment on these jobs until some were approved if they were proper charges. On Wednesday, February 25, 1920, we were advised that Mr. Magoon, senior vice president of the New York Shipbuilding Corporation was in conference in the home office of the Fleet Corporation and one of the officers of the New York Shipbuilding Corporation at the yard, stated that he was afraid to call him up as he Mr. Magoon, was in an awful temper about maintenance resulting from our letter.

(6) On the same day Mr. Magoon replied to our letter stating that he was unable to find any ruling which required him to submit regular application for doing maintenance work for approval and that it was his present purpose to proceed with maintenance work under his usual procedure. On the same day the New York Shipbuilding Corporation wrote to Mr. Frick, manager of construction, Emergency Fleet Corporation, in which they state that the jurisdiction of the plant maintenance by the district engineer's department had been assumed as an extension of its duties in connection with plant construction and that they ask the Fleet Corporation in said letter to issue instructions that will relieve the New York Shipbuilding Corporation from all question of such supervision. It is to be noted that these letters were written the same day as the conference above referred to in the home office. *Under date of February 28, Mr. Frick issued instructions to Mr. Miller to remove all engineers in his district whose work was confined strictly to maintenance.* At the same time when this letter was shown to the district plant engineer by Mr. Miller, he was also shown a general order that had been prepared to eliminate all engineers on maintenance. Mr. Freeman at once interviewed Mr. Pitts, district manager, Emergency Fleet Corporation, Mr. Frick and Mr. Miller at which conference was present Major McCloud of the plant protection section. It has pointed out to Mr. Frick that the issuing of that general order was detrimental to the interest of the Fleet Corporation and that we should properly check maintenance as it was an admitted cost on ships which was paid out of the Treasury funds, which finally resulted in the order not being issued and a letter was prepared by Mr. Pitts, for Mr. Frick's signature, dated February 28, 1920, to the New York Shipbuilding Corporation stating that we would continue our work on maintenance.

(7) *This department pointed out to various departments further irregulatities that the New York Shipbuilding Corporation made in the matter of plant construction and charged to ships.* In one case we discovered one of the old ways that had been there for twenty years had been remodeled from wooden construction to concrete construction at an expense of approximately $126,000.00, same had been charged to ship construction and apparently had been paid as a ship cost. This was brought very forcibly before the auditing department and said department on their own initiative made an estimate of the improper cost that had already

been paid the New York Shipbuilding Corporation. An estimate of our share amounting to $750,000.00 had been improperly paid and this amount was held up by the auditing department as made to the New York Shipbuilding Corporation. The Navy Department hearing of this action called a meeting and stated that inasmuch as they were paying 50% of the overhead, that they be allowed to see the list, as they also desired to hold up funds for improper payments, resulting in a similar amount being held up by the Navy Department on March 3. The Fleet Corporation notified the New York Shipbuilding Corporation that $750,000.00 was held up from their payments, and following this they received a like notice from the Navy Department. So that we find *in the spring of 1920, we, the Fleet Corporation did know that the books of the New York Shipbuilding Corporation showed many charges as ship cost which were improper.*

(8) There is no doubt that this department is held responsible by the New York Shipbuilding Corporation due to the fact that we stopped them from getting away with improper cost in large sums; that we have brought out the fact that neither the Navy nor the Fleet Corporation were paying proper attention to ship costs. Admiral Capps, chief of cost compensation board in Washington, sent for Mr. Freeman and asked him regarding the work he was doing, complimenting him upon same and stating he was glad the Fleet Corporation had somebody who had backbone enough to stick up for what is right and did say that he could not understand where his own cost compensation board had been at the plant of the New York Shipbuilding Corporation for the last 5 years.

(9) The feeling that the New York Shipbuilding Corporation had that they were being checked up in a manner that they were not used to; that their freehand in construction work was in a measure restrained, did we imagine, after considerable bearing on their efforts to eliminate our activities from that yard, but due to the fact that Mr. Freeman succeeded in pointing out the value of checking maintenance, checking the interest of the Emergency Fleet Corporation, matters remained the same as usual until date of July 27, 1920, when a new arrangement was entered into between the shipbuilder and the Emergency Fleet Corporation in which a fixed percentage of direct labor was allowed, said yard requiring no longer any efforts of the organization until at the date of this report, there is practically no supervision as no control is required by this arrangement of the money that is allowed the New York Shipbuilding Corporation for maintenance.

Commenting on this report for the benefit of all concerned, attention is called to the following facts:

Mr. Freeman, district plant engineer and Mr. Eason, district manager, visited the plant of the New York Shipbuilding Corporation on or about July 13, 1920, in order for Mr. Eason, the new district manager, to pay his respects to the yard and visit same. At a meeting in Mr. Neeland's office (those present being Mr. Neeland, Mr. Eason and Mr. Freeman), Mr. Eason stated to Mr. Neeland that it was considered advisable to allow a fixed percentage for maintenance and Mr. Neeland replied that that was just what they were working on and stated that Mr. Gillan of the Shipping Board was expected to visit the yard the next Saturday, at the launching of the *Bay State*, that he, Mr. Neeland had a very dear friend, who was also a friend of Mr. Gillan, and that this friend had come to him and stated that if he had anything to put through, he had better arrange to do so in the next week as the President expected to make some new appointees to the Board, and that his friend, Mr. Gillan would probably resign; that as matters now stood, Mr. Gillan could get through anything he wanted to, *as it was a one-man board*, that *whatever he said was accepted;* that any delay over a week might cause them not to get it through. Mr. Neeland then stated, that for this reason he would like to have this matter brought up as soon as possible so as to get it through by Mr. Gillan while still on the Board. Luncheon was then announced, Mr. Neeland asked Mr. Eason and Mr. Freeman to meet him after lunch as he could not have luncheon with them, because he had to make a talk to his superintendents. The meeting was then adjourned and on the way out Mr. Freeman called Mr. Eason aside and told him that he did not like the way Mr. Neeland talked and that while he agreed with the principle of a certain percentage being allowed the New York Shipbuilding Corporation, he did not think it possible to think of doing within a week, and he also advised Mr. Eason not to be a party to railroading anything like that through in that time as it was a proposition that required a long time to work up. Mr. Eason replied that he would not and was just drawing Mr. Neeland out, or words to that effect.

Mr. Freeman then asked to be excused from the afternoon meeting (as he did not desire to become a party to same). At the end of the same week Mr. Freeman went on his vacation and on his return he found that the agreement had already been entered into.

(10) In connection with said agreement your attention is called to the fact, that the auditors under date of August 2, 1920, (Mr. George W. Willbrock, resident auditor), submitted a report to the District Controller A. J. Paynter, in which he states referring to the report, "it consists of as many facts as could be gotten together within a few days in connection with the proposition of a flat overhead of 50%, contract for which I understand has since been signed, no official notification, however, having been received at this office to date." He also stated in the same letter of transmittal of report *all of the elements that entered into the proper consideration of this proposition, have not been thoroughly weighed,*" this because of the limited time given the writer. It will be noted that this letter of transmittal in which the resident auditor tells the Emergency Fleet Corporation that all elements have not been properly considered, under date of August 2, 1920, several days after the actual signing of the agreement which was July 27, 1920, showing that agreement was prematurely entered into, if the knowledge that is secured from the auditors who have been constantly on the work is of any value. Your attention is also called to the fact, that the plant engineering department which has had more to do with plant maintenance which forms a large part of the overhead at this yard, was not asked for any recommendation, nor consulted. Especially is this very pointed in view of the fact that this agreement appears to have been drawn up to avoid maintenance control or of accounts which at the date of the contract were improperly on the books of the New York Shipbuilding Corporation and on which a million and one-half dollars was withheld. It is to be noted that the agreement on page 5, sets forth that "for this purpose, the direct and proportionate labor, cost, as they now appear and shall appear upon the books and records of the shipbuilder shall be used for work already performed, etc.," and which back cost appears to have been used as a basis for the agreement when same were known to be improper and not correctly recorded.

(11) You are advised that at the launching of the "*Bay State*" which was July 17, 1920, Mr. Gillan of the Shipping Board attended same and made an address, those present being New York Shipbuilding officials and their guests. Extracts from said speech by Mr. Gillan as noted by one of my engineers is attached hereto, marked "Exhibit A". Your attention is called to the fact that Mr. Gillan stated that Admiral Benson is a square man and would do the right thing when it was explained to him, that he needed lots of advice in the way of business, and that he also stated that the men of the Fleet Corporation who had to do with many settlements seemed to lose sight of the honor of the United States in carrying out the intent of their contracts with the shipbuilders, and have quibbled over technicalities, citing a case of the yard at Alexandria, that receivers were about to be appointed by the Fleet Corporation when the Board took steps to have the matter stopped *and that the claims of the shipbuilder had been paid in full and he stated that the same method would be used in handling the matters of the different corporations that had dealings with the Government.*

(12) An examination of the facts of this agreement of July 27, which is made retroactive from the beginning of these contracts, in the opinion of the writer is manifestly wrong to the interests of the Fleet Corporation for it was drawn up apparently to ease the situation under which as set forth by the agreement both parties recognized that the determination of the actual cost of the said vessels as defined in the contract would necessitate long negotiations and expense to both parties and possible conflict and both parties are, therefore, desirous of settling, adjusting or compromising all questions and so for these reasons they have drawn up an agreement on which there is apprently no compromise as all of the cost as shown by the books of the corporation for direct and apportionate labor cost is used without question, which is combated by certain claims that are presented by the Shipbuilder to offset all irregularities in said accounts.

(13) It will be noted that the claims that the New York Shipbuilding Corporation have presented as made would apparently show a loss of 1¾% to the New York Shipbuilding Corporation. This combated by figures from the auditing department which is made up mainly on plant figures about which the Plant Department was not consulted. This agreement is based upon a list of work estimated by the auditing department on a strictly engineering proposition and in many cases lies deep in the ground, yet this estimate has been allowed which affects the Emergency Fleet Corporation's interest retroactive to the beginning of the Emergency Fleet Corporation's interest at this plant and also applies on all future work. This is absolutely wrong, improper and unbusinesslike and

something that would not be countenanced by any private corporation and yet we find that it has been thought to spend Government money in a way that cannot possibly be right. It was made without use of data that had been collected by our representatives and used all data which was wrong and which was known to be wrong by the records as indicated above and which was vital to the formation of a proper agreement to protect the Government's interest. It is to be regretted that the Fleet Corporation representing the Government allowed this agreement to be made with a corporation that has been under observation by the District plant engineer and the auditing department with the knowledge of the departments above, substantiated by proof that they had to be recognized to the extent of taking from this corporation funds that had been improperly paid out. All this occurred before the agreement was signed and was known before said agreement was signed.

(14) An examination to the effect of the agreement as far back as six months which is as far as it was carried by the auditing department showed from January to June 1920, that the New York Shipbuilding Corporation by its new agreement made an excess in what they would have made under their other contract which is binding an amount of $867,014.50 as "velvet." The details by months is as shown in statement attached marked "Exhibit B." There will be other profits to accrue by this agreement which have not been gone into. We believe from conservative estimate that the entire benefits of this new contract by the Fleet Corporation will amount to between $2,000,000.00 and $3,000,000.00 profit as "velvet." It seems to be the impression with some that when direct labor becomes low in comparison with overhead, that the Fleet Corporation will make by this contract. This should not be a deciding element in the consideration of same as it is entirely problematical and should we have continued under the original contracts it was a very proper duty that we should look after cost and not pass same unless they were correct and when overhead became excessive, we were perfectly within your rights to order same to be cut down.

(15) In connection with the purchase of the South Yard by the New York Shipbuilding Corporation, you are advised that unless the Fleet Corporation is vigilant, the South Yard will be turned into an outfitting yard to outfit ships on which we would be allowed only 5% on the costs as the contract states that the profit we shall receive from ships will be construed from that yard in which ships are launched. By agreement we received 5% profits in the North Yard and 50% in the South Yard, in payment of certain Emergency Fleet Corporation expenditures, and should the ship be launched in the North Yard it would be outfitted in the South Yard without restriction so that we may find ourselves in a position of using the South Yard as an outfitting basin with 5% profit only.

(16) Your attention is also called to the fact that in the figures presented by the New York Shipbuilding Corporation on which this agreement was based, they carried a war depreciation retroactively and also in the future which would make same effective as long as we have any contracts with the New York Shipbuilding Corporation.

(17) The effect of this agreement which the New York Shipbuilding Corporation has, is to relieve the plant engineering department of all supervision of actual cost of plant maintenance. The interest of the Fleet Corporation is thus manifestly turned to the examination of direct labor costs which forms cost of the ships and which at the present time is running over a $1,000,000.00 a month. By letter of the district plant engineer to the district manager, dated September 11, 1920, he is advised by the district plant engineer that there is not at present, nor has there been at any time in the past, an adequate check on direct labor, it was this fact alone when allowing the New York Shipbuilding Corporation to inject into the cost of ships the money for plant improvements for which the million and one-half dollars was withheld as having been improperly paid, which makes it appear that the Emergency Fleet Corporation has jumped from the frying pan into the fire, due to the fact that the New York Shipbuilding Corporation have succeeded in removing from their plant the only department that has been helpful to the Fleet Corporation. Our force at the New York Shipbuilding Corporation is reduced 71% at the present time. There is no doubt that this reduction was brought about by the apparent sinister influence of the New York Shipbuilding Corporation.

Respectfully,

ARTHUR J. FREEMAN, JR.

(Ex. #4 P. 27)

(12) An examination of the facts of this agreement of July 27, 1920, which is made retroactive from the beginning of these contracts, in the opinion of the writer is manifestly wrong to the interests of the Fleet Corporation for it was drawn up apparently to ease the situation under which as set forth by the agreement both parties recognized that the determination of the actual cost of the said vessels as defined in the contract would necessitate long negotiations and expense to both parties and possible conflict and both parties are, therefore, desirous of settling, adjusting or compromising all questions and so for these reasons they have drawn up an agreement on which there is apparently no compromise as all of the cost as shown by the books of the corporation for direct and apportionate labor cost issued without question, which is combated by certain claims that are presented by the shipbuilder to offset all irregularities in said account.

* * * * * * *

(Ex. #4 P. 29)

(14) An examination to the effect of the agreement as far back as six months which is as far as it was carried by the auditing department showed from January to June 1920, that the New York Shipbuilding Corporation by its new agreement made an excess in what they would have made under their other contract which is binding an amount of $867,014.50 as "velvet." The details by months is as shown in statement attached marked "Exhibit B." There will be other profits to accrue by this agreement which have not been gone into. We believe from conservative estimate that the entire benefits of this new contract by the Fleet Corporation will amount to between $2,000,000.00 and $3,000,000.00 profit as "velvet." It seems to be the impression with some that when direct labor becomes low in comparison with overhead, that the Fleet Corporation will make by this contract. This should not be a deciding element in the consideration of same as it is entirely problematical and should we have continued under the original contracts it was a very proper duty that we should look after cost and not pass same unless they were correct and when overhead became excessive, we were perfectly within your rights to order same to be cut down.

* * * * * * *

(Ex. #4 P. 30)

(17) The effect of this agreement which the New York Shipbuilding Corporation has, is to relieve the plant engineering department of all supervision of actual cost of plant maintenance. The interest of the Fleet Corporation is thus manifestly turned to the examination of direct labor costs which forms cost of the ships and which at the present time is running over a $1,000,000.00 a month. By letter of the district plant engineer to the district manager, dated September 11, 1920, he is advised by the district plant engineer that there is not at present, nor has there been at any time in the past, an adequate check on direct labor, it was this fact alone when allowing the New York Shipbuilding Corporation to inject into the the cost of ships the money for plant improvements for which the million and one-half dollars was withheld as having been improperly paid, which makes it appear that the Emergency Fleet Corporation has jumped from the frying pan into the fire, due to the fact that the New York Shipbuilding Corporation have succeeded in removing from their plant the only department that has been helpful to the Fleet Corporation. Our force at the New York Shipbuilding Corporation is reduced 71% at the present time. There is no doubt that this reduction was brought about by the apparent sinster influence of the New York Shipbuilding Corporation.

Arthur J. Freeman, Jr.

Exhibit No. 1434

January 14, 1920.

From: George W. Wellbrook, resident auditor, The New York Shipbuilding Corporation.
To: A. J. Paynter, district auditor, via F. E. H. Hamell, District Comptroller, Delaware River District, Philadelphia, Pennsylvania.
Subject: Selling and building rights of Diesel type engine.

(1) Your attention is called to a charge that is being absorbed into the Emergency Fleet Corporation hulls monthly which covers a payment by The New

York Shipbuilding Corporation to the Nederlandsche Fabrick Van Wesktingen en Spoorweg-Materiell, Genaamd-"Werkspoor" of Amsterdam, Holland, of the sum of $10,000.00.

(2) The New York Shipbuilding Corporation showed the writer the agreement in connection with this payment. This agreement provides for the right by The New York Shipbuilding Corporation to build and sell marine heavy oil Diesel type internal combustion engines. The total duration of the contract is to be seven (7) years from January 25, 1916.

(3) In view of the fact that The New York Shipbuilding Corporation has never constructed an engine under the above agreement for either the Emergency Fleet Corporation, the Navy Department, or outside parties, it would appear to the writer that the Emergency Fleet Corporation should not absorb any part of the cost of entering into this agreement. It should be mentioned that the agreement also provides that a royalty shall be paid on each and every engine manufactured.

(4) We would request that you instruct this office as to whether or not you consider the above charge a proper item chargeable to cost of Emergency Fleet Corporation hulls under construction.

(5) The method of charging off this $10,000.00 has been to include it under patents and royalties on the depreciation schedule. The New York Shipbuilding Corporation has been writing it off on a basis of 20% per annum, which, in the opinion of the writer, is entirely incorrect inasmuch as the agreement covers a period that is specifically stated to be seven years. Regardless of what decision is made as to whether or not the Emergency Fleet Corporation should assume any part of this case the rate would have to be adjusted.

George W. Wellbrook, *Resident Auditor.*

Exhibit No. 1435

U. S. S. "Idaho"

(Contract #160)

The contract for the construction of the above vessel was let during 1914, and the delivery of the vessel occurred on March 24, 1919, when it was conditionally accepted by the Secretary of the U. S. Navy. On August 9, 1921 final acceptance of the vessel by the U. S. Navy occurred.

The contract for the construction of the vessel was let on a flat-price basis, the sum being $7,250,000.00.

During the war emergency, and prior to the completion of the vessel, the price of labor advanced materially; labor wage adjustments of workmen employed in shipyards were made by the Macey Board on at least two occasions that were applicable to workmen employed at the New York Shipbuilding Company's plant; and much "overtime" occurred in connection with ship construction work.

It appears that authority was requested of Government officials (the contract of the *Idaho* being on a flat-price basis and the price being determined on the basis of conditions existent at the time the contract was let) to make adjustments of wages of workmen employed in constructing the vessel in accord with the wages paid other workmen in the shipyard on other vessels (in conformity with the Macey Board decisions); and also authority to put in "overtime" on the *Idaho.*

It is indicated that authority that the taxpayer believed to be suitable and ample was received from Government officials for these purposes, and adjustments of wages occurred and "overtime" was put in on the vessel.

After the completion of the vessel, and its delivery to the Secretary of the Navy, controversy arose as to the amounts that were billed in excess of the flat price, and which covered the items of wage adjustments and "overtime", and it appears that the excess over the flat price was not paid by the U. S. Navy—was eithert emporarily suspended or refused to be paid.

On March 4, 1925 a public bill was passed by Congress entitled "An act for the relief of the New York Shipbuilding Company for losses incurred by reasons of Government orders in the construction of Battleship 42"(*Idaho*).

On March 19, 1925, the N. Y. Shipbuilding *Company* filed a petition in the Court of Claims, E No. 201, which recites among other things, that the *company* was then existent, and that it held the original contract the benefits from which were to be kept in trust for the New York Shipbuilding *Corporation* (its successor).

The petition sets forth the basis of the claim of the company, in amount $1,239,358.74, which in summary or digest form is—

1. Increase in contract price by the requirement to pay more rates of wages from time to time as fixed by the shipbuilding labor adjustment board	$871. 808. 95
2. Overtime work	314, 639. 86
3. Balance in reserve fund	52, 909. 93
Total	1, 239, 358. 74

The *authorities* for the above alleged expenditures, or/and balance of reserve, are set forth in detail in the taxpayer's petition [1] to the Court of Claims, which was inspected by your examiners in the Department of Justice on Vermont Avenue, Washington, D. C. The authorities comprise telegrams, letters, etc. from the Secretary of the Navy and other Government officials.

A hearing has occurred in the Court of Claims in connection with the claim of the company, which we are informed was suspended, temporarily; and our information is that to date, on two or more occasions, testimony of witnesses was taken at the office of the New York Shipbuilding Corporation at Camden, N. J., by a commissioner designated by the Court of Claims, so to do. The matter of claim of the taxpayer, to date, has not been adjudicated.

During the year 1918, $1,500,000.00 was charged against profits by the taxpayer for alleged loss on the U. S. S. *Idaho,* the books of the corporation disclose; and during 1919, $1,350,000.00 was charged against profits for alleged loss on this vessel. It is further indicated by the books that on December 31, 1923, $700,000.00 additional was charged to "profit & loss" for alleged loss on this vessel and the "U. S. S. *Washington*". The entry covering the $700,000.00 appears in the private journal of the corporation, page 229, and follows:

"Dec. 31, 1923:

"Profit and loss	$700, 000
"Reserve for suspense	700, 000

"While the claims of the corporation growing out of the construction of the *Idaho* and for the construction of the *Washington* have been set up on the books with regard to the minimum amounts that have been so far mentioned as due the corporation in all fairness, the figures allocated thereto also have the protection of adequate reserves by reason of some claims not yet having been adjusted. It is believed that a fair final adjustment and liquidation of such claims will result in the allowance of by far much larger amounts in line with the claims as filed (see C. I. Fay's letter 2/4/24)."

The C. I. Fay referred to is an attorney handling the *Idaho* case before the Court of Claims, and is connected with White & Case, attorneys, #14 Wall St., New York, N. Y.

During the war period and for several years thereafter, when the taxpayer was constructing vessels for the U. S. Navy and the U. S. Shipping Board Emergency Fleet Corporation, on cost-plus 10%, cost plus a stipulated profit per deadweight ton, and cost plus a fixed fee bases, it was the admitted practice of the taxpayer to most liberally interpret "cost" inasmuch as the contracts entered into did not clearly define it. Many, many items such as capital items, Federal income taxes, gifts and donations of the corporation, increases in salaries of corporate executives, salaries of foreign representatives, additions to plant, etc. were included in the charges to Government vessels on the books, and were included in the periodical (monthly) billings in connection with ship construction made to the U. S. Navy and the Emergency Fleet Corporation. The officials of the corporation state in defense that most of their plant was devoted to construction of Government vessels and practically all expenditures resulted directly or indirectly in a beneficial way to the ships being constructed; and that their billings were the subject of audit and scrutiny by agents of the Government located at the plant, employed in the Cost Inspection Department of the U. S. Navy and of the Emergency Fleet Corporation.

The auditors for the Government departments *did* recommend, and many of the recommendations were followed, the disallowance of many of the charges included in the billings of the contractor. The disallowances of charges were reflected in *payments* to the contractor by the Government. The taxpayer did not change its *records* (books), still averring, that regardless of the interpretation of "cost" made by the U. S. Navy or Emergency Fleet Corporation, its (the corporation's) interpretation of "cost" as reflected by its original charges *in the books* was the correct interpretation of "cost"; and the corporation left its records as they were. Certain adjustments were made many years later with reference to some of the items that were questioned.

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[1] Copy now made a record of the case and filed herewith, secured from the Department of Justice.

The U. S. S. *Idaho* contract, as has been previously stated was a flat-price contract.

Transcripts of the ledger accounts, from the taxpayer's books, have been made. The accounts comprise the construction account (no. 160), the earned profit account, and the U. S. Government (no. 160) account. The latter account is the "payment account" and reflects actual amounts received from the Government. The transcripts referred to are included in the exhibits forming a part of your examiners report.

For ready reference, there has been prepared from the schedules (photostats thereof) of computation of earned profit on all contracts, the computations of "profit" or "loss" (mostly the latter) during the period under investigation on the U. S. S. *Idaho*. The schedule prepared carries down to the time when a receivable in the amount $926,803.28 is set up on the books of the taxpayer as being due from the U. S. Government; though its petition in the court of claims recites $1,239,358.74 as being due. As far as is known no further claim on the *Idaho* is made against the Government. *The books reflect charges against profits for 1918 and 1919 of $2,850,000.00 for loss in connection with the construction of this vessel.* The receivable of $926,803.28 was set up on December 31, *1923*, the account being kept open and numerous charges and credits made thereto after the losses of 1918 and 1919 were charged off.

The schedule which has been referred to, showing the computation by the taxpayer of losses on the U. S. S. *Idaho*, if carefully studied indicates that "loss" if any, properly would relate *to 1918;* and its study in connection with the transcripts of the construction, earned profit and U. S. Government (payment) accounts appears to indicate that "loss" in the aggregate amount claimed was not in fact suffered.

It is believed probable that "cost" in the case of the *Idaho* as in the case of cost-plus contracts includes improper items such as capital items relating to other than ship construction, etc., and the inclusion of such items has produced an aggregate when applied to the flat price together with "extras" appears to result in a loss having been suffered which may be much in excess of the actual loss if such a loss was in fact suffered. Even if loss was in fact suffered, a study of the papers referred to indicates that no such loss as is claimed *was* suffered.

There follows a résumé from information disclosed by the books and from information gathered elsewhere with reference to the matter:

Cost to 12/31/21—per taxpayer's schedule of "estimated earned profit"		$10, 509, 759. 31
Paid by U. S. Gov't	$7, 844, 784. 43	
"Receivable" due from U. S. Gov.'t (per taxpayer's petition to the court of claims)	1, 239, 358. 74	
		9, 084, 143. 17
Loss as indicated by books, and by taxpayer's petition in court of claims		1, 425, 616. 14

Year	Claimed	Loss as above	Excess
1918	$1, 500, 000	$1, 425, 616. 14	$74, 383. 86
1919	1, 350, 000	None	1, 350, 000. 00
Total	2, 850, 000	1, 425, 616. 14	1, 424, 383. 86

At the present time, the records appear to indicate, after all the adjustments made by the taxpayer in connection with the contract for the *Idaho*, a receivable due from the U. S. Government of $926,803.28. It would indeed be most difficult to see that loss of $1,500,000, in 1918, plus 1,350,000 in 1919, plus a portion of $700,000 in 1923, less $926,803.28 was actually suffered, when a claim of but $1,239,358.74 is made upon the U. S. Government as representing the total unpaid amount in connection with the settlement of the contract for the construction of the vessel.

It is recommended by your examiners, that in no event there be allowed for "loss" in excess of $1,425,616.14 *for 1918;* and that no "loss" be allowed in 1919. This would result in the disallowance of $74,383.86 of the $1,500,000 claimed in 1918; *and all* of the $1,350,000.00 claimed in 1919.

The computations by the taxpayer of "estimated earned profit" on Government contracts (fixed fee or flat price) will be discussed under another heading.

After a very careful study of conditions, viz: the system of bookkeeping and record keeping, the practices of the corporation, etc., it is the opinion of your examiners that it is an utterly impossible task to attempt to determine *correct* "costs" in connection with each contract. It is our unqualified opinion that even a large corps of men working for an indefinite time could not even approach accuracy. Thousands and probably hundreds of thousands of vouchers, labor tickets, store requisitions, etc., would have to be examined and reanalyzed, and the books all recast. During the war emergency the plant employed in the neighborhood of 22,000 men.

The set-up of loss, on another basis, follows:

Cost, per books, 12/31/19		$10, 557, 376. 96
Pay'ts to U. S. Gov't to 12/31/19	$7, 707, 376. 96	
Acct. receivable U. S. G	1, 239, 358. 74	
Total	8, 946, 735. 70	
Plus credit to P. & L. 1921, applicable to prior period	185, 025. 12	
		9, 131, 760. 82
Actual loss, per books		1, 425, 616. 14

CAPITAL ITEMS CHARGED IN COSTS OF CONSTRUCTION OF VESSELS DISALLOWED IN CONNECTION WITH BILLINGS BY CONTRACTOR TO U. S. NAVY

During the period extending from June 1917 to and including September 1921 items aggregating $1,037,882.14 were included in the "overhead" billed to the U. S. Navy. These items were disallowed by the cost inspector of the U. S. N.

A list was prepared of the items, and the months and years to which they relate, by your examiners, from the records of the cost inspector of the U. S. Navy located at the plant of the taxpayer at Camden N. J. The schedule forms a part of this report.

No change was made on the books of the taxpayer with reference to the disallowed items *until March 31, 1926,* when the following journal entry appeared on folio 308 of the private journal:

"Mar. 31, 1926:

Real estate & bldgs., 2007	$214, 103. 24
Machy. & tools, 2012	418, 227. 27
Furniture & fixtures, 2032	99, 832. 41
Other equipment, 2055	305, 719. 22
To reserve for suspense	1, 037, 882. 14

"To place upon the books capital assets originally charged to operating expense and disallowed on various cost-plus contracts."

It will be noted that the taxpayer by the above entry is not including the items in P. & L. account, but in a reserve account. On his books he has had the benefit of a deduction against P. & L. through "expense."

The amount $1,037,882.14 was, in effect, left on memorandum with the Navy, and represented a "reserve" of the taxpayer until 1926.

The taxpayer demanded of the Navy "depreciation" on the items disallowed, and depreciation has, retroactively, been allowed by the Navy on the disallowed items.

The amounts of the items in the periods to which they relate have been capitalized by your examiners, and disallowed as "expense"; and reasonable rates of depreciation will be allowed thereon; and the amounts received from the U. S. Navy for "depreciation" will be considered in the nature of contractual amortization.

EXHIBIT NO. 1436

OCTOBER 23, 1926.

In re: N. Y. Shipbuilding Corporation.

Mr. H. B. ROBINSON,
Head Consolidated Returns Audit Division.

We were still working on the records of the cost inspector of the Navy Department.

During the current week we were informed that the treasurer of the corporation, Mr. Wickersham, was in Washington on corporation business; and that Mr. Parker, the comptroller, was confined to his home through illness. These officials are the ones with whom it will be necessary to interview in connection with our investigation.

Under the circumstances, we were unable to check the records of the corporation in connection with the amortization claim of the taxpayer.

Accordingly, we continued our examination of the records of the cost inspector of the Navy, in connection with which there is endless detail in preparing schedules relating to depreciation paid by the Navy Department to the New York Shipbuilding Corporation in connection with the construction of vessels.

In the course of our examination of the records of the cost inspector of the Navy we have noted that it has been the continued practice of the taxpayer to include everything possible in "expenses" (cost of construction of ships), regardless of whether or not they represented correct costs. We have also noted that approximately $1,037,000.00 has been disallowed as expense by the Navy Department on billings to it by the taxpayer; and the items composing this amount capitalized and depreciation allowed thereon. This necessitates the computation of voluminous detailed schedules of depreciation, spread over the years 1918 to 1921, inclusive. Of necessity, in connection with the Navy dealings with the taxpayer, separate schedules of depreciation have to be prepared *for every month of every year.*

We have also noted during the course of our investigation thus far, that notwithstanding the fact that amortization was claimed by the taxpayer in excess of $4,000,000.00 for facilities used for war purposes, the corporation has charged, and still continued to charge, the Navy Department with depreciation on these facilities. On the basis of the tentative allowance for amortization determined by the Bureau, the excess sum paid by the Navy Department to the taxpayer on account of depreciation, to date, amounts to approximately $264,000.00. The attention of the commanding officer of the Navy at the plant of the taxpayer at Camden, N. J., was directed to this matter, and it is the present plan to have Commander Jennings of the Navy Compensation Board at Washington, D. C., to shortly visit the cost inspector's office at Camden, to settle the question of whether or not this depreciation is to be considered as an allowable item of "cost" in connection with Navy contracts.

There is also a question now pending before the Navy Compensation Board, Washington, D.C., in connection with Navy contracts with the taxpayer, relative to interest on bonded indebtedness of the corporation, which has been charged by the contractor, pro rata, to the Navy in costs of construction of ships, and tentatively allowed in "costs."

Both of these items are spread over the years 1918 to 1921, inclusive.

Decisions by the Navy Department on both questions will have a direct bearing on the computation of correct taxable income.

Before leaving Washington for Camden, your examiners were in conference with Mr. J. A. Honsick, claims and construction auditor of the Emergency Fleet Corporation, the result of which was that Mr. Honsick promised to detail one of his men to collect the data we would need of the dealings of the Emergency Fleet Corporation with the New York Shipbuilding Corporation. Mr. Honsick stated at the time we conferred with him that it was his belief that the preparation of the data necessary would consume four or five weeks, probably longer. Since arriving in Camden, N. J., we have been in communication with Mr. Honsick, and expect to receive the data relative to the Emergency Fleet Corporation in due course.

In view of the varied complications existent in this case, it is not possible at this time to even approximate a date when the investigation will be completed.

It is the opinion of your examiners that when the examination is completed a large additional tax will result.

Respectfully,

——— ———.

Exhibit No. 1437

October 14, 1926.

In re: New York Shipbuilding Corporation, Camden, New Jersey.

Mr. H. B. Robinson,
Head, Consolidated Returns Audit Division.

Dear Sir: Our examination of the above-named corporation to date has been restricted to the records of the cost inspector of the United States Navy, which discloses that various *adjustments* have been, from time to time, made by the Navy Department for depreciation sustained on assets used in the construction of "war" vessels. The Navy Department has reimbursed the taxpayer for depreciation sustained on such assets. These adjustments by the Navy Department for depreciation on assets used in constructing war vessels *are retroactive* adjustments affecting all prior years under investigation, and have a bearing of moment on correct taxable income. The adjustments have been made *by the Navy Department* on annual, semiannual, and monthly bases, and necessitate the compilation by your examiners of considerable data to determine the correct amount of depreciation applicable to each year, which in turn affects the taxable income of each year; and further adjustment will be required when the correct amount of amortization is finally determined by the Government engineers collaborating with your examiners.

It is also noted from the records available at the cost inspector's office that amortization has previously been allowed upon assets the cost of which has been returned to the taxpayer by the Navy Department.

The administration building included in the plant of the taxpayer and known as "D–1", upon which amortization in the amount $82,329.71 was claimed and allowed *is now in use.* Sidewalks, lawns, and fences upon which amortization was claimed and allowed are also in use; and a building containing a lunch room and locker rooms on which amortization was allowed is in use at the present time by the taxpayer. These assets appear to be still carried on the corporate books.

Owing to the fact that the amortization allowance, as finally determined, will affect the depreciation allowances in the costs of construction of ships for which the Navy Department has reimbursed the corporation, it is our intention to proceed, starting Monday, October 18, to make an exhaustive examination of the amortizable assets and prepare analyses thereof for the use of the engineers of the amortization section, with whom arrangement will be made when the data are collected to visit the plant for the purpose of determining the correct amount of allowance for amortization. Conference was had with the engineers in connection with this matter before leaving Washington, and the Engineering Division has promised to send representatives to the plant on notice from us that necessary data for their use have been collected.

It appears, from the face of the return, that it has been the practice of the corporation to include in the cost of construction of ships *all* expenses, regardless of their nature, and included in which are expenses for which the Navy Department has reimbursed the taxpayer for its (the Navy's) proportionate part (these items of expense therefor being no longer expense items of the corporation). Some of such items have also been deducted again as items of expense against gross income.

Owing to the methods apparently pursued by the taxpayer, and the frequent retroactive adjustments made by the Navy Department, considerable time must be spent in determining the correct amount of expense items for which the corporation has been reimbursed. It is our opinion, at this juncture, that virtually a detailed audit will be necessary.

We have been informed by the commander in charge of the Navy cost inspection office that the corporation included in one month in the *cost of construction of ships* a dividend in the amount $35,000.

It is our belief from the facts gathered thus far, in view of the complications attending this case and the fact that it develops through investigation from day to day, and to stop at a point would result in the threads of evidence being lost, and also that the Navy cost inspection department at this plant will soon be abandoned (the Navy's final contract with the taxpayer nearing completion); that this investigation should be carried down to 1925 when the corporation name was changed to the American Brown Boveri Electric Corporation, and immediately thereafter we are informed subsidiaries were acquired, and we will proceed with the intent to carry our investigation to that point unless advised to the contrary.

For your information and guidance, we are of the opinion that it will not be necessary to furnish additional help; that the case, on account of its peculiar nature, can best be worked by two men, and that additional help might prove rather a hindrance than help.

On a visit to the corporation's office during the current week, Mr. Wickersham, the treasurer, and Mr. Parker, an assistant secretary, informed us that extended waivers were received from the Bureau covering 1919 to 1921, inclusive, but that it was the present intent of the corporation not to execute these waivers at once, but to await the progress of the present examination. Your examiners recommended to Messrs. Wickersham and Parker that the waivers be executed at once and forwarded to the Bureau. What action will be taken by the corporation we do not know. *It is therefore recommended that the waiver question be watched by the Bureau and that we be kept informed whether or not the waivers are received.*

It would appear that outstanding tax on the collector's lists in excess of $700,000 should be protected, i. e., either collected or protected by suitable bond, for the indication is that *additional tax* of appreciable amount will be found to be due when the investigation is completed.

It is suggested that this communication be also read by Mr. W. C. Tungate, Chief of section G.

Respectfully,

——— ———.

EXHIBIT No. 1438

GRAND HOTEL NATIONAL,
Lucerne.

DEAR MR. BARDO: I cabled you from Baden. Everything satisfactorily arranged. I meant I saw the consul and he said for Mrs. Looser to come in and he personally would take care of her. All she needed was a letter from Brown Boveri saying her husband was in America on their business and she and the children wanted to join him. He personally told the man in charge of the details in my presence that when she came in the case was to receive the consul's personal attention. I told them at Baden what to do and asked them to advise me through you when their case needed attention. Thought you might like to keep some control of this. I didn't commit the Am. W at all. My personal relationship to a U. S. Senator did the trick absolutely for until they learned that I was being sent to a club for a regular routine. My message asked you to please telephone my family at Atlantic City. I thought they might like to hear from me. I will be in Paris. Morgan Haiy's, if you wish to communicate with me. The Baden people asked me about a deal for Diesel engines you were thinking of closing in Germany. Of course I knew nothing of it. Let me know if I can assist while here. They also spoke about you buying Bruch Seltzer. I presume you know I found out for Mr. Neeland two years ago there was no chance of U. S. Gov. using their engines for submarines.

Sincerely yours,

HARRY R. HUMPHREYS.

6/2/26.

("EXHIBIT No. 1439" appears in text on p. 4610.)

EXHIBIT No. 1440

MAY 21ST, 1926.

BROWN BOVERI & CO., LTD.,
Baden, Aargau, Switzerland.
Attention: Mr. A. von Schulthess Rechberg and Mr. E. Weber

DEAR SIRS: This will introduce to you Mr. Harry R. Humphreys who for many years has been connected with the New York Shipbuilding Corporation and has attended to its legislative matters in Washington. Mr. Humphreys has lately investigated in Washington the question of the families of our Swiss employees entering this country.

As Mr. Humphreys was making a trip to Europe we asked him to go to see you in Baden and also see the American consul general in Zurich. Since Mr. Humphreys is well acquainted with the rulings regarding aliens entering this country, as well as the treaty of 1850 between the United States and Switzerland, he will certainly be of great assistance to us in settling this question which has been pending for so long.

As Mr. Humphreys will explain to you, it will probably be possible without trouble to obtain the necessary permits for the families of Baden men to enter this country; but the matter has become somewhat complicated as apparently the American consul general in Zurich has told you that he refused to grant vises to Mr. Looser's family. Mr. Humphreys is of the opinion, and we quite agree with him, that the best thing will be to take the case of Mr. Looser's family first and try to settle it, after which a precedent will have been established which will make it simpler for future families to come across. I have informed Mr. Humphreys of the whole history that lies behind this question of vises, and I would be obliged to you if you will give him such further information as he may need before he visits the consul general in Zurich.

On the occasion of Mr. Humphreys visit in Baden, he would like to obtain a bird's eye view of our factory, and I would be obliged to you if you will kindly show him around and also lend him any further service that he may require.

Very truly yours,

——— ———.

Exhibit No. 1441

AMERICAN BROWN BOVERI ELECTRIC CORPORATION

CAMDEN, N. J.

INTER-OFFICE CORRESPONDENCE

Date *December 10, 1926.*

To Mr. W. G. Groesback.
From Mr. C. L. Bardo.
Subject________________________

For the benefit of Mr. Humphreys and for his use, will you be good enough to prepare a memorandum stating in brief terms all of the reasons in your mind in favor of the allotment of scout cruisers and other types of vessels to private shipyards vs. navy yards.

C. L. BARDO.

Mailed H. R. Humphreys 12/16/26.

Exhibit No. 1442

[Personal—W. S. Newell—Note and return—C. H. B.—Noted 12/21/26, W. S. Newell]

THE WILLARD,
Washington, 12/26/26.

DEAR MR. BARDO: Enclosed is H. R. 15415 (10 cruisers).

It will be reported unchanged from the committee today and an accompanying report and a resolution for the Rules Committee to enable the House to pass on H. R. 15415 this session will be printed so I can send them to you tomorrow. Nothing will be done, as they adjourn on Wed., until after Jan. 3rd. The Naval Appropriation bill will not be reported until after the recess. It will carry appropriation to enable the work to be started on the three cruisers for which bids will shortly be asked. I had a talk at the Capitol with Admiral Campbell, Judge Advocate General, today. He says proposals are on his desk & he expects them to go out shortly. There is some money for new construction—outside of the Navy—which will be available for new large ships for the Coast Guard as soon as bill which has passed both Houses comes from conference and is signed by the President as it will be shortly. I have the details if you wish them.

The request for increase of cost of the *Saratoga* is now in the President's hands & as soon as it comes to Congress I will send you a copy of the message. I will aid in the passage of all above which I believe can be done before March 4th. Report satisfactory progress in several directions toward work being done in private yards not only repair work—but cruisers—new Merchant Marine work & Coast Guard.

Very truly yours,

HARRY R. HUMPHREYS.

12/20/26.

("EXHIBIT No. 1443" appears in text on p. 4613.)

EXHIBIT No. 1444

THE WILLARD, *Washington.*

DEAR MR. BARDO: I shall be here over the week end in case you want me for anything as Mrs. Humphreys is entertaining on Saturday the wives of Senators Oddie, Jones, Watson, Reed, Willis, Edge, Edwards, and Representatives Kelly, Ransley, Fenn, Gaus, Hull, Wyatt, Ackerman, McFadden among quite a list.

The Gloucester assessment is only increased $10,000 and that with all your improvements & activity there seemed to me a wise plan to adopt as your assessment there is only a nominal one which I secured for you a couple of years ago.

Very truly yours,

HARRY R. HUMPHREYS.

I think I told you about this Gloucester assessment a couple of months ago but it is unofficial.

1/15/27.

EXHIBIT No. 1445

THE WILLARD,
1/17/27 Washington.

DEAR MR. BARDO: I telegraphed you this morning that the Senate Appropriation Com. had reported the naval appropriation bill from the com. to the Senate, including $1,200,000 for commencing the last three of the eight cruisers authorized.

There was some opposition in the com. but it was reported out without a record vote, but of course by a majority vote. It remains for the Senate to pass it and then to get the House and Senate conferees to agree on keeping it in the bill, and then for the House to agree to their conferees action. And for all this to be done & bill passed and ready for the President's signature on or before March 4th and to get him to sign it with the money therein provided for.

So you see while progressing favorably the fight is not won yet, but I believe the bill will be a law by March 4 with something in it to commence these last three of the eight cruisers. If the money is made available the contracts will have to be let before June 30, 1927, unless present law is extended for time.

From the copy of the Navy ap. bill I sent you, you know that sufficient money is surely included, as it is retained by the Senate, for the three cruisers for which bids have been asked recently.

Things will probably be quiet here in our line for a week on account of several other matters taking up the time of the House and the Senate. I shall keep you posted whenever there are developments again.

Very truly yours,

HARRY R. HUMPHREYS.

("EXHIBIT No. 1446" appears in text on p. 4615.)

("EXHIBIT No. 1447" appears in text on p. 4615.)

EXHIBIT No. 1448

THE WILLARD,
Washington, 2/4/27.

DEAR MR. BARDO: The Navy Dept. are moving with extreme caution on account of the Harriman-Cramp-bondholders combination, so as not to enable those interested to put the blame for a breach of contract on the Government, I am informed today by most reliable and informed source.

Also Navy people are at Cramp yard today, and from a telephone conversation I overheard I believe the N. Y. Navy Yard representatives are with them.

Also that the forfeiture clause in Cramp's contract is like the one in our original *Colorado* contract.

Very truly yours,

H. R. HUMPHREYS.

2/4/27.

("EXHIBIT No. 1449" appears in text on p. 4616)

EXHIBIT No. 1450

115 SOUTH BERKLEY SQUARE,
Atlantic City, New Jersey, Sunday the 9th.

DEAR MR. BARDO: I warned Congressman Begg, whip of the House, on Wed. after Black of N. Y., Democrat, in speaking in favor of appropriation for the 3 cruisers, tried to make a monkey out of Coolidge, that if such policy was not stopped and something done to off-set that speech by some prominent Democrat we would lose the fight in the House. He assured me no one paid any attention to Black.

The enclosed article by that great reporter, Gen. Rockwell Brown, hits the nail square on the head.

Had a talk with Sen. Edwards this Sunday morning. He was attending a banquet at Atlantic last night. I suggested to him that he not only not make Coolidge the issue, sticking straight to the necessity for the appropriation for 3 more cruisers now for purpose of national defense, but also try to keep all the other Democratic Senators from making Coolidge the issue, in all of which he heartily concurred.

The bill will come up tomorrow at 10:30 before the Senate Appropriation Com. & will be reported to the Senate later in the week at a time not yet determined.

Very truly yours,

HARRY R. HUMPHREYS.

way.

* * * *

The vainglorious cackling of Finis Garrett makes a party issue and a family affair out of the nonpolitical question of the national defense, and the President is sustained by the House in the matter of more cruisers for the Navy. Reminds one of the bird in the fairy book which went about saying, "I'm a goose! I'm a goose!"

* * * *

EXHIBIT No. 1451

AMERICAN BROWN BOVERI ELECTRIC CORPORATION

Main works

CAMDEN, NEW JERSEY, U.S.A.

Cable address ABBEC

Camden, 2/16/27.

DEAR WALTER: Am going to Wash. tomorrow again. Will be at Willard if you want me. Will attend the Saturday hearing. Have a lot of missionary work to do on Navy Ap. Bill and other bills in which we are interested. From now until March 4th will probably be in Wash. most of the time.

Very truly yours,

HARRY R. HUMPHREYS.

("EXHIBIT No. 1452" appears in text on p. 4618)

EXHIBIT No. 1453

[Copied from handwritten letter-photostat]

115 SOUTH BERKLEY SQUARE,
ATLANTIC CITY, N. J.

DEAR MR. BARDO: What I tried to say over the telephone today follows. I couldn't understand one word from you. Just could recognize your voice.

The paragraph the Sect. of the Navy refers to in his letter to our men, contained in the appropriation bill, we beat in the House, and could have beaten in the Senate, but when it was learned I was going to do so, Sen. Hale, Chairman of the Senate Naval Affairs Committee, and Mr. Rowser (?) the representative of the Navy Department, told Senator Edge, "to do so would beat the bill entirely and to eliminate it except to apply to repair work done would cause the Senators who favored the navy yards, to kill the bill, and as it is a practical impossibility to make definite and binding bids on the part of the navy yards, we need have no cause to be alarmed on these cruisers." Both Senators Edge and Edwards appealed to me to let it go, and I then went to Sen. Hale in the presence of Mr. Rowser and told him I wouldn't keep up the fight, with the understanding we would be protected. We had other things besides the cruisers, to not fight the Navy Department uselessly, and just had to take our chances. I didn't tell anyone that of course I wanted to keep everyone under obligation to us. You will note Senator Edge in his letter of yesterday to you, copy of which he sent to me, refers to these informal bids by navy yards in his second paragraph referring to his letter to Sec. Wilbur. No other of the shipyards protested so far as I have been able to learn against the paragraph referred to by the Sec. of the Navy. I was not depending on either Edge or Edwards for the one Senator who would have killed the amendment.

Very truly yours,

(S) HARRY R. HUMPHREYS.

4/13/27.

EXHIBIT No. 1454

[Outgoing telegram]

AMERICAN BROWN BOVERI ELECTRIC CORPORATION,
Camden, N. J., April 15, 1927.

To: A. W. MELLON,
Secretary of the Treasury,
Washington, D. C.

(Copy to 18 St. & Massachusetts Ave., Washington.)

On April fifth we submitted bid for two scout cruisers out of six to be constructed the understanding was that this construction would be done by three remaining private yards. Acting in good faith and on this assumption we expended large sums of money in preparation for this work. Very unexpectedly the Department announced after opening bids that Mare Island and Puget Sound Navy Yards had submitted estimate for one each of these cruisers. These estimates are much below their actual cost. Navy engineering Bureau admits neither navy yard or Navy Department are now or ever were equipped or manned to engineer these jobs for themselves but must depend entirely on engineering skill of the private yards. Chairman Bulter vigorously protested as did others without avail. Today Department announced awards giving two cruisers to Pacific coast navy yards and only one to Bethlehem and ourselves. As you know all private yards for last four years show an operating loss and we will continue such loss with but one cruiser contract awarded us. The navy yards have more than sufficient repair and rebuilding work to keep their forces fully occupied. It is very poor policy for our Government thus to discourage private yards which admittedly are an indispensable asset to our national security at the time of greatest need. The recent default of Cramps and the elimination of their engineering talent from shipbuilding is a clear indicant of what we remaining shipbuilders will be forced to do if the Navy Department does not support us at this time.

NEW YORK SHIPBLDG. CORP.,
By Secretary.

("EXHIBIT No. 1455" appears in text on p. 4622)

EXHIBIT NO. 1456

THE PLAZA,
New York.

DEAR MR. BARDO: I have assurances from most responsible people that the matter you object to will be satisfactorily taken care of. Please rest easy about it.

I also had dinner Wed. night with Wolverton and Bacharach, and Wolverton told me in detail about his conversation with you that afternoon.

I am taking advantage of the recess to run up to Lake Placid for a few days. Expect to be in Wash. when Congress again meets. I will try to see you before then.

Hope the enclosed meets with your approval.

This is the time of the year to think of your friends, and naturally I think of you. I did not send out cards this year so I now wish you health, happiness, and prosperity in the years to come.

Sincerely yours,

HARRY R. HUMPHREYS.

12/31/27.

EXHIBIT NO. 1457

DECEMBER 10, 1928.

HARRY R. HUMPHREYS, Esq.,
The Racquet Club, Washington.

DEAR HARRY: Yours of the 7th enclosing expense account received. Same has been passed for payment.

I note that you are now prepared to devote all of your time when not needed in Camden or Trenton, at Washington for at least the balance of the session. What we are most interested in now is the defeat of the Dallinger amendment to the cruiser bill, and this is being handled by Mr. H. G. Smith, vice president of the Bethlehem Company, although Mr. Ferguson and I have devoted some time and have interviewed a substantial number of Senators on the matter.

We are working in Washington with Messrs. Frank A. Lord, Hotel Blackstone, and James Barnes, who has an office on the sixth floor of the Albee Building. You no doubt know them both. I suggest that you keep in close touch with them so that our cooperation may be complete.

Very truly yours,

——— ———.

("EXHIBIT NO. 1458" appears in text on p. 4624.)

EXHIBIT No. 1459

Structural shapes at Pittsburgh, cents a pound

	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
Jan	1.10	1.90	3.25	3.00	2.80	2.47	2.45	1.50	2.06	2.50	2.10	1.90	1.98	1.81	1.90	1.83	1.64	1.50	1.60	1.70
Feb	1.10	2.06	3.25	3.00	2.80	2.70	2.26	1.39	2.20	2.50	2.10	1.90	1.90	1.85	1.90	1.80	1.65	1.50	1.60	1.70
March	1.10	2.40	3.54	3.00	2.71	3.13	2.08	1.39	2.39	2.39	2.10	1.90	1.90	1.85	1.90	1.80	1.65	1.52	1.60	1.70
April	1.20	2.55	3.88	3.00	2.45	3.25	2.10	1.50	2.50	2.29	2.05	1.90	1.88	1.85	1.95	1.80	1.65	1.60	1.60	1.74
May	1.20	2.60	4.00	3.00	2.45	3.10	2.20	1.56	2.50	2.24	2.00	1.90	1.80	1.85	1.95	1.73	1.65	1.60	1.60	1.85
June	1.20	2.53	4.31	3.00	2.45	3.10	2.10	1.63	2.50	2.20	2.00	1.94	1.80	1.85	1.95	1.69	1.65	1.60	1.60	1.85
July	1.25	2.50	4.50	3.00	2.45	3.10	1.93	1.70	2.50	2.09	2.00	2.00	1.80	1.85	1.95	1.65	1.63	1.60	1.60	1.81
Aug	1.30	2.52	4.30	3.00	2.45	3.10	1.82	1.88	2.50	2.00	1.95	2.00	2.80	1.90	1.95	1.61	1.60	1.60	1.60	1.80
Sept	1.35	2.64	4.00	3.00	2.45	3.10	1.64	2.00	2.50	2.00	1.90	2.00	1.78	1.90	1.95	1.60	1.60	1.60	1.60	1.80
Oct	1.44	2.75	3.00	3.00	2.45	3.05	1.60	2.00	2.50	1.93	1.90	2.00	1.75	1.90	1.90	1.60	1.60	1.60	1.70	1.80
Nov	1.60	2.86	3.00	2.00	2.45	2.89	1.54	2.00	2.50	2.00	1.90	2.00	1.77	1.90	1.90	1.60	1.60	1.60	1.70	1.80
Dec	1.78	3.25	3.00	2.90	2.45	2.45	1.50	2.00	2.50	2.10	1.90	2.00	1.80	1.90	1.90	1.60	1.50	1.60	1.70	1.80
Aver	*1.31*	*2.55*	*3.67*	*2.99*	*2.52*	*2.95*	*1.94*	*1.71*	*2.43*	*2.19*	*1.99*	*1.95*	*1.83*	*1.87*	*1.92*	*1.69*	*1.62*	*1.57*	*1.63*	*1.78*

("Exhibit No. 1460" appears in text on p. 4640).

Exhibit No. 1461

Bethlehem Shipbuilding Corporation, Ltd.,
Bethlehem, Pennsylvania, 25 Broadway, Cunard Building,
New York, 17 March 1927.

Mr. C. L. Bardo,
Vice President American Brown Boveri Electric Corp.,
165 Broadway, New York City.

Dear Sir: Confirming conversation with you today, the meeting with the attorneys in connection with the Scout Cruiser contract will be held at my office on Wednesday morning, March 23rd, at ten o'clock.

Yours very truly,

S. W. Wakeman.

Exhibit No. 1462

March 18, 1927.

Form of contract for scout cruisers.

Messrs. Groesbeck & Newell,

Mr. C. L. Bardo.

A meeting has been arranged with the legal representatives of the three shipbuilding companies in New York, at ten o'clock on Wednesday morning next, the 23d instant, in the office of Vice President Wakeman of the Bethlehem Shipbuilding Corporation, 25 Broadway, to go over again and undertake to reach an agreement regarding the new scout cruiser contracts.

Will appreciate if you will return to me the draft of contract recently sent you, on or before that time with any comments which you have to make.

C. L. Bardo.

Exhibit No. 1463

April 12, 1927.

Mr. L. R. Wilder,
Mr. C. L. Bardo,
Scout cruisers:

The following telegram was received from the Bureau of Engineering, Bureau of Construction and Repair, at 2:45 Saturday afternoon:

"Request representatives your company confer on Monday morning April eleventh on ability your organization to undertake construction of cruiser necessary adjustment of bid as regards cost and type of main propelling machinery."

Pursuant to this request, Messrs. Newell, Workman, and myself went to Washington yesterday and met with the Bureaus in the Board room at 11 a. m. There were present at the conference, Admirals Halligan and Rock; Captains Jones, Robert, Robinson, and Cox, and one other representing the Department; Messrs. Newell, Workman, and myself representing our company.

Admiral Halligan presided and first brought up the matter of ability of our company to undertake the construction of the cruisers. His inquiry was directed at our engineering organization, which he said was without experience in the building of ships of this type, and because of their unsatisfactory contact relations with our engineering department, particularly from the standpoint of design, he questioned our ability to proceed. I outlined to him what had been arranged to strengthen our engineering organization in connection with the Cramp contract and that we expected to take over, in the event that we were awarded some of this new work, some of the Cramp personnel, including Vice President Metten; or, in the event that a central drafting room was organized for the handling of engineering matters, that we had substantially agreed to contribute Mr. Metten to head up this organization. This explanation satisfied him as to our engineering ability and capacity to undertake the work, either upon one or the other of two bases.

Second, he raised a question regarding the shipyard organization, stating that in their opinion satisfactory work could not be carried on with any division of authority or responsibility, as between the shipyard and electro-mechanical production division, and that he had had some complaints because of the inability of their local forces to get satisfactory contacts with Works Manager Jenks. This was also commented upon by Admiral Rock as a result of his visit here to the *Saratoga* several months ago. We told him that this matter was under way and that an order was being issued yesterday subdividing for operating reasons the production activities here.

His next question was that in connection with the bid, stating that while upon a valuation basis our bid for one ship because of its guaranties was attractive, yet they could not under the law award us a contract at that price, namely, $10,815,000, because of the fact that in addition to this amount the Department would have to spend approximately $400,000, which would exceed the limit of the appropriation, namely, $11,100,000. He then asked if we were agreeable to accepting one of these ships on the basis of Bethlehem one-ship price with 100 degrees of superheating, the Bethlehem price being for one ship saturated, $10,675,000, to which was added $75,000, making a total of $10,750,000, with, of course, a modification of our oil guaranties accordingly. We advised him that we would accept one of these ships at that price.

His next question related to that of propelling machinery, our reply being that we had bid upon and intended to use in this cruiser the same machinery as designed and approved for the scout cruisers now being built by Cramps. His next question was that if a central drawing room was organized and that if this drawing room and the Department agreed upon some other type of propelling machinery, namely, General Electric, whether or not we would agree to use this machinery in our boat, to which we replied that if the central drawing room was organized we were a party to it and had a voice in deciding these questions, we obviously would comply with the recommendations of the drawing room as approved by the Bureaus.

The technical staffs of the Bureaus who were represented at the conference were decidedly outspoken regarding the lack of ability on the part of our engineering organization, one of them going so far as to say that they had not had real engineering from New York Ship for the past twelve years; and another modifying it, saying that at least for the last six years our engineering has been of a decidedly poor quality.

You will recall our discussion last year with respect to our present chief engineer, who at that time was attached to the staff of Mr. Groesbeck as assistant. Mr. Groesbeck and Mr. Magoun, while he was active, both assumed more or less direct responsibility for engineering, and therefore it has been to some extent understood why the Department felt about this situation as they do.

In discussing with the Bureaus at this conference both the matter of the Cramp cruiser or a single one of the new cruisers, I stated and repeated as opportunity afforded, that it would be the height of business folly in the present state of the shipbuilding industry with respect to work other than that of the Navy, to undertake a contract for either one of these cruisers or for the Cramp cruiser alone, as it would substantially commit the stockholders to the absorption of $2,000,000 of overhead in one case and of $4,000,000 in another over the three-year period, and that I hoped they would give consideration to this phase of the matter in making their recommendations.

I later had a short conference with Secretary Wilbur and repeated this general statement to him. He stated that insofar as the award of the new cruisers was concerned that his mind had been made up and that he was simply awaiting final or further reports from the Bureaus. It was his intention to award the new cruisers first and so arrange the bids for the Cramp cruiser that they would close after these awards had been made. It was first decided to close the Cramp bid on Friday but request was made for further time, which I think came from Bethlehem, and the feeling last night was that additional time of ten days or two weeks might be granted. In the meantime I had a conference with the Harriman and the Cramp interests, and they arranged to file with the Secretary a very urgent telegram to be followed by a letter this morning calling his attention to the fact that unless this matter was closed this week it might result in very serious consequences to many interests. The fact is that they do not have the funds to continue their pay rolls on Navy work, and therefore they want to be relieved of any other obligation in this respect forthwith.

After lunch I went back to see Admiral Halligan and had a very frank talk with him regarding our personnel. In response to an inquiry as to whether or not Wetherbee, the former vice president in charge of engineering of the Bath Iron Works, would in his opinion satisfy the Bureaus as to our engineering organization. His reply was that it would not only satisfy the Bureau of Engineering but that he would regard it from the standpoint of industry and of our situation as a real "ten-strike."

C. L. Bardo.
[1] C. C. Newell-Workman.

Exhibit No. 1464

]Inter-office correspondence]

American Brown Boveri Electric Corporation,
New York, N. Y., April 21, 1927.

To: Mr. C. L. Bardo.
From: Mr. L. R. Wilder.

I had a very interesting discussion with Mr. Grace this afternoon, although very difficult to begin with.

Wylie, I think, is guilty of having put us in rather a nasty and utenable position with Mr. Grace as regards the outcome of our understanding at a meeting which I attended some time ago. I wish you would send back to me the chart which I gave you on cross-section paper, as well as the details, particularly as to oil consumption guarantees, which were finally presented by all three of us. I am afraid when you talked to Wylie you were not well informed, as he has used what you said, i. e., that you had made a mistake and that you had correspondingly raised the price, as a serious argument not only against you but against the good faith of this company. The center field figure for oil consumption at cruising speed was to have been within plus or minus 1 percent of 494. From report of your telephone conversation from Washington of April 5th I understand the figures submitted by the center field was 475 instead of this 494. If these facts are correct, you should have attacked rather than been on the defensive.

I want to go over this matter with Mr. Grace and should, therefore, appreciate full detail.

L. R. Wilder.

LRW/HWS

Exhibit No. 1465

April 22, 1927.

Scout cruisers.

Mr. L. R. Wilder.
Mr. C. L. Bardo.

Your confidential memorandum from New York:

The oil guarantees as submitted in the bids for the three companies were as follows:

Estimate X–2040, Scout Cruisers Nos. 26–31.

Guaranteed fuel consumptions, lbs. per knot, submitted by bidders:

Trial	ABBEC	Beth.	Newport News
b	3,015	3,133	3,113
c	1,836	1,950	1,859
d	1,095	1,117	1,150
e	643	726	756
f	449	475	486

You are correct regarding the cruising radius guarantee of 494 as discussed in our meeting in New York. This was later changed by a conversation which I had with Mr. Wakeman, to 475. There were one of two other changes in the upper parts of the scale.

The guarantee as submitted by Newport News was above the guarantee specified by the Department's general board, and it was my understanding that the guarantees in the new contract with the News will be modified downward.

As a matter of fact, the guarantees as submitted by the three companies in their proposal for these new cruisers has had no bearing whatever on the decision of the Department in making the award, since the Navy Yards were without information as to the matter of guarantees the Department could not evaluate price and guarantees. The award of the cruisers has therefore been made first, as a matter of price to Newport News and to Bethlehem for one ship, and the award to us, in my opinion, has been made in order that all of the yards might have some support in this cruiser-building program and that their organizations might be kept together for the benefit of future Navy work.

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[1] Pencil marking.

There was no disposition on our part to take any advantage. As a matter of fact, upon a basis of evaluation, Bethlehem and ourselves were on a par as between one and two ships insofar as evaluated value applied.

C. L. Bardo.

Exhibit No. 1466

[Navy Department—Bureau of Construction and Repair]

Navy Department,
Bureau of Engineering,
Washington, D. C., April 15, 1927.

JOINT FIRST ENDORSEMENT

To: The Secretary of the Navy.
Subject: Proposals for the construction of light cruisers *Nos. 26* to *31*, inclusive—Recommendation of award.
References:
- (a) Department's letter April 6, 1927, No. CL26/L4-2(270407).
- (b) Bureaus' joint memorandum for Secretary of the Navy, dated March 11, 1927.

Enclosures (herewith):
- (A) Summary of bids received from private shipyards and of estimates received from the navy yards.
- (B) Original proposal of Bethlehem Shipbuilding Corporation (in duplicate).
- (C) Original proposal of Newport News Shipbuilding and Dry Dock Company (in duplicate).
- (D) Original proposal of American Brown Boveri Electric Corporation (in duplicate).

1. The bids and estimates received are tablulated on the sheet enclosed herewith, enclosure (A).

2. In considering costs it is necessary to bear in mind that class 1 represents a ship complete, class 2 represents a ship less turbines and gears, and class 3 represents the turbines and gears; therefore the sum of amounts bid for classes 2 and 3 should be compared with the amounts bid for class 1 to determine the cost of the complete ship. It will at once be seen that the bids for class 1 are in all cases less than the sums of the corresponding bids for classes 2 and 3. This statement does not apply in the case of the estimates from navy yards as the yard's class 1 estimates for one and for two ships equal the sum of its estimates on classes 2 and 3 for one and for two ships respectively. If an order is placed for one or more vessels at a navy yard the exact type of machinery and gears to be furnished will be subject to later determination after considering the engineering features and the best means for securing uniformity, which can only be determined after the machinery for the vessels to be built by private shipbuilders is determined upon. With regard to navy yard construction it only becomes necessary for the immediate present to determine whether a vessel or vessels should be built in navy yards.

3. It will be seen from enclosure (A) that the navy yard estimates are far below the lowest bid. The opinion of the Bureaus in regard to the building of vessels in navy yards is fully set forth in the Bureaus' joint memorandum, reference (b). A comparison of the estimates of the Mare Island Navy Yard and the Puget Sound Navy Yard with the estimates of the New York Navy Yard for the *Pensacola* (as modified by the unofficial statements of the latter yard to the effect that its estimates for the *Pensacola* were much below the probable cost of that vessel) leads the Bureaus to believe that the estimates now received from Mare Island and Puget Sound are far below what the actual costs of the vessels will be. In view, however, of the fact that these are the deliberate estimates of the Navy Department's responsible representatives at these yards and that

there is a very large margin between the estimates themselves and the lowest bid from any private shipbuilder, and in view of the requirement of the appropriation act approved March 2, 1927, directing that construction be placed in navy yards "when time and facilities permit, and when, in the judgment of the Secretary of the Navy, such * * * production would not involve an appreciable increase in cost to the Government", the Bureaus are constrained to recommend that one of these vessels be built at the Navy Yard, Mare Island, and one at the Navy Yard, Puget Sound. Although the yards submit estimates for one each and two each, the Bureaus recommend against more than one being built in either of these two yards, as time and facilities do not permit either of these yards to undertake more than one vessel.

4. The lowest bid received from a private shipbuilder under class 1 is that of the Newport News Shipbuilding and Dry Dock Company which offers to build two vessels complete of the 26/28 type, using saturated steam, for $10,480,000 each, or to build these vessels of the 29/31 type at an increased cost of $87,000 each over and above the figure named for the 26/28 type. The guarantees are satisfactory subject to minor modifications which the bidder agrees to make without additional cost to the Government. This bid for the 29/31 type if evaluated on the basis of the bonuses and penalties specified in the form of contract, will still be less than any other bid on the same basis. The Bureaus accordingly recommend that contract be placed with the Newport News Shipbuilding and Dry Dock Company for two vessels under class 1, of the 29/31 type to be built for the use of saturated steam, one vessel to be completed in 36 months and one in 45 months, for the sum of $10,567,000 each.

5. In comparing the bids of the two remaining bidders, namely, the Bethlehem Shipbuilding Corporation and the American Brown Boveri Electric Corporation, it is noted that the Bethlehem Shipbuilding Corporation, bids for two ships using saturated steam at $10,540,000 each, and the American Brown Boveri Electric Corporation at $10,708,000 each, a difference of $168,000 each in favor of the Bethlehem Shipbuilding Corporation. Evaluations of these bids in accordance with the guarantees submitted and the bonus and penalty rates specified show that the American Brown Boveri Electric Corporation guarantees are better than the Bethlehem Shipbuilding Corporation guarantees by $186,375. Basing the bids therefore on the guarantees of the Bethlehem Shipbuilding Corporation, it is found that if the American Brown Boveri Electric Corporation should receive contracts and should fail to attain any better guarantees than those specified by the Bethlehem Shipbuilding Corporation, they would be penalized $186,375. This amount is greater than the difference in bid prices and on this basis the American Brown Boveri Electric Corporation bid is the lower of the two. However, if the contract should be awarded to the Bethlehem Shipbuilding Corporation and that corporation should exceed its guarantees and attain to the guarantees of the American Brown Boveri Electric Corporation bid it would receive a limited bonus of $50,000, which is less than the difference between its bid and the bid of the American Brown Boveri Electric Corporation. On this basis the Bethlehem Shipbuilding Corporation bid is lower than that of the American Brown Boveri Electric Corporation. It is manifestly impossible in advance of the building and trials of these vessels to state whether the low bidder with the poorer guarantees would better its guarantees or whether the higher bidder with its better guarantees would fail to meet these guarantees. The question as to which is in effect the lower of the two bids can only be answered by evaluating the bids on the common basis of the bonuses and penalties specified in the contract. A consideration of penalties in the case of the high bidder (American Brown Boveri Electric Corporation) with better guarantees would make this bidder virtually lower than the low bidder (Bethlehem Shipbuilding Corporation) whereas a consideration of bonuses in the case of the low bidder (Bethlehem Shipbuilding Corporation) with poorer guarantees would make this bidder still the lower of the two. In view of all the circumstances the Bureaus are of opinion that these two bids merit equal consideration, the bid prices being virtually equal in amount when based on the same guarantees. On this basis it is recommended that one vessel be awarded to each of these two shipbuilders; the award to be made on the basis of the 26/28 type, using saturated steam; period of construction 36 months. The bid of the Bethlehem Shipbuilding Corporation for one vessel is $10,675,000 and the bid of the American Brown Boveri Electric Corporation is $10,815,000, the higher bid carrying better guarantees.

6. Summing up the foregoing, the Bureaus recommend as follows:

One vessel to the navy yard, Mare Island, of the 29/31 type, using saturated steam (adjustment in estimate to be made on account of the change from 26/28 type to this type).

One vessel to the navy yard, Puget Sound, of the 26/28 type, using saturated steam.

Two vessels complete to the Newport News Shipbuilding and Dry Dock Company, of the 29/31 type, using saturated steam; one vessel in 36 months and one vessel in 45 months; for $10,567,000 each.

One vessel complete to the Bethlehem Shipbuilding Corporation, of the 26/28 type using saturated steam; in 36 months, for $10,675,000.

One vessel complete to the American Brown Boveri Electric Corporation, of the 26/28 type, using saturated steam; in 36 months, for $10,815,000.

7. With regard to the class 3 bids, the Westinghouse bids are in all cases higher than those of the General Electric Company, whether evaluated or not. While the bids of the General Electric Company are lower, the Bureaus are unable to state at the present time whether it will be in the Government's interest to purchase any of the sets bid upon. Recommendation relative thereto will be made at a later date.

John Halligan, Jr.,
Chief of Bureau.
Geo. H. Rock,
Acting Chief of Bureau.

A true copy from the Secretary of the Navy Department.

F. S. Curtis, *Chief Clerk.*

[Joint second endorsement]

May 11, 1928.

From: Bureau of Construction and Repair, and Bureau of Engineering.
To: The Judge Advocate General.

* * * It will be noted that the low bidder of the three private shipbuilding companies was the Newport News Shipbuilding and Dry Dock Company, to whom award was made for Cruisers *Nos. 30* and *31*. Detailed comment relative to the bids submitted by the Bethlehem Shipbuilding Corporation and the American Brown Boveri Electric Corporation is contained in paragraph 5 of the enclosure. From this comment it will be noted that while the actual amounts named in the bids of the two companies were different there were certain differences as to the guarantees submitted. The variation of the bids, considering possible penalties and possible bonuses, led the Bureaus to the opinion that the two bids merited equal consideration, and that the bid prices were virtually equal in amount when based on the same guarantees. The Bureaus, therefore, recommended an award for the two remaining vessels be made, one to each of the two companies in question.

* * * * * * *

The question of the maximum number of vessels it would be to the interest of the Government to allot to any one contractor was very thoroughly discussed with representatives of all the shipyards which were equipped for building vessels of this kind. After full consideration of the facilities available, the time required to build up the depleted organizations in the different yards so as to enable them to handle work of this magnitude, and the necessity for having the ships completed within a reasonable time, it was decided that two cruisers were the most that could be built by any one of the shipyards.

John Halligan,
Chief of Bureau.
J. D. Beuret.

Certified to be a true copy of exerpts of joint 2nd endorsement May 11, 1928.

F. S. Curtis,
Chief Clerk, Navy Department.

Department of the Navy,
Washington, April 6, 1927.

From: The Secretary of the Navy.
To: Chiefs of Bureaus of Construction and Repair and Engineering.
Subject: Proposals for the construction of Scout Cruisers *Nos. 26* to *31*, inclusive.
Enlosure:

(A) Schedule of bids.
(B) Original proposal of Bethlehem Shipbuilding Corporation (in duplicate).
(C) Original proposal of Newport News Shipbuilding and Dry Dock Company (in duplicate).
(D) Original proposal of American Brown Boveri Electric Corporation (in duplicate).

1. The accompanying proposals are forwarded for report and recommendation as to award of contract.

By direction of the Secretary of the Navy.

E. H Campbell,
Judge Advocate General.

(Copy.)
Certified to be a true copy.

F. S. Curtis,
Chief Clerk, Navy Department.

Exhibit No. 1467

May 28, 1927.

Mr. C. L. Bardo,
Mr. E. W. Payne.

I have notified Mr. Palen's home, and wired Wakeman that you would meet them at nine Tuesday morning at the Biltmore. Mr. Palen's request was for nine o'clock and I have therefore reserved your tickets for seven o'clock daylight time, held in your name at Broad St. Station. Seats 12 and 14 car 1.

Mr. Palen further stated, but asked me not to mention it in my wire, that he had some information for you on the Chesapeake steamer that you should have before the bid was presented; I have therefore asked Bob Workman to await instructions from you before putting in his bid.

Mr. Hines has been advised that you will be there after your conference with Wakeman and Palen. He says Berdeau has all the information together and they will wait in readiness for you.

We have assigned Geo. Barr and the Cadillac for your use Sunday and Monday, reporting to your home at 8:30 Sunday morning.

E. W. Payne.

("Exhibit No. 1468" appears in text on p. 4654.)

Exhibit No. 1469

[Joint second endorsement]

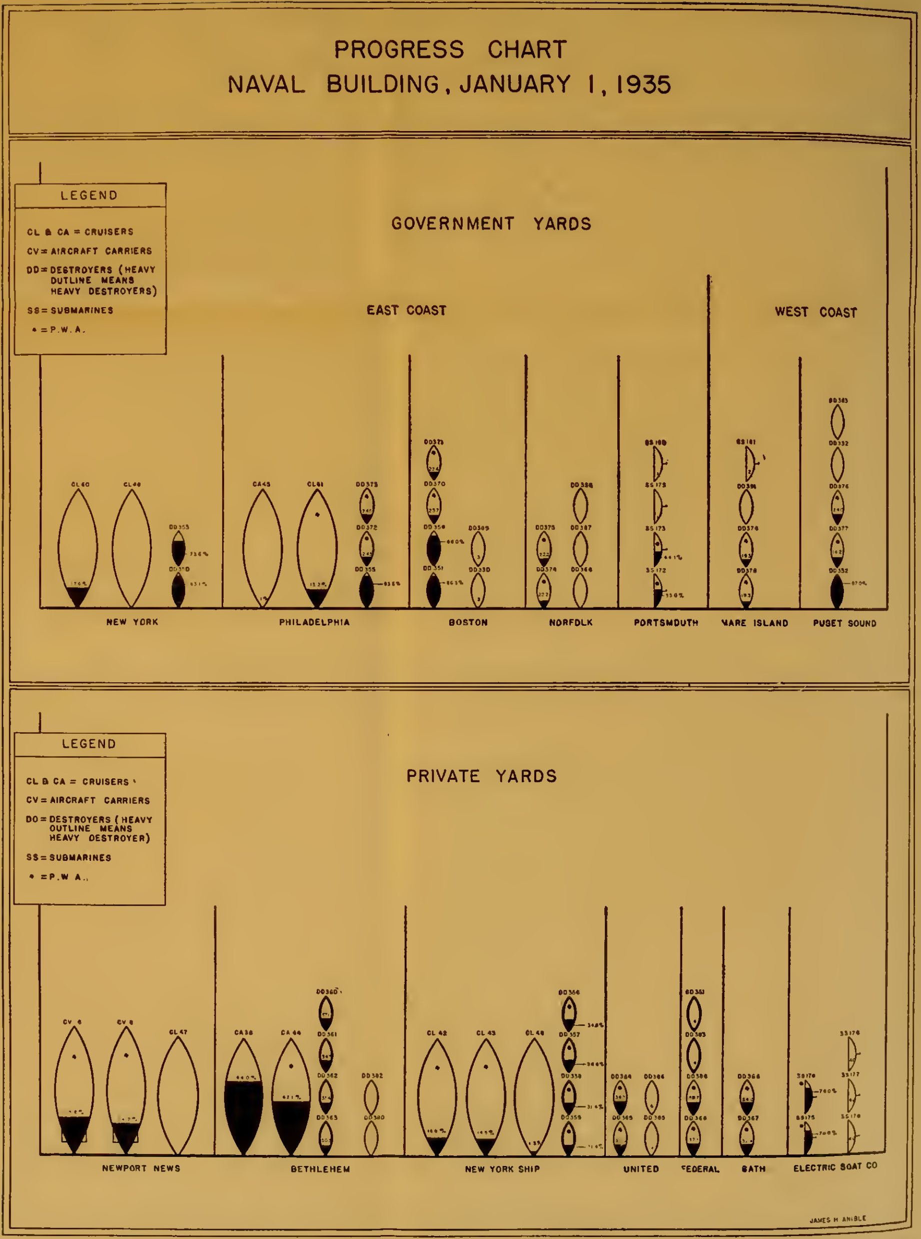
May 11, 1928.

From: Bureau of Construction and Repair, and Bureau of Engineering.
To: The Judge Advocate General.

* * * * * * *

* * * It will be noted that the low bidder of the three private shipbuilding companies was the Newport News Shipbuilding and Dry Dock Company, to whom award was made for cruisers nos. 30 and 31. Detailed comment relative to the bids submitted by the Bethlehem Shipbuilding Corporation and the American Brown Boveri Electric Corporation is contained in paragraph 5 of the enclosure. From this comment it will be noted that while the actual amounts named in the bids of the two companies were different there were certain differences as to the guarantees submitted. The variation of the bids, considering possible penalties and possible bonuses, led the Bureaus to the opinion that the

Exhibit No. 1471[1]



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[1] Prepared by committee from information supplied in Navy Department, joint report of progress as of Jan. 1, 1935. See "Exhibit No. 1475", p. 4896.

83876—35—pt. 18. (Faces p. 4893.)

two bids merited equal consideration, and that the bid prices were virtually equal in amount when based on the same guarantees. The Bureaus, therefore, recommended an award for the two remaining vessels be made, one to each of the two companies in question.

* * * * * * *

The question of the maximum number of vessels it would be to the interest of the Government to allot to any one contractor was very thoroughly discussed with representatives of all the shipyards which were equipped for building vessels of this kind. After full consideration of the facilities available, the time required to build up the depleted organizations in the different yards so as to enable them to handle work of this magnitude, and the necessity for having the ships completed within a reasonable time, it was decided that two cruisers were the most that could be built by any one of the shipyards.

J. D. Beuret.

JOHN HALLIGAN,
Chief of Bureau.

Certified to be a true copy of excerpts of Joint 2nd endorsement, 11 May, 1928.

(s) F. S. CURTIS,
Chief Clerk, Navy Department.

EXHIBIT NO. 1470

[Copy]

Office of the Secretary
File CL26/L4-3(280417)
P

DEPARTMENT OF THE NAVY,
Washington, D.C., June 9, 1928.

The COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C.

SIR: Your letter, A-21498, of April 17, 1928, requested certain information relative to the award of contracts for the construction of scout cruisers nos. 26 to 31, inclusive, particularly as to why awards were made to other than the lowest bidder and why bidders were limited to submitting bids on only two vessels.

The lowest bid received from a private shipbuilder was that of the Newport News Shipbuilding and Dry Dock Company and contract was awarded to that concern for two vessels.

The next lowest bidder as to price was the Bethlehem Shipbuilding Corporation. On a comparison of the bid of that company, however, with the American Brown Boveri Electric Corporation, the third lowest bidder, the difference in the guarantees offered by these two bidders when considered in connection with possible penalties and bonuses led the Navy Department to believe that the two bids merited equal consideration in that the prices were virtually equal in amount when based on the same guarantees. A detailed explanation as to these differences is contained in the joint endorsement of April 15, 1927, of the Bureaus of Construction and Repair and Engineering to the Secretary of the Navy, recommending award of contracts, a copy of which endorsement is enclosed for your information, together with inclosure (A) of said endorsement.

With regard to your inquiry as to why proposals limited the number of any vessels to be constructed by any one bidder to two, you are advised that the question as to the maximum number of vessels that it would be to the interest of the Government to allot to any one contractor was very thoroughly discussed with representatives of all the shipyards that were equipped for building vessels of this character.

After full consideration of the facilities available, the time required to build up depleted organizations in the different yards so as to enable them to handle work of this magnitude, and the necessity for having the ships completed within a reasonable time, the decision was reached that two cruisers were the most that could be built by any one of the ship yards.

Very respectfully,

(s) CURTIS D. WILBUR,
Secretary of the Navy.

Inclosures (2).

EXHIBIT No. 1472

[From "Navies of the World". Comparative statistical data for Committee on Naval Affairs December 31, 1932]

	Necessary to build up to treaty strength		Awarded Aug. 5, 1933		Still needed to reach treaty strength	
	Number	Tons	Number	Tons	Number	Tons
Aircraft carriers	3	55, 200	2	40, 000	1	15, 200
Cruisers B	7	73, 000	4	40, 000	3	33, 000
Destroyers	89	133, 500	20	28, 400	69	105, 100
Submarines	20	25, 630	4	4, 800	16	20, 830
	119	287, 330	30	113, 200	89	174, 130

NOTE: Two gunboats were also awarded August 3, 1933.

EXHIBIT No. 1473

[From "Navies of the World". Comparative statistical data for Committee on Naval Affairs December 31, 1932]

	Necessary to build up to treaty strength		Awarded August 5, 1933		Still needed to reach treaty strength	
	Number	Tons	Number	Tons	Number	Tons
Aircraft carriers	3	55, 200	2	40, 000	1	15, 200
Cruisers B	7	73, 000	4	40, 000	3	33, 000
Destroyers	89	133, 500	20	28, 400	69	105, 100
Submarines	20	25, 630	4	4, 800	16	20, 830
	119	287, 330	30	113, 200	89	174, 130

NOTE.—Two gunboats were also awarded August 3, 1933.

EXHIBIT No. 1474

Analysis of construction progress in private yards, of naval vessels contracted August 1933

	As stated in bids of July 1933			From Navy Department's Progress Report, Jan. 10, 1935		Average accomplished in 17 months	Default, 17 months	Average default for yard, 17 month
	Promised 1st 12 months	Promised 2nd 12 months	Promised 17 months	Hull percent, accomplished in 17 months	Machinery percent accomplished, 17 months			
Newport News:								
CV 5	18	63	44. 3	29. 6	27. 1	28. 3	36. 2	
CV 6	13	48	33. 0	24. 2	23. 5	23. 8	27. 9	32. 1
Bethlehem:								
CA 44	35	66	62. 5	47. 1	32. 0	39. 5	36. 8	
DD 360	20	85	55. 4	37. 1	34. 3	35. 7	35. 6	
DD 361	16	79	48. 9	34. 7	31. 1	32. 9	32. 7	
DD 362	13	74	43. 9	32. 4	28. 1	30. 2	31. 2	
DD 363	11	68	39. 4	30. 3	25. 8	28. 0	28. 9	33. 0

Analysis of construction progress in private yards, of naval vessels contracted August 1933—Continued

	As stated in bids of July 1933			From Navy Department's Progress Report, Jan. 10, 1935		Average accomplished in 17 months	Default, 17 months	Average default for yard, 17 months
	Promised 1st 12 months	Promised 2nd 12 months	Promised 17 months	Hull percent, accomplished in 17 months	Machinery percent accomplished, 17 months			
New York Ship:								
CL 42	30	80	63.4	15.6	18.5	17.0	73.2	
CL 43	20	70	49.2	14.5	18.5	16.5	66.5	
DD 356	40	80	73.4	34.8	40.7	37.7	48.6	
DD 357	40	80	73.4	34.8	39.4	37.1	49.5	
DD 358	35	75	66.3	31.4	37.8	34.6	47.8	
DD 359	35	75	66.3	31.4	37.7	34.5	48.0	55.6
Bath Iron:								
DD 366	18	90	55.5	34.0	20.8	27.4	50.6	
DD 367	15	78	47.5	32.4	16.7	24.5	48.4	49.5
Federal:								
DD 368	25	70	54.2	38.7	31.7	35.2	35.1	
DD 369	12	70	41.2	37.2	20.2	28.7	30.3	32.7
United:								
DD 364	30	60	55.0	38.2	38.0	38.1	30.7	
DD 365	25	55	47.9	32.6	29.6	31.1	35.1	32.9
Electric Boat:								
SS 174	47	48	67.0	76.0	44.0	60.0	10.4	
SS 175	42	48	62.0	70.0	42.5	56.2	9.4	9.9

Analysis of construction progress in navy yards, of naval vessels ordered August 1933

[From Navy Department's Progress Report of January 10, 1935]

	Hull percent, accomplished in 17 months	Machinery percent, accomplished, 17 months	Average, accomplished in 17 months	Yard average, accomplished, 17 months
Portsmouth:				
SS 172	53.0	50.1	51.6	
SS 173	44.1	45.9	45.0	48.3
Boston:				
DD 370	23.7	8.1	15.9	
DD 371	22.6	6.2	14.4	15.1
Brooklyn:				
CL 40	17.6	4.0	10.8	
PG 50	22.8	4.6	13.7	12.2
Philadelphia:				
CL 41	15.2	2.6	8.9	
DD 372	24.5	0.2	12.3	
DD 373	24.5	0.2	12.3	11.2
Norfolk:				
DD 374	22.2	2.3	12.2	
DD 375	22.2	2.3	12.2	12.2
Charleston:				
PG 51	18.8	2.3	10.5	10.5
Mare Island:				
DD 378	19.3	4.2	12.7	
DD 379	19.3	4.2	12.7	12.7
Puget Sound:				
DD 376	24.0	2.2	13.1	
DD 377	19.2	2.2	10.7	11.9

EXHIBIT No. 1475

NAVY DEPARTMENT,
BUREAUS OF CONSTRUCTION AND REPAIR AND ENGINEERING,
Washington, D. C., January 10, 1935.

Vessels under construction, United States Navy, joint report of progress as of January 1, 1935

Number	Type and name	Contractor	Appropriation	Percentage of completion				Keel laid	Launched	Date of completion		Accomplished to Jan. 1, 1935	Promised to Jan. 1935,
				Hull		Machinery							
				Jan. 1, 1935, total	Gain for month, total	Jan. 1, 1935, total	Gain for month, total			As per contract	As reported by building yard		
	Aircraft carriers:												
CV5	Yorktown	Newport News S. B. & D. D. Co.	NIRA	29.6	3.9	27.1	2.5	5/21/34	----------	10/3/36	[1] 10/3/36	28.3	44.3
CV6	Enterprise	Newport News S. B. & D. D. Co.	NIRA	24.2	3.4	23.5	3.1	7/16/34	----------	2/3/37	[1] 2/3/37	23.8	33.0
	Heavy cruisers:												
CA39	Quincy	Beth. S. B. Corp. Fore R	I.N	64.0	3.6	50.3	6.2	11/15/33	----------	1/9/36	1/9/36	57.1	----------
CA44	Vincennes	Beth. S. B. Corp. Fore R	NIRA	47.1	2.5	32.0	1.4	1/2/34	----------	1/2/37	1/2/37	39.5	62.5
CA45	Wichita	Philadelphia Nvy. Yd	I.N	.1	.1	----------	----------	----------	----------	1/1/38	1/1/38	.1	----------
	Light cruisers:												
CL40	Brooklyn	New York Navy Yard	I.N	17.6	3.3	4.0	1.5	----------	----------	11/1/36	12/1/36	10.8	----------
CL41	Philadelphia	Philadelphia Nvy. Yd	NIRA	15.2	8.1	2.6	1.4	----------	----------	11/1/36	1/1/37	8.9	----------
CL42	Savannah	New York S. B. Corp	NIRA	15.6	1.4	18.5	1.9	5/31/34	----------	8/3/36	8/3/36	17.0	63.4
CL43	Nashville	New York S. B. Corp	NIRA	14.5	1.4	18.5	1.9	----------	----------	12/3/36	12/3/36	16.5	49.2
CL46	Phoenix	New York S. B. Corp	I.N	1.3	1.1	.4	.1	----------	----------	8/22/37	8/22/37	.8	----------
CL47	Boise	Newport News S. B. & D. D. Co.	I.N	----------	----------	----------	----------	----------	----------	8/22/37	8/22/37	.0	----------
CL48	Honolulu	New York Navy Yard	I.N	----------	----------	----------	----------	----------	----------	9/1/37	9/1/37	.0	----------
	Submarines:												
SS172	Porpoise	Portsmouth Nvy. Yd	NIRA	53.0	4.7	50.1	5.0	10/27/33	----------	2/1/36	2/1/36	51.6	----------
SS173	Pike	Portsmouth Navy Yd	NIRA	44.1	3.5	45.9	2.6	12/20/33	----------	5/1/36	5/1/36	45.0	----------
SS174	Shark	Electric Boat Co	NIRA	76.0	5.0	44.0	9.0	10/24/33	----------	8/3/35	8/3/35	60.0	67.0
SS175	Tarpon	Electric Boat Co	NIRA	70.0	4.0	42.5	8.0	12/22/33	----------	11/3/35	11/3/35	56.2	62.0
SS176	Perch	Electric Boat Co	INEC	4.0	2.0	1.8	1.8	----------	----------	11/22/36	11/22/36	2.9	----------
SS177	Pickerel	Electric Boat Co	INEC	4.0	2.0	1.8	1.8	----------	----------	2/22/37	2/22/37	2.9	----------
SS178	Pinna	Electric Boat Co	INEC	4.0	2.0	1.8	1.8	----------	----------	5/22/37	5/22/37	2.9	----------
SS179	Plunger	Portsmouth Nvy. Yd	INEC	.2	.1	----------	----------	----------	----------	2/1/37	2/1/37	.1	----------
SS180	Pollack	Portsmouth Nvy. Yd	INEC	.1	.1	----------	----------	----------	----------	5/1/37	5/1/37	.1	----------
SS181	Pompano	Mare Island Nvy. Yd	INEC	.2	.2	----------	----------	----------	----------	5/1/37	5/1/37	.1	----------
	Destroyers:												
DD350	Hull	New York Navy Yard	I.N	93.1	3.1	81.0	10.5	3/7/33	1/31/34	8/11/34	3/11/35	87.0	----------
DD351	MacDonough	Boston Navy Yard	I.N	96.5	1.5	89.5	4.5	5/15/33	8/11/34	8/11/34	4/15/35	93.0	----------
DD352	Worden	Puget Sound Navy Yd	I.N	97.0	2.3	96.5	3.9	12/29/32	10/27/34	10/1/34	[1] 12/31/34	96.7	----------

DD353	Dale	New York Navy Yard	I.N	73.6	3.0	47.0	2.0	2/10/34	----------	1/1/35	7/1/35	60.3	----------
DD354	Monaghan	Boston Navy Yard	I.N	88.0	3.6	76.0	6.9	11/21/33	1/9/35	1/1/35	5/1/35	82.0	----------
DD355	Aylwin	Philadelphia Nvy. Yd	I.N	93.5	6.2	78.8	9.2	9/23/33	7/10/34	1/1/35	4/15/35	86.1	----------
DD356	Porter [2]	New York S. B. Corp	NIRA	34.8	2.0	40.7	5.1	12/18/33	----------	12/3/35	12/3/35	37.7	73.4
DD357	Selfridge [2]	New York S. B. Corp	NIRA	34.8	2.0	39.4	5.0	12/18/33	----------	2/3/36	2/3/36	37.1	73.4
DD358	McDougal [2]	New York S. B. Corp	NIRA	31.4	2.7	37.8	3.9	12/18/33	----------	4/3/36	4/3/36	34.6	66.3
DD359	Winslow [2]	New York S. B. Corp	NIRA	31.4	2.7	37.7	3.9	12/18/33	----------	6/3/36	6/3/36	34.5	66.3
DD360	Phelps [2]	Beth. S. B. Corp. Fore R	I.N	37.1	2.9	34.3	6.7	1/2/34	----------	12/3/35	[1] 12/3/35	35.7	55.4
DD361	Clark [2]	Beth. S. B. Corp. Fore R	I.N	34.7	2.3	31.1	8.6	1/2/34	----------	2/3/36	[1] 2/3/36	32.9	48.9
DD362	Moffett [2]	Beth. S. B. Corp. Fore R	I.N	32.4	2.6	28.1	7.6	1/2/34	----------	4/3/36	[1] 4/3/36	30.2	43.9
DD363	Balch [2]	Beth. S. B. Corp. Fore R	I.N	30.3	2.6	25.8	6.9	5/16/34	----------	6/3/36	[1] 6/3/36	28.0	39.4
DD364	Mahan	United Dry Docks, Inc	NIRA	38.2	1.9	38.0	5.3	6/12/34	----------	10/30/35	[1] 10/30/35	38.1	55.0
DD365	Cummings	United Dry Docks, Inc	NIRA	32.6	2.3	29.6	5.8	6/26/34	----------	12/30/35	[1] 12/30/35	31.1	47.9
DD366	Drayton	Bath Iron Works Corp	NIRA	34.0	2.6	20.8	2.9	3/20/34	----------	11/3/35	[1] 11/3/35	27.4	55.5
DD367	Lamson	Bath Iron Works Corp	NIRA	32.4	2.4	16.7	1.6	3/20/34	----------	2/3/36	[1] 2/3/36	24.5	47.5
DD368	Flusser	Federal S. B. & D. D. Co	NIRA	38.7	2.2	31.7	4.0	6/4/34	----------	11/3/35	[1] 11/3/35	35.2	54.2
DD369	Reid	Federal S. B. & D. D. Co	NIRA	37.2	2.0	20.2	5.6	6/25/34	----------	2/3/36	2/3/36	28.7	41.2
DD370	Case	Boston Navy Yard	NIRA	23.7	2.4	8.1	4.3	9/19/34	----------	2/1/36	7/1/36	15.9	----------
DD371	Conyngham	Boston Navy Yard	NIRA	22.6	2.3	6.2	2.4	9/19/34	----------	5/1/36	10/1/36	14.4	----------
DD372	Cassin	Philadelphia Nvy. Yd	NIRA	24.5	3.0	.2	----------	10/1/34	----------	2/1/36	3/15/36	12.3	----------
DD373	Shaw	Philadelphia Nvy. Yd	NIRA	24.5	3.0	.2	----------	10/1/34	----------	5/1/36	6/15/36	12.3	----------
DD374	Tucker	Norfolk Navy Yard	NIRA	22.2	3.9	2.3	1.2	8/15/34	----------	2/1/36	[1] 2/1/36	12.2	----------
DD375	Downes	Norfolk Navy Yard	NIRA	22.2	3.9	2.3	1.2	8/15/34	----------	5/1/36	[1] 5/1/36	12.2	----------
DD376	Cushing	Puget Sound Navy Yd	NIRA	24.0	3.8	2.2	.9	8/15/34	----------	2/1/36	[1] 2/1/36	13.1	----------
DD377	Perkins	Puget Sound Navy Yd	NIRA	19.2	4.6	2.2	.9	11/15/34	----------	5/1/36	[1] 5/1/36	10.7	----------
DD378	Smith	Mare Island Navy Yd	NIRA	19.3	2.1	4.2	3.0	10/27/34	----------	2/1/36	[1] 2/1/36	12.7	----------
DD379	Preston	Mare Island Navy Yd	NIRA	19.3	2.1	4.2	3.0	10/27/34	----------	5/1/36	[1] 5/1/36	12.7	----------
DD380	----------	Beth. S. B. Corp. Fore River	INEC	----------	----------	----------	----------	----------	----------	1/ 2/37	1/ 2/37	0.0	----------
[2] DD381	----------	Federal S. B. & D. D. Co	INEC	.4	.4	----------	----------	----------	----------	1/22/37	1/22/37	0.2	----------
DD382	----------	Beth. S. B. Corp. Fore River	INEC	----------	----------	----------	----------	----------	----------	4/ 2/37	4/ 2/37	0.0	----------
[2] DD383	----------	Federal S. B. & D. D. Co	INEC	.4	.4	----------	----------	----------	----------	3/22/37	3/22/37	0.2	----------
DD384	----------	United Shipbldg. & D. D. Corp.	INEC	.5	.5	----------	----------	----------	----------	6/ 9/36	6/ 9/36	0.2	----------
DD385	----------	United Shipbldg. & D. D. Corp.	INEC	.5	.5	----------	----------	----------	----------	8/ 9/36	8/ 9/36	0.2	----------
DD386	----------	Norfolk Navy Yard	INEC	----------	----------	.2	.2	----------	----------	11/ 1/36	11/ 1/36	0.1	----------
DD387	----------	Norfolk Navy Yard	INEC	----------	----------	.2	.2	----------	----------	2/ 1/37	2/ 1/37	0.1	----------
DD388	----------	Norfolk Navy Yard	INEC	----------	----------	.2	.2	----------	----------	5/ 1/37	5/ 1/37	0.1	----------
DD389	----------	Boston Navy Yard	INEC	.3	.3	.8	.8	----------	----------	11/ 1/36	11/ 1/36	0.5	----------
DD390	----------	Boston Navy Yard	INEC	.3	.3	.8	.8	----------	----------	2/ 1/37	2/ 1/37	0.5	----------
DD391	----------	Mare Island Navy Yard	INEC	----------	----------	.4	.4	----------	----------	11/ 1/36	11/ 1/36	0.2	----------
DD392	----------	Puget Sound Navy Yard	INEC	----------	----------	----------	----------	----------	----------	11/ 1/36	11/ 1/36	0.0	----------
DD393	----------	Puget Sound Navy Yard	INEC	----------	----------	----------	----------	----------	----------	2/ 1/37	2/ 1/37	0.0	----------
	Gunboats:												
PG50	Erie	New York Navy Yard	NIRA	22.8	4.3	4.6	1.1	12/17/34	----------	2/ 1/36	3/ 1/36	13.7	----------
PG51	Charleston	Charleston Navy Yard	NIRA	18.8	7.9	2.3	1.5	10/27/34	----------	2/ 1/36	3/ 1/36	10.5	----------

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[1] Reports indicate a delay may be involved, amount of delay not determined.

[2] 1,850-ton destroyer.

NOTE.—The Vinson bill (Public, No. 135, 73d Congress) was approved March 27, 1934. This bill authorizes construction and replacement of vessels within limits established by the Washington and London Treaties.

Authorized by act of August 29, 1916: 1 transport no. 2—no funds for construction.

Authorized by act of February 13, 1929: 2 cruisers.

Coast Guard vessels under construction at navy yards, report of progress as of January 1, 1935

Number	Type and name	Contractor	Percentage of completion				Keel laid	Launched	Date of completion		Accomplished to Jan. 1, 1935	Promised to Jan. 1, 1935
			Hull		Machinery				As per contract	As reported by building yard		
			Jan. 1, 1935, total	Gain for month, total	Jan. 1, 1935, total	Gain for month, total						
	Harbor cutters:											
63	Navesink	Charleston Navy Yard	Delivered December 29, 1934								100.0	
64	Tuckahoe	Charleston Navy Yard	93.0	8.0	95.0	9.0	6/8/34	9/28/34	1/15/35	1/15/35	94.0	
	Cruising cutters:											
65	George W. Campbell	Philadelphia Navy Yd	4.1	1.4	1.3	.2					2.7	
66	Samuel D. Ingham	Philadelphia Navy Yd	4.1	1.4	1.3	.2					2.7	
67	William J. Duane	Philadelphia Navy Yd	4.1	1.4	1.3	.2					2.7	
68	Roger B. Taney	Philadelphia Navy Yd	4.1	1.4	1.3	.2					2.7	
69	Alexander Hamilton	New York Navy Yard	3.8	.4	.5						2.1	
70	John C. Spencer	New York Navy Yard	3.8	.4	.5						2.1	
71	George M. Bibb	Charleston Navy Yard	2.1	1.7							1.0	

EXHIBIT No. 1476

(In reply address the Bureau of Yards and Docks and refer to no. A1–1)

NAVY DEPARTMENT,
BUREAU OF YARDS AND DOCKS,
Washington, D. C., Aug. 28, 1934.

MY DEAR COMMANDER SAUNDERS: Your telephonic inquiry of August 23, to Captain W. G. DuBose, of the Bureau of Construction and Repair, for a report as to the shipbuilding ways and shipbuilding dry docks of the Navy, has been referred to the Bureau of Yards and Docks as a matter coming under its cognizance.

I am forwarding herewith to you a list showing the various shipbuilding ways located at the navy yards and also have included in the list the shipbuilding drydock at the Navy Yard, Puget Sound.

You will note in the remarks column, statement as to the condition of shipbuilding ways, together with a statement as to the amounts estimated to be required for reconstruction of those ways which are not now in a good state of repair.

Very truly yours,

NORMAN M. SMITH,
Chief of Bureau.

Lt. Comdr. JAMES A. SAUNDERS, U. S. N.,
Senate Naval Affairs Committee,
Senate Office Building, Washington, D.C.
Room 402, A.F. of L. Bldg. (penciled notation).

Navy yard shipbuilding facilities

Location	Total number of ways	Takes ship		Remarks
		Length, feet	Beam, feet	
Navy Yard, Portsmouth, N.H.	3	340	38	One ways.
		350	40	Two ways.
Navy Yard, Boston, Mass.	[1] 1	[1] 375	38	(Repaired for destroyers.) $75,000 needed to increase length to 490′.
Navy Yard, New York, N.Y.	2	825	106	$25,350 needed for cranes, etc.
		825	106	$109,900 needed to make it same as no. 1 fc capital ships. Now used for destroyers.
Navy Yard, Philadelphia, Pa.	3	464	49	Now unserviceable. $180,000 needed to rebuild.
		700	108	
		700	108	One ways.
Navy Yard, Norfolk, Va.	2	720	110	Partially reconstructed; serviceable for 384′ Needs $31,400 more for destroyers, o $155,600 for large ships.
		350	40	Now unserviceable. $48,900 needed to rebuild.
Navy Yard, Charleston, S. C.	2	360	60	Two ways.
Navy Yard, Mare Island, Calif.	2	384	42	One ways.
		672	108	One ways.
Navy Yard, Puget Sound, Wash.	[1] 1	927	110	(2).
		917	113-8	

[1] Size of ways.
[2] Shipbuilding drydock.

(There was no EXHIBIT marked "No. 1477")

EXHIBIT No. 1478

(All public bills for payment under this contract should include a reference to Nod–472)

"National Industrial Recovery Act" approved June 16, 1933. No. 43
CL43/L4–3(330901)

CONTRACT FOR THE CONSTRUCTION OF LIGHT CRUISER NO. 43, OF NOT EXCEEDING 10,000 TONS STANDARD DISPLACEMENT

Contract, of two parts, made and concluded this 3d day of August, A.D. 1933, by and between the New York Shipbuilding Corporation, a corporation organized under the laws of the State of New York, and doing business at Camden, in the State of New Jersey, represented by the president of the said corporation, party of the first part (hereinafter called the contractor), and the United States of America, represented by the Secretary of the Navy, party of the second part (hereinafter called the Department).

Whereas the act entitled "An act to encourage national industrial recovery, to foster fair competition, and to provide for the construction of certain useful public works, and for other purposes," approved June 16, 1933, authorizes the President of the United States, if in his opinion it seems desirable, to undertake "the construction of naval vessels within the terms and/or limits established by the London Naval Treaty of 1930"; and

Whereas under the authority of said act the President of the United States, by Executive Order No. 6174, entitled "Administration of Public Work", on June 16, 1933, allotted "the sum of not to exceed $238,000,000 to the Department of the Navy for the construction of certain vessels, the construction whereof conforms to the London Naval Treaty and has heretofore been approved by me"; and

Whereas the said act provides "That in the event of an international agreement for the further limitation of armament, to which the United States is signatory, the President is hereby authorized and empowered to suspend, in whole or in part, any such naval -------------- construction"; and

Whereas after due advertisement the Department has accepted the proposal of the contractor for the construction of said vessel, complete in all respects, with the exceptions stated in the specifications, which vessel is for the purposes of this contract designated and known as "light cruiser no. 43"; and

Whereas preliminary drawings, plans, circular defining chief characteristics accompanied by partial detail hull specifications and by special specifications for machinery and electric plant, for said vessel have been duly provided, adopted, and approved:

Now, therefore, this contract witnesseth, that in consideration of the premises, and of the agreements hereinafter contained the parties hereto hereby mutually agree as follows; that is to say:

ARTICLE 1. The contractor, subject to the provisions hereinafter set forth, will at his own risk and expense: (*a*) Develop and prepare contract and type plans, and detail hull specifications, for one light cruiser of not exceeding 10,000 tons standard displacement, in conformity with the preliminary drawings, plans, circular defining chief characteristics, and Special Specifications for Machinery and Electric Plant, including duly authorized changes therein, which said preliminary drawings, plans, circular, and specifications are hereto annexed and shall be deemed and taken as forming a part of this contract with the like operation and effect as if the same were incorporated herein; and (*b*) after approval by the Navy Department of said contract and type plans and detail hull specifications to construct said light cruiser, complete in all respects, both hull and machinery, including the installation of ordnance and ordnance outfit and of other articles furnished by the Government, all in strict accordance therewith, and with the Special Specifications for Machinery and Electric Plant. The contract and type plans and detail hull specifications prepared and submitted by the contractor shall, upon approval by the Navy Department, be annexed hereto and shall be deemed and taken as forming a part of this contract with the like operation and effect as if the same were incorporated herein. In the preparation of the contract plans and specifications adequate margins in calculated weights and strength will be provided, such margins to be satisfactory to the Department.

Owing to the national emergency existing making it imperative that the maximum number of men be returned to gainful employment without delay, and to effectuate the purpose of the National Industrial Recovery Act, approved June 16, 1933, the contractor hereby expressly agrees that from the beginning he will prosecute the work with the utmost vigor and despatch and will make every possible effort, without reference to the otherwise normal rate of progress, to accomplish the maximum amount of work within the first and second year thereof.

The vessel shall after completion be delivered at the navy yard, Philadelphia, Pa., to the commandant of that yard.

Art. 2. No inadvertent omission in the drawings, plans, or specifications of any detail, object, or provision necessary to carry this contract into full and complete effect, in accordance with the object and intent of the plans and specifications relating thereto, shall operate to the disadvantage of the Government, and any such omission shall be satisfactorily supplied, performed, and observed by the contractor, and all claims for extra compensation by reason of, or for, or on account of such extra performance are hereby and in consideration of the premises expressly waived. Similarly, no inadvertent inclusion in the drawings, plans, and specifications of any detail, object, or provision not necessary to carry this contract into full and complete effect shall operate to the disadvantage of the contractor. The plans and specifications contain information of a confidential character that cannot be made public without detriment to the Government's interests, and they are to be treated as confidential by the parties to this contract

Art. 3. The contract and type plans, and detail hull specifications, prepared by the contractor in accordance with article 1 (*a*) herein and approved by the Navy Department shall upon such approval become the property of the Navy Department for whatever use it may determine.

Art. 4. The contractor will, at its own expense, prepare such plans or drawings as may be necessary during the progress of the work, and will submit the same to the Department for its approval as required by the specifications, before the work covered thereby is begun, and in addition furnish such working plans and finished plans as are required by the specifications to be furnished.

Time being of the essence of this contract, it is agreed that plans submitted to the Department will be acted on and returned to the contractor as promptly as practicable. In case the contractor considers that a plan is being held by the Department an undue length of time and that an actual delay in the prosecution of the work covered by the plan will result such as to cause a delay in completion of the vessel, the contractor may make request for an extension of the contract time, giving reasons therefor and the extent of the resulting delay. Such request shall be acted on as provided in article 12 hereof for action in other cases of delays.

The Department reserves the right to require the contractor to perform any one or more of the following services, all such requirements to be in addition to those relating to the working and finished plans, booklets, etc., otherwise required to be furnished by the specifications:

(A) Furnish to such other contractor as may be designated by the Navy Department such copies of each of the following as may be necessary to enable said designated contractor to construct a vessel similar in all respect to the vessel described in this contract: working and finished plans and booklets, material schedules and material orders for hull, boilers and machinery, and all auxiliary machinery, fittings and appurtenances; said plans, booklets, schedules, and orders to be furnished as a matter of arrangement between the contractors and at the cost of reproduction solely; and/or

(B) Furnish to the superintending constructor or the inspector of machinery, for such use by the Navy Department as it may desire, any part or all of the following items:

(*a*) One or more blueprints of each plan applicable to this vessel submitted by the contractor for approval.

(*b*) One "See-B" process tracing of each approved plan prepared by the contractor for this vessel, to be furnished promptly after approval has been given.

(*c*) One blueprint of each plan required in (*b*).

(*d*) One "See-B" process tracing of each approved plan purchased by the contractor for this vessel, to be furnished promptly after approval has been given.

(*e*) One blueprint of each plan required in (*d*).

(*f*) If alterations are made on an approved plan, of which a "See-B" process tracing has already been furnished, a new modified "See-B" process tracing, or a blueprint of the plan as modified, or a description of the modification in writing, as determined preferable by the superintending constructor or inspector of machinery, will be furnished by the contractor promptly after approval of the alteration.

(*g*) One copy of each material schedule and order, exclusive of prices, that is prepared by the contractor for this vessel, to be furnished promptly after preparation of the schedule or order.

All such blueprints, "See-B" process tracings, material schedules, and orders, if required in accordance with this subparagraph (B), will be furnished as an item of increased cost at the cost of reproduction only, to which shall be added 10 percent, to be handled as a change in the contract, as provided in article 7 (*a*) hereof; and/or

(C) Assemble and deliver to the Navy Department when the vessel is completed any part or all of the following, which are for use in reproducing the vessel in the event of a national emergency:

(*a*) *Plans.*—A reproduced tracing of each working plan, corrected to show all changes made during construction. An index in convenient form, showing approximately the order in which the plans were required, shall be furnished separately. The faired mold loft offsets shall be included in the plans.

(*b*) *Allowance list.*—A corrected copy of the allowance list, in form suitable for duplicating.

(*c*) *Steel schedule sheets.*—One copy, showing all changes and corrections made, sufficiently legible to permit blueprinting. Under this heading shall be included all plates and shapes entering into the vessel, whether on mill or yard schedules.

(*d*) *Lists of material.*—All material (other than covered by (*b*) and (*c*) above) used in the construction, equipping, and outfitting of the vessel. There shall be shown the item, quantity, name of manufacturer, time interval from date ordered to date received, and date material was installed or construction had advanced to where it could have been installed. While it is desirable that the list be as inclusive as possible, covering material whether specially ordered, taken from stock, included in requisitions for services, etc., it shall not be so complicated as to defeat its purpose of expediting the work of a building yard. Copies of yard stubs are not required, but one copy of each requisition and specification for material of special requirements shall be furnished in addition to the master list.

(*e*) *Labor load.*—A curve or tabulation by months of the total working force employed in the shops and on the ship, showing the distribution by trades and the split between mechanics and helpers.

(*f*) *Chronology of building.*—A brief chronology of such principal events during construction as, in the opinion of the yard, would be of assistance to an inexperienced organization in planning similar work.

All such plans, lists, schedules, etc., if required in accordance with this subparagraph (C), will be furnished as an item of increased cost at the cost of reproduction only, and/or the cost of preparation in the case of data not otherwise required to be prepared in the prosecution of this contract, to which costs shall be added 10 percent, to be handled otherwise as a change in the contract, as provided in article 7 (*a*) hereof.

All such copies of plans, booklets, material schedules, material orders, lists, etc., required by subparagraphs (A), (B), or (C) of this article, will be transmitted without guarantee or warranty expressed or implied, by the contractor, except that they are correct copies of the plans, booklets, schedules, orders, lists, etc., for the vessel constructed hereunder, and no implied license for the use of any patented article or invention therein shown or listed shall result from the delivery of such copies of plans, booklets, schedules, orders, lists, etc. Acceptance of this contract does, however, give the right to the Government to use such plans, booklets, schedules, orders, lists, etc., for the purpose of constructing similar vessels.

ART. 5. The Secretary of the Navy may at any time and without notice to the sureties, make changes in this contract, the drawings and/or specifications of this contract within the general scope thereof. No change shall be made in the contract except on the written order of the Secretary of the Navy, and no changes shall be made in the drawings, plans, and specifications unless approved in writing by the Secretary of the Navy or his duly authorized representative.

But nothing provided in this article, or in article 6, shall excuse the contractor from proceeding with the prosecution of the work under this contract.

ART. 6. Except as otherwise herein provided, no charge for extra work or material will be allowed unless the same is ordered in writing by the Secretary of the Navy or his duly authorized representative.

ART. 7. (*a*) If changes or extras are ordered in accordance with articles 5 and/or 6 the cost thereof, to which shall be added 10 percent in the case of changes or extras resulting in an increased cost, the change in weight, and the damage, if any, caused thereby, shall be ascertained, estimated, and determined by a board of naval officers appointed by the Secretary of the Navy, but no requests for adjustments hereunder shall be submitted to the board or considered by the Secretary of the Navy unless the contractor shall within 10 days after receipt of the order for such change or extra notify the Secretary of the Navy in writing of the estimated extent of any delay, and the estimated amount of cost involved. The Secretary of the Navy may, however, in his discretion extend such time of submitting requests.

(*b*) Should any change or extra necessarily delay the general completion of the vessel the continuing of the work beyond the prescribed period shall be treated as a part of the change or extra and the increased cost thereof to the contractor shall also be determined by the board on changes. In no case shall the sum allowed as cost for any day because of delay in completion attributed by the Secretary of the Navy to the Government, by reason of changes or extras, exceed an amount equal to the sum prescribed in article 12 hereof as deduction per day for delay by the contractor for a corresponding period in completing the vessel.

(*c*) The parties hereto shall be bound by the determination of said board or a majority thereof as to the amount of increase or reduction in the compensation to be allowed the contractor on account of matters determined by the board as above provided.

Art. 8. (*a*) All material and workmanship (if not otherwise provided by the specifications) shall be subject to inspection, examination, and test by Government inspectors at any and all times during manufacture and/or construction, and at any and all places where such manufacture and/or construction are carried on.

(*b*) The Department shall promptly pass all work and material conforming to the requirements of this contract, and may reject all work and material not conforming to the requirements of this contract. Rejected workmanship shall be satisfactorily corrected and rejected material shall be satisfactorily replaced with proper material without charge therefor, and the contractor shall promptly segregate and remove the rejected material.

(*c*) The contractor shall furnish promptly, without additional charge, all reasonable facilities, labor, and materials necessary for the safe and convenient inspection and test that may be required by the inspectors. All inspection and tests by the Department shall be performed in such manner as not to unnecessarily delay the work. Special, full-size, and performance tests shall be as described in the specifications.

(*d*) Inspection of material and finished articles to be incorporated in the work at the site shall be made at the place of production, manufacture, or shipment whenever the quantity justifies it, unless otherwise stated in the specifications; and such inspection and acceptance, unless otherwise provided in this contract, shall be final, except as regards latent defects, departures from specific requirements of the contract and the specifications and drawings made a part thereof, and damage or loss in transit. Subject to the requirements contained in the preceding sentence, the inspection of material and workmanship for final acceptance as a whole or in part shall be made at the site.

(*e*) The provisions of this article are subject to the provisions of the other articles of this contract relative to the trials and the preliminary and the final acceptance of the vessel.

Art. 9. (*a*) Unless otherwise specifically provided for in the specifications, all workmanship, equipment, materials, and articles incorporated in the work covered by this contract are to be of the best grade of their respective kinds for the purpose. Where equipment, materials, or articles are referred to in the specifications as "equal to" any particular standard, the Secretary of the Navy shall decide the question of equality. The contractor shall furnish to the Department for its approval the name of the manufacturer of machinery, mechanical and other equipment which he contemplates installing, together with their performance capacities and other pertinent information. When required by the specifications, or when called for by the Department, the contractor shall furnish the Department for approval full information concerning the materials or articles that it contemplates incorporating in the work. Samples of materials shall be submitted for approval when so directed. Machinery, equipment, materials, and articles installed or used without such approval shall be at the risk of subsequent rejection.

(*b*) This contract covers a public work within the meaning of the act of March 3, 1933 (Public, No. 428), and the following provision is hereby inserted and made part of this contract as required by the said act:

"Every contract for the construction, alteration, or repair of any public building or public work in the United States growing out of an appropriation heretofore made or hereafter to be made shall contain a provision that in the performance of the work the contractor, subcontractors, material men, or suppliers, shall use only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States, and only such manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced, or manufactured, as the case may be, in the United States except as provided in section 2: *Provided, however,* That if the head of the department or independent establishment making the contract shall find that in respect to some particular articles, materials, or supplies it is impracticable to make such requirements or that it would unreasonably increase the cost, an exception shall be noted in the specifications as to that particular article, material, or supply, and a public record made of the findings which justified the exception.

"If the head of a department, bureau, agency, or independent establishment which has made any contract containing the provision required by subsection (a) finds that in the performance of such contract there has been a failure to comply with such provisions, he shall make public his findings, including therein the name of the contractor obligated under such contract, and no other contract for the construction, alterations, or repair of any public building or public work in the United States or elsewhere shall be awarded to such contractor, subcontractors, material men, or suppliers with which such contractor is associated or affiliated, within a period of 3 years after such finding is made public."

ART. 10. (*a*) Said vessel and all materials and appliances provided by either the contractor or the Department for and used or to be used in the construction thereof shall, at the expense of the contractor, be kept duly insured in the names of the United States of America and the contractor against the usual fire and marine risks. The insurance shall be written on the builder's risk-insurance certificate, Navy form syndicate. Prekeel-laying insurance shall amount to not less than the aggregate of all applications for payment made by the contractor to and including the date of the laying of the keel. Postkeel-laying insurance shall amount to but not exceed five million dollars ($5,000,000). The insurance shall be effected with such underwriters as may be approved by the Secretary of the Navy, and loss thereunder shall be payable to the Secretary of the Navy for the use of the United States to the extent of payments made to the contractor plus the amount of loss of and/or damage to material and appliances furnished by the Department and for the use of the contractor to the extent of any remaining balance.

(*b*) In case of loss, damage, and/or expense of the kinds covered by the policies of insurance as hereinbefore provided, the Department will make no demand on the contractor for or on account of any value of the vessel, her apparel, tackle, ordnance, furniture, and appurtenances beyond the amount of insurance the contractor is required to carry hereunder. In the event of loss and/or damage to the vessel and/or materials and appliances therefor in excess of the amount required to be covered by insurance, the Secretary of the Navy may, in his discretion, order the contractor to proceed with the work of repair or replacement, the cost thereof, to the extent of the insurance required, to be borne by the contractor and/or the underwriters on payment orders duly endorsed by the Secretary of the Navy, and the cost of said work over and above the amount of insurance required to be borne by the Government and determined in the manner provided in article 7 of this contract for determining the increased cost of changes and paid to the contractor as a change, or order the contractor to discontinue all work on the vessel, on receipt of which order the contractor's obligation to construct the vessel under this contract shall cease and determine, and the Department will be entitled to all sums payable under the insurance required to be placed up to the amount of its loss, and the Department will pay to the contractor all sums theretofore earned under this contract and not previously paid and in addition thereto all extra costs and expenses to the contractor, by reason of the ceasing and determination of such obligation, which extra costs and expenses shall include (1) the cost of care of the damaged vessel and/or work and of the disposition thereof as the Secretary of the Navy shall direct; (2) any amounts for which the contractor shall be liable by reason of the cancellation of orders for material or work that may be rendered necessary because of the ceasing and determination of such obligation; (3) reasonable compensation for the use of property of the contractor occupied or required by the damaged vessel or such work until disposition thereof; and (4) any other reasonable expense to the contractor caused by the ceasing and determination of such obligation and by such disposition. The contractor will also be entitled to ten (10) percent of such extra costs and expenses as profit. The amount of such extra costs and expenses shall be determined in the same manner as in article 7 of this contract is provided for the determination of increased compensation to which the contractor is entitled thereunder.

(*c*) Where loss and/or damage occurs amounting in value to less than the extent of the insurance required, such loss and/or damage shall be replaced and/or remedied by the contractor, who will be reimbursed therefor by the underwriters on payment orders duly endorsed by the Secretary of the Navy.

ART. 11. The contractor shall hold and save the Department, its officers, agents, servants, and employees harmless from liability of any nature or kind including costs and expenses for or on account of the use or manufacture of any patented invention, article, or appliance furnished or used in the performance of this contract: *Provided, however,* That this requirement shall not be construed to extend to anything supplied by the Department.

ART. 12. (*a*) Said vessel shall be completed in accordance with the drawings, plans, and specifications, and duly approved changes therein, and ready for delivery within 40 months from the date hereof. In case the completion of the vessel as aforesaid shall be delayed beyond the period herein fixed therefor, plus any extension thereof approved by the Secretary of the Navy, deductions on account thereof shall be made from the price stipulated in this contract, as for liquidated and ascertained damages for each and every day (excepting Sundays) during the continuance of such delay, and until the vessel shall be completed as aforesaid and ready for delivery to the Department, as follows, viz, $300 a day during the first month next succeeding the expiration of said period as extended as aforesaid, and $600 a day thereafter; such amounts to be provisionally withheld from time to time at the discretion of the Secretary of the Navy, from any payment or payments falling due under this contract after such liquidated damages shall have begun to accrue: *Provided*, That in the judgment of the Secretary of the Navy, such delay shall not have been due to fire or to unforeseeable causes beyond the control and without the fault or negligence of the contractor, including, but not restricted to, acts of God or of the public enemy, acts of the Government, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, and unusually severe weather, and delays of subcontractors due to such causes: *Provided also*, That if it shall appear to the satisfaction of the Secretary of the Navy that the contractor ordered all necessary materials at the proper times and used every reasonable effort to obtain delivery of such materials at the time and in the order required to carry on this work properly, but that nondelivery of such materials delayed the completion of the vessel, he may, in his discretion, grant such extension of time for the fulfillment of the contract as he may deem proper under the circumstances.

(*b*) In case any question shall arise under this contract concerning delay, such question, with all the facts relating thereto, shall be submitted to the Secretary of the Navy for determination; and for all delays that he shall find to be properly attributable to any cause contemplated by the foregoing provisions of this article, and to have been delays affecting the completion of the vessel, the Secretary of the Navy shall grant the contractor a corresponding extension of the period prescribed for the completion of the vessel: *Provided*, That no delay in the completion of the vessel, or the alleged cause or causes thereof, shall be considered by the Secretary of the Navy unless the contractor shall, within 10 days from the time of the occurrence thereof, notify the Department in writing of the facts and circumstances in each case, and where possible of the extent to which the contractor claims that the completion of the vessel is thereby delayed: *And provided further*, That the said Secretary may, without prejudice to the rights of the contractor, reserve his decision on any or all requests for extension until such time as he may consider desirable, and if deemed expedient until after the completion of the vessel, the work on her in the meantime, in accordance with the contract, plans, and specifications, not to be discontinued or delayed on account thereof.

ART. 13. (*a*) The construction of the vessel may be suspended by the Secretary of the Navy in pursuance of authority given the President in the National Industrial Recovery Act approved June 16, 1933, and the contractor on receipt of notice of such suspension shall immediately take steps to stop and shall stop all work in connection with the construction of the vessel, except such work as the Secretary of the Navy may decide is necessary to place the vessel in proper condition for laying up, and shall care for the vessel during the period of the suspension and for all material and equipment on hand for her construction, and the contractor shall immediately furnish to the Secretary of the Navy copies of all outstanding orders for material or work placed with other parties, and shall take such action relative to these orders as may be directed by the Secretary of the Navy. If work is thus suspended, the contractor will be entitled to be reimbursed for all additional expense as determined by the Secretary of the Navy incurred by reason of such suspension; this additional expense to include (1) the cost of any special work directed by the Secretary of the Navy that would not have been necessary had the construction of the vessel not been suspended; (2) the cost of care and preservation of the vessel during the period of suspension; (3) the proportion of fixed overhead charges the vessel would properly have borne during the period of suspension if work thereon had not been suspended; (4) any additional payments for which the contractor is liable by reason of the suspension or cancellation of orders for material or work that may be directed by the Secretary of the Navy; (5) the increased cost, if any, due to the resumption of work after its suspension; (6) any other reasonable expense the contractor shall have incurred on account of the suspension. The contractor will also be entitled to ten (10) percent of such additional expense incurred by reason of such suspension as profit. The Department will allow an increase in the contract period of construction equal to the delay that shall be caused by the suspension, which increase in the contract period of construction will not in any case be less than the period of the suspension.

(*b*) The increased compensation to which the contractor will be entitled by reason of the suspension and the extension of the contract period of construction will be ascertained, estimated, and determined by a board of naval officers appointed for the purpose by the Secretary of the Navy. As soon as practicable after the suspension is ordered, the board shall determine the amount to be allowed the contractor as ad interim monthly payments, and after the suspension is terminated the board shall determine the amount in addition to the ad interim payments due the contractor on account of the suspension. The amounts so determined, when approved by the Secretary of the Navy, shall be the amounts to which the contractor will be entitled in full settlement of the costs of suspension: *Provided,* That this contract shall not be construed as obligating the Government to make any payments in excess of the limit of cost fixed by law for the vessel: *Provided further,* That if and when it shall appear that the amounts to which the contractor will be entitled under this article 13, together with the amounts theretofore paid to the contractor, will equal or exceed the limit of cost fixed by law for the vessel, the Department will at its own expense promptly remove the vessel from the premises of the contractor, and the contractor shall thereafter be under no further liability with respect to the vessel.

ART. 14. (*a*) In case of the failure or omission of the contractor, at any stage of the work prior to its completion, from any cause or causes other than those provided for in article 12 hereof, to go forward with the work and make satisfactory progress toward its completion within the period prescribed, the Secretary of the Navy may by written notice to the contractor terminate its right to proceed with the work. In case the contractor's right to proceed is so terminated, the Department may immediately enter the works and premises of the contractor and take possession of said vessel and the materials for its construction. The Secretary of the Navy shall thereupon cause to be taken and filed a full and complete statement and inventory of all work done or begun in, upon, or about said vessel and of all materials on hand or on order applicable thereto, or intended therefor, by a board consisting of not less than five persons, qualified by knowledge and experience for the discharge of their duties, to be appointed by the Secretary of the Navy, which board shall proceed without unnecessary delay to examine such work and materials, and upon such examination the contractor may attend, by representative and, if it so desires, by counsel, and submit evidence.

(*b*) Upon receipt of the report and inventory of said board and its approval thereof by the Secretary of the Navy, the Department may proceed with the completion of said vessel in accordance with this contract, including changes that may be authorized in accordance with the provisions of article 5 hereof, either at the works of the contractor or elsewhere, by contract or otherwise, in its discretion, using for that purpose all suitable materials on hand or on order and included in the inventory aforesaid, and may remove said vessel and materials to such other place or places as may be requisite to the exercise of such discretion, and the contractor on receiving notice of the intention of the Department to proceed with the completion of the work, will surrender said vessel and all materials on hand, together with the use, so far as required, of the yard or plant, and all machinery, tools, and appliances appertaining thereto and theretofore used, or necessarily to be used, in and about the finishing of the work. The completing of the vessel shall be carried on without unnecessary delay, and shall be at the risk and expense of the contractor, who shall be chargeable with any increase in the cost of materials or labor incurred by reason of its failure to perform this contract, and with the cost of making good any improper or defective work discovered in such parts of the vessel as may have been constructed by it, or replacing any defective material furnished by it.

(*c*) On the final settlement of the liability of the contractor an account shall be stated substantially as follows—

The contractor shall be charged—

1. With all payments made to it under this contract less such payments, if any, as may have been refunded.
2. With the cost of materials and labor and all other expenses incurred by or on behalf of the Department, in finishing the work in accordance with the contract and specifications, and changes duly authorized at the time the contractor's right to proceed with the work was terminated.
3. With such deductions for delay in completion, for overweight, and for failure to develop the contract guarantees as the Secretary of the Navy shall deem proper under all the circumstances, giving due consideration to the degree of completion of the vessel at the time of termination as aforesaid.

(*d*) If the total amount thus charged against the contractor shall exceed the contract price, plus net extras and premiums at the date of termination, the contractor hereby covenants and agrees to pay such excess on demand. Should said amount, however, be less than the price of the vessel, plus the net extras and premiums earned, if any, at the date of termination, the difference shall be paid to and accepted by the contractor in full discharge of all claims under this contract: *Provided, however*, Said difference shall not exceed the value of the materials delivered and work done by the contractor less previous payments made to it.

ART. 15. The contractor will notify the Department 30 days beforehand of the date of launching so that a sponsor for the vessel may be selected, but this stipulation does not impose on either party any obligation to provide entertainment or to incur any similar expenses in connection with the launching.

ART. 16. The following items to be installed on this vessel will, unless otherwise directed by the Department, be made from the same plans as the corresponding items installed or to be installed on Light Cruiser *No. 42*, and all items of the same type and size shall be duplicates and strictly interchangeable on each vessel and between both vessels of the class:

Main propelling turbines and connected accessories
Main reduction gears, and connected accessories including thrust bearings
Boilers and superheaters and connected accessories
Fuel-oil service pumps
Fuel-oil booster and transfer pumps
Port fuel-oil pumps
Fuel-oil heaters
Fuel-oil burning equipment
Main feed pumps
Cruising feed pumps
Emergency feed pumps
Feed water heaters
Drain booster pumps
Forced draft blowers
Main condensate pumps
Main air ejectors
Main circulating pumps
Lubricating oil pumps
Lubricating oil coolers and purifiers
Fire and bilge pumps
Flushing pumps
Ship's service generators
Auxiliary Diesel engines and generators
Dynamo condenser condensate and circulating pumps and air ejectors
Air compressors, high and intermediate pressures
Distilling plant complete with auxiliaries
All main shafting
Line shaft bearings
Propellers
Motor generators for all purposes
Machine tools
Generator switchboards
Distribution switchboards
Bus transfer panels
All searchlights and controls
Battle telephone equipment (electrical)
Sound powered telephone equipment
Ship's service telephone equipment
General announcing telephone equipment
Ship's speed indicating system (electric log)
Chronometric shaft revolution indicator equipment
Rudder angle indicator systems
Synchronous clock system

Steering telegraph system
Engine order system
Engine revolution system
Remote control systems for fire control and searchlights
General alarm system
Fireroom emergency signal system
Fireroom feed signal system
Fire alarm system
Key and sounder system
Steering emergency signal system
Oil-burner telegraph system
Air-lock indicator system
Smoke telegraph system
Salinity indicator system
Whistle operating system
Lubricating oil-low pressure alarm.
Boat cranes
Hangar curtains
Incinerator compressor and incinerator
Airplane cranes
Windlass
Winches
Steering gear
Turret turning equipment
Turret auxiliary projectile hoists
Broadside ammunition hoists
Portable electric hoists for ammunition
Fresh water pumps
Secondary drainage pump
Welding sets
Sterilizers
Water heaters
Galley machinery, including ranges and ovens
Electrically operated valves
Laundry equipment
Shop machine tools
Submersible pumps
Refrigerators and drinking fountains
Clear vision devices
Ventilating sets
Oil and water separators
Automatic stop valves
Chemical fire extinguishers
Gasoline pumps
Ventilation heaters
Air-conditioning equipment
Gages

ART. 17. Said vessel shall be sufficiently strong to carry safely the personnel and the armament, ammunition, equipment, fuel oil, stores, and machinery prescribed by the Department and indicated in the drawings, plans, and specifications, and said vessel shall be accepted only on condition that she shall, after the trials prescribed in article 19 hereof, be found to be strong and well built as defined in this article 17 and in strict conformity with this contract.

ART. 18. (*a*) The contract weight is defined as the total weight of the vessel complete, fully equipped and ready for sea, less the weight of officers, crew, and their effects, armament, ammunition,[4] provisions, potable water, fuel, reserve feed water, and such items of armor, equipment, stores, and outfit as are furnished by the Government, and less the increased weight of all approved changes that result in an increase in weight, and plus the decreased weight caused by such approved changes involving decreases as may have been proposed by the Department or its representatives. No correction will be made for the decreased weight resulting from any changes that may have been proposed by the contractor and approved by the Department.

(*b*) The weight of the vessel complete, fully equipped, and ready for sea, is to be determined from actual draft-mark readings and the displacement curve, with corrections for density of water, trim, hog, or sag, and with additions to account for those weights that were not on board at the time the drafts were taken, but are required to be on board to bring the vessel to a fully equipped condition ready for sea, and with subtractions to account for those weights that were on board at the time the drafts were taken, but are not required to be on board to bring the vessel to a fully equipped condition ready for sea.

ART. 19. When the vessel is substantially complete, as required by the contract, except minor items of work that may, in the discretion of the Secretary of the Navy, be left unfinished until after the trial trip, and when the contractor shall have made sufficient trials at dock and in free route to be reasonably sure of satisfactory performance under the requirements of this contract, she shall be subjected to trials to test her and her speed; such trials to be as prescribed by the Secretary of the Navy and to include the following, viz:

(*a*) A progressive trial over a measured mile course at Rockland, Me., for standaridzing the screws, extending from maximum speed down to a speed of 10 knots; about 32 runs to be made over the course in order to adequately cover the range of speed desired. This progressive trial is to be made with the vessel weighted as specified hereinafter.

Five consecutive runs must be made at the highest speed attainable and the mean speed and revolutions for these runs carefully ascertained, and three consecutive runs must be made at each of 9 speeds covering the range of speeds from this highest speed down to about 10 knots, as required by the trial board; the mean-speed revolutions and shaft horsepower for the several groups of runs to be carefully ascertained by the trial board, in order to determine the curve of speed and revolutions and the curve of speed and shaft horsepower; the vessel to be so weighted that the middle run at the maximum speed will take place as nearly as may be at the mean-trial displacement specified hereinafter.

In addition to the above-required standardization trial there shall be a backing standardization trial to determine the revolutions corresponding to a sternway of 16¼ knots.

(*b*) A full-power endurance and fuel-oil consumption and water-rate trial of four hours' duration in the open sea in deep water, with the main engines developing the contract shaft horsepower as defined in the machinery specifications as nearly as may be possible. This 4-hour trial is herein designated as trial (*b*).

The speed attained shall be determined by the average revolutions of the main shafts, according to the official standardization curve, but should the average revolutions on a trial exceed the mean revolutions of the five highest speed runs on the measured mile, the speed that will be considered as attained on the trial shall be only that attained as the mean speed of the five highest speed runs as determined by the progressive measured-mile trial (*a*), as aforesaid.

(*c*) An endurance and fuel-oil consumption and water-rate trial of four hours' duration in the open sea in deep water, at a speed of 30 knots as nearly as possible.

(*d*) An endurance and fuel-oil consumption and water-rate trial of four hours' duration in the open sea in deep water, at a speed of 25 knots as nearly as possible.

(*e*) An endurance and fuel-oil consumption and water-rate trial of four hours' duration in the open sea in deep water, at a speed of 20 knots as nearly as possible.

(*f*) An endurance and fuel-oil consumption and water-rate trial of four hours' duration in the open sea in deep water, at a speed of 15 knots as nearly as possible.

(*g*) An endurance and fuel-oil consumption and water-rate trial of four hours' duration in the open sea in deep water, at a speed of 10 knots as nearly as possible.

During trials (*e*), (*f*), and (*g*) the propelling machinery shall be operated under the cruising combination. Speed during trials (*c*), (*d*), (*e*), (*f*), and (*g*) will be taken from the speed revolution curve made from the results of progressive trial (*a*).

(*h*) Trials will be conducted to determine the maximum backing power that the machinery will develop, and the ability of the vessel when going ahead at full speed to back satisfactorily at full backing power. The time to bring the vessel dead in the water from full speed ahead; also the head reach will be determined.

(*i*) Trials to determine the ability of the vessel to go ahead satisfactorily at full power ahead when under full sternway. The time and stern reach will be observed.

(*j*) Trials, as necessary, to test the operation of the devices for shifting from high power to the cruising combination of turbines, and vice versa, at speeds up to and including twenty (20) knots.

(*k*) Such other trials as considered necessary to determine the ability to back promptly when steaming ahead at speeds up to twenty (20) knots when operating under the cruising combination of turbines.

(*l*) The steering gear shall be tested as required by the detail specifications and by the general specifications, both at full speed ahead and at the required speed astern, to show satisfactory operation, strength, and power. The diameter of turning circles and the drift angles will be observed for the trials at full speed ahead.

(*m*) The anchor gear will be tested with the vessel in water of greater depth than 60 fathoms to determine its ability to meet the requirements of the detail specifications and of the general specifications.

If the vessel covered by this contract is the second of two vessels of the same class (light cruisers nos. 42 to 45), built by this contractor, trial (*a*) and trial (*g*) of the aforesaid trials will be omitted on the authority of the Department if in its opinion the hull and its appendages, the boilers, main propelling plant, and all auxiliary machinery necessary to the main propelling plant in the two vessels are essentially alike in design, material, and workmanship. If trial (*a*) is authorized to be omitted, the speeds attained on the trials which are held shall be ascertained from the official standardization curve of the first vessel of the aforesaid class built by this contractor.

The trial board will arrange the above trials to obtain the data specifically required to determine compliance with the contract, and also to obtain, as far as practicable, any useful data desired by the board. Additional runs or tests may be required by the board, if necessary, to determine compliance with the contract.

On all of the above trials there shall be observed and recorded, by representatives of the trial board, such data as may be considered by the board to be of professional interest, including the amount of water required to be used for making up feed on trials (*b*) to (*g*), both inclusive.

On trials (*c*), (*d*), (*e*), (*f*), and (*g*) the following auxiliaries shall be in operation:

(1) All auxiliary machinery necessary to the main propelling plant in operation during the prescribed trial.

(2) Evaporating plant: One-half of the evaporating plant will be in operation, making fresh water of less than 0.25 grain of chlorine per gallon at not less than the rate of 500 gallons per hour.

(3) Refrigerating plant: At half rated capacity.

(4) Electric generating plant: Not less than 300 kilowatts.

(5) Heating system shall be in use throughout the vessel. If, on account of weather conditions, the heating system is not used, 250 pounds of fuel oil will be added to that actually used for each hour of the trial during which the heating system is not in use.

On trial (*b*) the auxiliaries in operation shall be the same as for other trials except that the evaporators shall not be in operation.

The shaft horsepower during the above trials shall be determined by approved torsion meters connected to the shafting abaft the reduction gears.

The water rate or steam consumption shall be determined in a manner satisfactory to the Department. The determination shall include the steam used by the turbines, the portion extracted and/or added and the water fed to the boilers. The determination for the turbines shall be made on each of the two shafts on one side of the vessel and the values ascertained will establish the rates for the entire ship.

All meters, gauges, tanks, and special equipment required for determination of the steam consumption shall be furnished by the contractors and shall be tested or calibrated in such manner or at such Navy laboratory as the Department may direct. After the trials, all equipment not required for the normal operation of the vessel shall be removed by the contractors but meters shall remain the property of the Government.

The average shaft horsepower as actually measured on the turbine units under test, together with the steam and water consumption determinations during each of the trials, will be used for determining the water rates for each condition. The units to be used for measuring purposes will be designated by the Department prior to the trials.

During all trials on which water consumption rates are to be determined, the main turbines only, of the units designated to be measured, shall exhaust into the main condenser. The amount of steam extracted and/or added shall be regulated so as to be equal as possible on all turbines.

The actual steam conditions shall be determined by means of accurately calibrated pressure gauges and thermometers on the boiler side of the main throttle valves and on the low pressure side of valves controlling the extraction or addition of steam from or to the turbines. Absolute pressure gauges shall be provided at the turbine exhaust flange of each unit. Readings of these instruments and the revolution counters and water and torsion meters shall be taken at least every half hour during the trials, and the average of readings so taken for the entire four hours shall be considered as the actual measured conditions for the determination of water rates.

Fuel-oil meters of approved design shall be furnished and installed by the contractor in the discharge from the fuel-oil service pumps for measuring fuel-oil consumption. These meters shall be calibrated before and after trials at the naval engineering experiment station, Annapolis, Md.: *Provided*, That the contractor may, if he so desires, install and use temporary measuring tanks for measuring the fuel-oil consumption on the trials. The measuring tanks, if used, will be calibrated before the trials and will be removed after the trials.

The Department will supply special revolution counters and torsion meters of the outside type, and the contractor will condition and calibrate torsion meters with the main shafting, and fit same so as to be able to determine the shaft horsepower on each trial, furnishing all labor and material required other than the torsion meters themselves. The contractor will, as required by the Department, provide and install such temporary tanks, piping, connections, and other appliances and apparatus as are necessary to ascertain the horsepower, water rates, fuel oil, and make-up feed consumptions required on each of the trials: *Provided*, That the fuel oil and lubricating oil used on all trials shall be in accordance with the United States Navy specifications for such oils; the fuel oil used shall correspond to the requirements of bunker fuel oil B with a minimum viscosity of 75 seconds at 122° F. (Saybolt Furol).

The mean trial displacement shall be 11,570 tons. Should the vessel not be provided at the time of the trials with all the actual parts or objects forming the total weight of the vessel in trial condition as herein defined, the contractor shall put suitable fixed ballast, solid, and confined liquid, as may be necessary to make up the weights to the total amount required to be carried by the vessel as aforesaid; this ballast to be located in such positions as to give the ship on trials approximately the stability and trim of the completed vessel. The weights of all temporary installations for purposes of trials including tanks, piping, etc., for determining the fuel-oil consumption will be considered as part of the ballast weights. Should the displacements of the vessel as prepared for trials exceed the displacements specified herein for the trials, the contractor will be required to run the trials at such increased displacements.

The mean trial displacement having been defined above, on trials (*b*), (*c*), (*d*), (*e*), (*f*), and (*g*), the displacement at the beginning of each trial shall be the above-defined mean trial displacement, plus one-half of the estimated weight of fuel oil, water, and other consumables necessary for the trial.

If, at, and upon said trails there shall be any failure of the vessel to meet fully the requirements of this contract, the contractor shall be entitled to make further trials, sufficient in number to reasonably demonstrate her capabilities: *Provided*, That the number of trials shall be determined and limited by the Secretary of the Navy and that all the costs of all trials prior to the preliminary acceptance of the vessel, including the subsistence of all persons ordered by the Department to proceed on the vessel for the purpose of the trials, shall be at the contractor's expense.

After the above-mentioned trials have been completed, the vessel shall be returned to the works of the contractor, and the machinery shall be opened up for such post-trial examination as the trial board may direct. Any defects or deficiencies that appear will be corrected by and at the expense of the contractor, as directed by the Department, after which the machinery shall be closed and connected ready for service.

ART. 20. If, at, and upon the trials before mentioned the foregoing requirements and conditions shall be fulfilled, and if the various guarantees of the contract shall be fully met, the vessel shall be preliminarily accepted and payments made to the contractor of an amount hereinafter specified. If, however, the requirements, conditions, and guarantees of the contract shall be met, except for deficiencies for which money penalties have been provided herein, then and in such case the vessel shall be preliminarily accepted subject to deductions from the contract price of the vessel, as follows:

On trial (*b*) at the rate of one hundred and fifty dollars ($150) a pound for each pound the corrected fuel oil per knot exceeds 2,090 pounds.

On trial (*c*) at the rate of two hundred dollars ($200) a pound for each pound the corrected fuel oil per knot exceeds 1,380 pounds.

On trial (*d*) at the rate of three hundred and seventy-five dollars ($375) a pound for each pound the corrected fuel oil per knot exceeds 922 pounds.

On trial (*e*) at the rate of one thousand dollars ($1,000) a pound for each pound the corrected fuel oil per knot exceeds 586 pounds.

On trial (*f*) at the rate of two thousand one hundred dollars ($2,100) a pound for each pound the corrected fuel oil per knot exceeds 360 pounds.

The actual fuel oil per knot, as measured on the above trials, will be corrected to a standard of 18,500 b. t. u. per pound of fuel oil and these corrected fuel-oil rates will be used in computing the deductions and premiums for fuel-oil rates.

Provided, however, That should the corrected fuel-oil rate under any of the above conditions be less than the corresponding guaranteed fuel-oil rate, premiums shall be paid by the Department at exactly the same rates as are specified herein for penalty purposes: *Provided, however*, That the amount allowed for the sum of all the premiums earned for improving the fuel-oil guarantees less the sum of all the deductions sustained for failure to attain the fuel-oil guarantees shall not be greater than fifty thousand dollars ($50,000).

On trial (*b*), if the vessel shall fail to develop the contract shaft horsepower as defined in the machinery specifications, there shall be a deduction from the contract price at the rate of twenty thousand dollars ($20,000) for each 1,000 shaft horsepower below said contract shaft horsepower.

If the contract weight of the vessel, as defined herein, shall exceed 7,055 tons, but shall not exceed 7,155 tons, a deduction on account of such excess weight shall be made from the contract price of the vessel at the rate of five hundred dollars ($500) for each ton of such contract weight above 7,055 tons, to and including a contract weight of 7,155 tons; but such excess weight shall not be considered as casue for rejection of the vessel. If the contract weight shall exceed 7,155 tons, it shall be optional with the Secretary of the Navy to reject the vessel or to accept it at a reduced price and upon conditions to be agreed upon between the said Secretary and the contractor.

If the contract weight of the vessel, as defined herein, shall fall below 7,030 tons, a premium shall be paid by the Department to the contractor at the rate of five hundred dollars ($500) a ton for each ton and said contract weight shall fall below 7,030 tons: *Provided, however,* That no premium shall be paid for any portion of the contract weight thus saved below the weight of 6,930 tons: *Provided, also,* That payment of any weight premium earned shall be made in the manner and at the time prescribed below.

On preliminary acceptance of the vessel, payment to the contractor shall be made of an amount that shall be determined as follows: From the amount remaining unpaid of the contract price shall be deducted the estimated cost of uncompleted work under the contract and of defects and deficiencies then known to exist and the cost of changes involving decreased cost (and, if the actual cost of such changes be not then known, the estimated cost of same shall be used pending determination of actual costs); also there shall be deducted a special reserve of two hundred and fifty thousand dollars ($250,000); *Provided, however,* That if the sum of all the premiums earned for weight and trial performances shall exceed the sum of all deductions assessed for liquidated damages for delay and all deductions for the breach of guarantees as to weight, and trial performances then and in that case the excess of such premiums over such deductions shall also be paid to the contractor at the time of preliminary acceptance.

The special reserve of two hundred and fifty thousand dollars ($250,000) shall be held for a period of 6 months from date of preliminary acceptance: *Provided,* That during said period the vessel may be finally tried, after being fully equipped and armed and in all respects complete and ready for sea, under conditions prescribed by the Secretary of the Navy; the expenses of such final trial to be borne by the Government.

If at any time within 6 months after the preliminary acceptance of said vessel any weakness, deficiency, defect, failure, breaking down, or deterioration in the vessel, other than that due to fair wear and tear, shall appear, the same shall be corrected and repaired to the satisfaction of the Secretary of the Navy at the expense of the contractor; and the contractor may, if it so desires, have an engineer of its own selection on board said vessel at any time during said period, who shall have full opportunity to observe and inspect the working of the machinery in all its parts, but without any directing or controlling power over the same: *Provided,* That in computing said period of 6 months from date of preliminary acceptance the time, if any, but only such time, shall be excluded during which said vessel is not available for unrestricted cruising service on account of any weakness, deficiency, defect, failure, breaking down, or deterioration of the vessel for which the contractor is responsible.

Upon expiration of the period of 6 months after preliminary acceptance, determined as specified above, the vessel shall be finally accepted, and the said special reserve, less any deductions from the price of the vessel that are chargeable under the provisions of this contract, shall be paid.

The contractor shall be informed of all defects and deficiencies discovered during said period for which it is held responsible, and wherever practicable, shall be given an opportunity to inspect the same before the defects and deficiencies are remedied; and the decision of the Secretary of the Navy as to the responsibility of the contractor for such defects and deficiencies shall be final and binding on the parties to this contract. The actual cost of making good all defects and deficiencies for which the contractor is held responsible shall be deducted from the payment to be made in final settlement under this contract: *Provided,* That in order to expedite such final settlement, if the work of remedying any of the reported defects and deficiencies shall not have been undertaken when final settlement is to be made, the cost of making good such defects and deficiencies shall be ascertained, estimated, and determined as a change under article 7 and deducted in lieu of the actual cost of such items in final settlement.

ART. 21. (*a*) No laborer or mechanic doing any part of the work contemplated by this contract, in the employ of the contractors or any subcontractor contracting for any part of said work contemplated, shall be required or permitted to work more than 8 hours in any 1 calendar day upon such work at the site thereof. For each violation of the requirements of this article a penalty of $5 shall be imposed upon the contractor for each laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than 8 hours upon said work, and all penalties thus imposed shall be withheld for the use and benefit of the Government: *Provided*, That this stipulation shall be subject in all respects to the exceptions and provisions of the act of June 19, 1912 (37 Stat. 137), relating to hours of labor.

(*b*) This contract covers a construction project within the meaning and intent of the "National Industrial Recovery Act" approved June 16, 1933, and the contractor expressly agrees that, in carrying out the terms and conditions of this contract, he will be governed by the provisions of the said act and such rules and regulations as may be promulgated thereunder by the President or his duly authorized representative, and he will upon request of the Department furnish such evidence as may, in the opinion of the Department, be necessary to show compliance with this requirement.[1]

ART. 22. This contract shall not, nor shall any interest therein, be transferred by the contractor to any other person or persons except as permitted under section 207 (*a*), (*b*), and (*c*), of title II of the "National Industrial Recovery Act," approved June 16, 1933.

ART. 23. The contractor warrants that he has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage or contingent fee. Breach of this warranty shall give the Department the right to terminate the contract, or, in its discretion, to deduct from the contract price or consideration the amount of such commission, percentage, brokerage, or contingent fees. This warranty shall not apply to commissions payable by contractors upon contracts or sales secured or made through bona fide established commercial or selling agencies maintained by the contractor for the purpose of securing business.

ART. 24. No Member of or Delegate to Congress, or Resident Commissioner, shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ART. 25. Except as otherwise specifically provided in this contract, if any doubts or disputes arise concerning any question under this contract or as to anything in the drawings, plans, or specifications, or if any discrepancy appear between said drawings, plans, or specifications and this contract, the matter shall be referred at once to the Secretary of the Navy for determination; and his decision in the premises shall be conclusive and binding upon the parties hereto.

ART. 26. The collective liability assessable against the contractor under the terms of this contract shall not be greater than two hundred fifty thousand dollars ($250,000). The collective liability shall be determined as follows: To the amount to be deducted for liquidated damages for delays in completion of the vessel shall be added the sum of all deductions for the breach of guarantees as to weight and trial performances and all deductions for defects and deficiencies developing during the period of 6 months after preliminary acceptance but not discovered prior to such acceptance, and from this aggregate amount of deductions shall be subtracted the sum of the weight and performance premiums that shall have been earned under this contract:

Provided, however, That the limit of collective liability that may be assessed against the contractor under the provisions of this article shall not apply in case of termination of the contractor's right to proceed with the work as provided in article 14 hereof, or in the event of rejection of the vessel as provided in article 20 hereof.

ART. 27. (*a*) The Department will pay for the vessel to be constructed and furnished in accordance with this contract, eleven million, six hundred seventy-seven thousand ($11,677,000) dollars.

(*b*) Payments shall be made by the Department in 40 equal installments of the contract price as the work progresses.

(*c*) Payments shall be made from time to time for changes involving increased costs as the work is completed and the costs determined as hereinbefore provided; deductions for changes involving decreased cost shall be made as prescribed in article 20 hereof.

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[1] ART. 21 (*c*) All material and equipment used in the construction of this vessel, except material heretofore processed and except foreign-made material within the restrictions imposed by article 9 (*b*) hereof shall be manufactured in accordance with all provisions of the applicable approved code of fair competition for the trade or industry or subdivision thereof concerned, or if there be no code of fair competition for the trade or industry or subdivision thereof concerned, then with the President's reemployment agreement.

(*d*) As payments are made hereunder of the contract price and of the cost of changes, the parts of the vessel on account of which payments have been so made shall immediately become the sole property of the United States. As payments are made on account of materials on hand, but not incorporated in the vessel as a part thereof, a lien in favor of the United States shall immediately attach to said materials and shall be discharged on the completion and delivery of the vessel as to any materials not then incorporated as a part thereof. Said lien is, pursuant to the provisions of the act of August 22, 1911, paramount.

(*e*) No payments shall be made except on bills in septuplicate, certified by the inspectors of hull and machinery of the vessel, in such manner as shall be directed by the Secretary of the Navy, whose final approval of all bills, thus certified shall be necessary before payment thereof.

(*f*) All warrants for payments under this contract shall be made payable to the contractor or its order.

(*g*) Payment of the last two installments shall not be made except as provided for in article 20 hereof.

(*h*) When payment is to be made under this contract, as a condition precedent thereto, the Secretary of the Navy may, in his discretion, require evidence satisfactory to him, to be furnished by the contractor, showing what, if any, liens or rights in rem of any kind against said vessel, or her machinery, fittings, or equipment, or the materials on hand for use in the construction thereof, have been or can be acquired for or on account of any work done, or any machinery, fittings, equipment, or material already incorporated as a part of said vessel, or on hand for that purpose; but it is hereby further stipulated, covenanted, and agreed by the contractor, for itself and on its own account and for and on account of all persons, firms, associations, and corporations furnishing labor and material for said vessel, and this contract is upon the express condition that no liens or rights in rem of any kind shall lie or attach upon or against said vessel or her machinery, fittings, or equipment, or the materials therefor, or any part thereof, or of either, for or on account of any work done upon or about said vessel, machinery, fittings, equipment, or materials, or of any materials furnished therefor or in connection therewith, nor for or on account of any other cause or thing or of any claims or demands of any kind, except the claims of the Department.

(*i*) When all the conditions, covenants, and provisions of this contract shall have been performed and fulfilled by and on the part of the contractor it shall be entitled within 10 days after the filing and acceptance of its request therefor to receive the said special reserve, or so much thereof as it may be entitled to, on the execution of a release, in such form and containing such terms and conditions as shall be prescribed by the Secretary of the Navy, of claims against the United States arising under or by virtue of this contract: *Provided, however*, That the Secretary of the Navy may, in his discretion, make partial payments on account of said special reserve, in advance of final settlement.

ART. 28. Should any surety upon the bond for the performance of this contract become unacceptable to the Department, the contractor must promptly furnish such additional security as may be required from time to time to protect the interests of the Department and of persons supplying labor or materials in the prosecution of the work contemplated by the contract.

In witness whereof, the parties hereto have executed this contract as of the day and year first above written.

THE UNITED STATES OF AMERICA,
By CLAUDE A. SWANSON, *Secretary of the Navy.*
NEW YORK SHIPBUILDING CORPORATION,
Contractor.
By C. L. BARDO, *President, Camden, N. J.*

——— ———,
Judge Advocate General.
CLAUDE A. SWANSON,
Secretary of the Navy.

I, N. R. Parker, certify that I am the secretary of the corporation named as contractor herein; that C. L. Bardo, who signed this contract on behalf of the contractor, was then president of said corporation; that said contract was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers.

[INCORPORATE SEAL] N. R. PARKER.
N. Y. S. B. Corp.

The following changes were made in this contract before it was signed by the parties hereto: Article 21 (*c*) added; article 29 deleted.

Exhibit No. 1479

[FS/L4-3(340922-1)]

Department of the Navy,
Office of the Secretary,
Washington, September 22, 1934.

Subject: Maximum amount of work within first and second year under naval contracts.

References: (*a*) My letter of September 1, 1933.
(*b*) Colonel Roosevelt's letter of February 12, 1934, No. FS/L4-3 (340212).

My Dear Mr. Bardo: In connection with the naval vessels now building at your plant (1933 program and 1934 program), your special attention is invited to the following clause in the contracts:

"Owing to the national emergency existing making it imperative that the maximum number of men be returned to gainful employment without delay, and to effectuate the purpose of the 'National Industrial Recovery Act', approved June 16, 1933, the contractor hereby expressly agrees that from the beginning he will prosecute the work with the utmost vigor and despatch and will make every possible effort, without reference to the otherwise normal rate of progress, to accomplish the maximum amount of work within the first and second year thereof."

It hardly appears necessary for me to invite your attention to the importance of carrying out this clause not only with regard to the 1933 program but also the 1934 program. At the same time, I should like to stress its importance with the hope that you will do everything practicable to carry out both the letter and the spirit of the clause.

The conditions with regard to the 1934 building program are generally more satisfactory, with particular reference to the question of plans than existed in the beginning with the 1933 building program. It should therefore, be practicable or you to make more rapid progress than was made a year ago.

The Department appraciates the efforts you have made along the lines indicated and trusts that these efforts will be renewed and extended.

The Department has not been satisfied with the progress made at your plant with particular reference to the light cruisers. The situation with regard to plans is clearly understood but it is a matter of vital importance that all practicable pressure be brought to bear on this plan situation in order that it may be practicable to put men to work not only in your plant but also in the two navy yards which are building cruisers from the plans prepared by your company.

A resurvey of the situation will undoubtedly indicate to you ways and means for more thoroughly carrying out the spirit and letter of the contract requirements, and it is hoped that you will see your way clear to make this resurvey in order that the 1933 program may be more rapidly advanced as well as making as rapid progress as possible on the light cruiser awarded to you under the 1934 program.

Should you agree with the spirit of this letter, and be guided by it, I know it will be appreciated by the President, and by the Navy Department in furthering the President's great desire to put men back to work just as soon as possible.

Sincerely yours,

Claude A. Swanson.

Mr. C. L. Bardo,
President New York Shipbuilding Corporation,
Camden, N. J.

Exhibit No. 1480

EMPLOYMENT IN NAVY YARDS JUNE 30, 1933, TO DECEMBER 31, 1934

Number of employees in east coast navy yards, including Philadelphia Aircraft Factory and Newport, Rhode Island, Torpedo Station:

June 30, 1933	22, 287
December 31, 1934	29, 406

Total number of employees in navy yards on both coasts:

June 30, 1933	30, 224
December 31, 1934	37, 294

EXHIBIT NO. 1481

[Finished file, Siphron, 12-11-31]

A39095.

COMPTROLLER GENERAL OF THE UNITED STATES,

Washington, December 10, 1931.

DD348/L4-2 (310916)

The honorable the SECRETARY OF THE NAVY.

SIR: There was received in response to my letter of October 19, 1931, forwarding for your information photostatic copies of letters dated October 13 and 14, 1931, from the United Dry Docks, Incorporated, protesting against your action in rejecting its proposal for the construction of torpedo-boat destroyers, your letter of October 26, 1931, transmitting a copy of your letter of October 12, 1931, to the protesting bidder, wherein it was urged, in substance, that the action taken was the most advantageous to the United States.

It appears that on July 15, 1931, the Navy Department advertised for proposals for constructing certain torpedo-boat destroyers, specifying on page 2 thereof the general characteristics of the vessels it was desired to have constructed. Under dates of July 31, 1931, and August 6, 1931, the Secretary of the Navy informed the companies to which had been sent the original specifications that the Navy Department had reached the decision to permit alternate bids to be submitted upon the bidders' designs of hulls, boilers, and machinery, and that at an early date there would be forwarded a revised form of proposal, a supplement to the invitation for bids and a statement of the changes to be made in the form of contract in the event of contract being awarded on the basis of an alternate proposal.

The Navy Department's own design of the vessels covered by the advertisement July 15, 1931, was designated as class I, while the alternate designs which bidders were requested to submit were designated "class II." There were received a number of proposals under both class I and class II, the bid of the Bath Iron Works under class I being $2,626,000; that of the United Dry Docks, Incorporated, $2,645,000; and that of the Bethlehem Shipbuilding Corporation, $2,928,500. These three companies and a number of others also submitted bids under class II, based on their own designs; that of the Bath Iron Works being $3,166,000; that of the Bethlehem Shipbuilding Corporation, $3,070,000; and that of the United Dry Docks, $3,720,000. As stated in your letter of October 12, 1931, the advertised specifications provided that:

"INVITATION FOR BIDS

(Page 2)

"*Specifications, plans, etc.*—Under class II all bids must be accompanied by detail plans and specifications covering fully the design of hull, boilers, and machinery submitted, with full description of all auxiliary machinery, fittings, appurtenances, and special features, in order that the Department may have before it definite information upon which to base its decision as to the relative merits of the various designs of torpedo-boat destroyers proposed, and to determine whether they provide the type of vessels contemplated by the Department and fulfill the characteristics hereinafter mentioned.

(Page 3)

"*Evaluation of bids.*—In comparing bids for the purpose of making the award, the bids will be evaluated on the basis of the penalties and premiums provided in the form of contract, but this does not affect the right of the Department to reject any bid not considered advantageous to the Government.

(Page 4)

"The right is reserved, as the interest of the Government may require, to reject any and all bids, to waive any informality in bids received, and to accept or reject any items of any bid, unless such bid is qualified by specific limitation.

"INSTRUCTIONS TO BIDDERS

(Page 3, paragraph 16)

"*Award or rejection of bids.*—The contract will be awarded to the lowest responsible bidder complying with conditions of the invitation for bids, provided his bid is reasonable and it is to the interest of the United States to accept it. The bidder to whom the award is made will be notified at the earliest possible date. The United States, however, reserves the right to reject any and all bids and to waive any informality in bids received whenever such rejection or waiver is in the interest of the United States. It also reserves the right to reject the bid of a bidder who has previously failed to perform properly or complete on time contracts of a similar nature, or a bid of a bidder who is not in a position to perform the contract."

It is reported the design submitted by the Bethlehem Shipbuilding Corporation under class II was so superior to the Navy Department's own design under class I and the design submitted by the other bidders that it was concluded to accept the alternate bid of the Bethlehem Shipbuilding Corporation under class II for construction of one of the vessels, to have two vessels constructed in accordance with said design at two of the navy yards, and to award a contract under the Navy Department's own design to the Bath Company for the fourth vessel. This action has led to a protest by the United Dry Docks, Incorporated, which was brought to your attention in my letter of October 19, 1931, and which had theretofore been submitted to the Navy Department and discussed in your letter of October 12, 1931.

The basis of the protest has been summarized by the United Dry Docks, incorporated, in its letter of October 14, 1931, as follows:

"(1) Can the Navy Department call for 'competitive bids' where different bidders are not bidding on the same thing and where the final award of contract is not upon a definite money value but is dependent on the judgment of officers in the Department as to the relative merits of more or less intangible properties in different designs? And

"(2) If such bidding is permissible and if the Department instructs bidders as to the method of evaluating their bids on a money basis, can it thereafter depart from the principles that it establishes for such evaluation and award a contract on the basis of other intangible benefits accruing from one design as against another"?

Attention in this connection is invited to *Hannan* v. *Board of Education* (30 L.R.A., N.S. 214,231), where the court declared invalid a contract which had been let on the basis of the principal designs being submitted by the bidders. The court in the course of its opinion referred to a number of cases, and there has been collected in a note to the decision a number of other cases which are generally to the effect that under a lwaw requiring advertisement for bids and the letting of contracts to the lowest responsible bidders, there must be offered to all bidders a definite basis for competition. The court referred to a cited Wisconsin case where the supreme court of that State had held that such specifications required "a plunge in the dark", and it was stated in the *Hannan case* that public contracting must be on the basis of definite specifications offered to all bidders, the contract awarded to the lowest responsible bidder, and that:

"* * * The boards and public agencies intrusted with the important and responsible duties of selecting the materials, deciding upon the character of the work, letting the contracts, and spending this money, should be surrounded by every reasonable safeguard possible. This should be done not only for the safety of the funds and the public welfare, but for their own protection. They are seldom engaged because of any peculiar training or fitness they possess over that common to all, and their compensation is frequently wholly inadequate to cover the time and energy they are required to bring to their labor. Under these circumstances a requirement that shall fix in advance upon certain definite plans and specifications or propositions to be considered, and then submit these for open competition upon sealed proposals, the contract then to be awarded in an impartial way to the lowest responsible bidder, will tend to remove them from temptation and opportunity for fraud or favoritism. It will do more; it will materially assist in removing suspicion of unfairness and favoritism, and relieve honest men upon whom these duties devolve of unjust charges."

A careful study of the specifications in this case, the applicable decisions of the courts, as well as the purposes to be served by section 3709, Revised Statutes, requiring advertising preliminary to the letting of contracts on behalf of the United States, and to the lowest responsible bidder meeting the specifications, justifies the conclusion that the alternate bid specifications in this case are open to question, tested by the principles stated in the decisions with respect to advertisements preliminary to contracting on behalf of the public as well as the purposes which led to the requirement that contracts on behalf of the United States must be let as the result of advertising, to the lowest responsible bidder.

It is realized, of course, that the United States should obtain the best possible vessels for the money expended, and that in connection with construction work of this character the Navy Department has its problems and would find it advantageous to utilize the best skill of the country in designing hull, machinery, etc. The results reported as obtained in the instant matter suggest the benefits possible through obtaining the views and suggestions of experts not in the Government service—but the procedure followed not only fails in fully meeting the requirements of section 3709, Revised Statutes, but will invariably breed dissatisfaction among bidders. Each bidder submitting an alternate design will doubtless believe, and honestly, that his is superior to all other designs submitted—and it would seem most difficult if not quite impossible to work out in advance and without intimate knowledge of the details of designs to be submitted, an evaluating formula that would be considered fair by any bidder whose design was not accepted—and charges of favoritism and even fraud may too frequently follow, with protests raising questions going to the availability of the appropriation proposed to be charged.

The law requires that specifications state the actual need of the Government and that award be made to the low responsible bidder proposing to supply such need. Considering the administrative problem to be as stated in matters of this character there is suggested for your consideration and as a means to enable the Navy Department to lawfully obtain the assistance of the skill in private industry when new vessels are to be designed and constructed, the advisability of acquainting the Congress with the situation and need with a view to securing authority to employ a reasonable amount of the appropriation to secure from competent sources outside of the Government a limited number of designs of hulls, machinery, etc., to supplement or for purposes of comparison with plans and specifications drafted by the engineers of the Navy Department, to the end that there may be worked out in every detail the best possible design and the final result submitted for competitive bids and construction by the low responsible bidder.

It is understood that on the assumption the procedure followed was sufficient compliance with the applicable law there has been adopted for building in two navy yards the design submitted by the Bethlehem Shipbuilding Corporation, and award made to said corporation for the construction of a vessel of such design. In such circumstances and in view of the apparent good faith of the Navy Department in following the procedure herein discussed and which should hereafter be otherwise, this office will make no further objection thereto.

Respectfully,

(s) J. R. McCarl,
Comptroller General of the United States.

Finished file—Siphron.

Exhibit No. 1482

U. S. Naval Air Station,
Pensacola, Florida, July 13, 1933.

[1st Endorsement]

From: Commandant.
To: The Secretary of the Navy.
Subject: Torpedo Boat Destroyers *Nos. 356* to *359*, *360* to *363* and *364* to *379*, inclusive—Bids for the construction of—Examination of facilities of the Gulf Industries, Inc.
Reference:
(*a*) Secretary of the Navy's letter DD356/L4–2 (330628) P of 28 June 1933.
(*b*) Commandant's 1st End. Ro–B/QM–G1, of 30 June 1933.
Enclosures: (7).

1. Forwarded herewith is a report of Commander G. A. Duncan (C.E.C.) U. S. Navy, who was directed by me to make the inspection of the plant of the

Gulf Industries, Inc., of Pensacola, Florida, in compliance with the Secretary of Navy's letter, reference (*a*).

2. The Commandant is of the opinion that so far as material conditions are concerned, the plant is capable of constructing destroyers provided the reconditioning of this plant as recommended in the attached report is carried out.

3. As for personnel conditions, it seems that such does not exist at present. It is possible, however, to obtain the necessary personnel as was done in the case of the Emergency Fleet construction during the war.

F. R. McCRARY.

A true copy from the records of the Navy Department.

F. S. CURTIS, *Chief Clerk.*

U. S. NAVAL AIR STATION,
Pensacola, Florida, July 12, 1933.

From: Commander G. A. Duncan (C.E.C.) U. S. Navy.
To: Commandant.
Subject: Torpedo Boat Destroyers *Nos. 356* to *359*, *360* to *363* and *364* to *379*, inclusive—Bids for the construction of—Examination of facilities of the Gulf Industries, Inc.
Reference:
(*a*) Secretary of the Navy's letter DD356/L4–2 (330628) P of June 28, 1933.
(*b*) Commandant's 1st End. Ro–B. QM–G1 of June 30, 1933.
Enclosures:
(A) Ten blueprints of Pensacola Shipbuilding Company's drawings.
(B) Inventory dated September 22, 1931, of the equipment of the Pensacola Shipbuilding Company.
(C) Option given by George P. Wentworth, trustee, to Gulf Industries, Inc., dated March 18, 1933.
(D) Copy of extension of enclosure (C) dated June 12, 1933.
(E) Copy of letter of Pensacola Tool & Supply Corporation to George P. Wentworth, trustee, dated July 7, 1933.
(F) Memorandum of inspection trip to Pensacola, Fla., May 25 to June 1, 1933, by John Ayer, dated June 28, 1933.
(G) List of floating equipment construction record at Pensacola Shipbuilding Company's plant, Pensacola, Fla.

1. In obedience to references (*a*) and (*b*) I have consulted with Mr. Lawrence R. Wilder, the president of Gulf Industries, Inc., and Mr. Harry T. Newcomb, the secretary of that organization. I was informed by these gentelmen that they intended to use the plant of the Pensacola Shipbuilding Company in the construction of such destroyers as might be awarded to them. Accordingly, I visited the plant of the Pensacola Shipbuilding Company. Enclosure (A) is ten blueprints which give the general features and arrangement of tools, buildings, ways, cranes, etc., for the construction of ships. The plant is in a very bad condition of repair and, in my opinion, at least $500,000.00 will be needed to place it in such condition as to make it economically usable for the building of destroyers. This is rather a hurried estimate, but it is believed that in detailing it the figure given will not be exceeded. Enclosure (F) is a report made by Mr. John Ayer of an inspection made by him in company with Mr. T. N. Cornbrooks, a naval architect, who, it is understood, is in the employ of the Gulf Industries, Inc.

2. I am informed by the trustee of the plant that the condition described in paragraph 3 of enclosure (F)—that part of the property is leased to a contracting company who uses it for tieing up floating plant and repairs to same—no longer exists. Very little dredging would have to be done to be able to get the ships away from the plant, and none is believed necessary for launching ships.

3. No plans are available of the ships it is proposed now to build at this plant, but the Department can readily determine from the pile plans, enclosure (A), whether or not their spacing is properly arranged to provide for a new building ways top structure suitable for the construction of destroyers. In my inspection I found that these piles were in particularly good condition and will not have to be cut off at as low an elevation as mean tide level as described in paragraphs 5 and 11 of enclosure (F). Such a cut-off would, of course, be advantageous. The only case that I know of the launching of destroyers from side launching ways were the launchings which took place at the works of the William R. Trigg Company, in Richmond, Va., of the *Dale* and *Decatur*, on July 24, 1900, and September 26, 1900, respectively. The torpedo boats *Shubrick*, *Stockton*, and *Thornton* had been launched in this same manner from this same yard on October 30, 1899,

December 27, 1899, and May 15, 1900, respectively. In all of these launchings the launching ways were carried under water so that these ships were floated off the ways in side launching rather than being dropped off as is the usual case with side launchings, and as was done at the Pensacola Shipbuilding Company's plant in all of its launchings and as shown to be the arrangements made for this work in enclosure (A). Room does not exist to extend these ways under water unless considerable dredging is done. The Department can readily determine the feasibility of launchings destroyers of the type to be constructed from ways of the type available. It would be possible to lower the outer end of the Pensacola Shipbuilding Company's ways about six inches by cutting off the protruding sheet piling, and the structure of the ways behind the bulkhead can be reconstructed at any inclination desired. The railroad tracks of the yard are in better condition than is indicated by paragraph 6 of enclosure (F) and can be rebuilt at relatively small expense. The storehouse at present being used for the storage of cotton is understood to be on a monthly rental basis, and this storage can be discontinued at any time on short notice. I found only one of the boilers in operating condition, and considerable repairs are necessary to all three of the boilers at present installed. This is at variance with report made in paragraph 13 of enclosure (F). The estimates given in paragraphs 14, 15, 16, and 17 of enclosure (F) are almost as rough as the estimate made by me in the foregoing part of this letter. I desire to emphasize the fact that $500,000.00 should be considered as the minimum required to recondition this plant; but I believe that the work can be done within that figure.

4. As to enclosure (B), I have not personally checked the entire list, but have been given to understand by apparently responsible parties connected with both the Pensacola Shipbuilding Company and the Pensacola Tool & Supply Corporation, that the items listed thereon are still in operating condition at the plant.

5. Enclosures (C), (D), and (E) indicate the arrangements which have been made by the Gulf Industries, Inc., for obtaining the use of the Pensacola Shipbuilding Company's plant, together with the possibility of expediting the gaining control of same by the cooperation of the Pensacola Tool and Supply Corporation.

6. Enclosure (G) indicates the construction record of floating equipment by the Pensacola Shipbuilding Company's plant from 1920 to date. It is noted that the Department has only requested this information for the past 10 years; but, in view of the inactivity of this plant for a great portion of this time, it was thought wise to include the complete record. I was informed during the course of my inspection that the cost of construction vessels at this plant toward the latter part of the program of building the Shipping Board's vessels *Escambia* to *Bayou Chico,* inclusive, was lower than at any shipbuilding yard in the United States. This can be verified from the records of the Emergency Fleet Corporation.

7. The plant of the Pensacola Shipbuilding Company was built for the purpose of constructing cargo carriers on what was known during the World War and immediately thereafter as the "fabricated-ship system"; that is, about 90 percent of the plates, framework, etc., of the ship were fabricated elsewhere than at the erecting plant, and only about 10 percent of the fabricating was done at the plant where the erection was accomplished. In the evaluation of the possibility of building destroyers at this plant, this point should be given due consideration. Undoubtedly additional steel rolls and gang drills will have to be purchased and installed, but it appears to be entirely feasible within the estimate above given. It is believed that the plant can be reconditioned as the construction of the ships proceeds as was frequently done in war-time plants, and there should be no delay in the construction of these destroyers at this plant on account of the necessity of rehabilitating the plant.

8. The only shipbuilding man that I could find at present employed at this plant was Mr. R. V. Cowley, the present superintendent of the Pensacola Tool & Supply Corporation. From conversation with him I am convinced that he is a capable shipbuilder. Any other technical organization will necessarily have to be brought into the plant from outside sources.

9. There appears to have been no such thing as a balanced ledger sheet with profit-and-loss accounts as of January 1, 1933, for the Gulf Industries, Inc.

G. A. Duncan.

A true copy from the records of the Navy Department.

F. S. Curtis, *Chief Clerk.*

Exhibit No. 1483

(Gulf Industries, Incorporated, Pensacola, Florida)

Hotel Washington,
Washington, D. C., August 4, 1933.

The honorable the Secretary of the Navy,
Washington, D. C.

Sir: To our utter astonishment our responsible bids submitted July 26th for constructing one, two, or three 1,500-ton destroyer on both the fixed and adjusted price bases, which were apparently low from every point of view, have, it seems, been rejected without consultation with us.

We protest such 1,500-ton destroyer awards made by the Navy Department today.

Very respectfully yours,

Laurence R. Wilder,
Chairman Executive Committee.

Certified to be a true copy.

F. S. Curtis,
Chief Clerk, Navy Department.

Exhibit No. 1484

Mr. Homer, talking with Captain Ormond L. Cox of the Navy, discovered that a rumor had been started around the Navy Department that the Bath Iron Works Corporation was not an equipped ship yard, had no machinery or facilities for the building of destroyers, and that, therefore, their bid would not be considered. Checked on this rumor with Captain Oberlin, technical advisor to the Secretary of the Navy, and Captain Stark, aide to the Secretary of the Navy, and found that this rumor was general. Called Mr. Newell at Bath and explained this situation to him. He asked for suggestions as to how to overcome it. Mr. Homer suggested that a series of photographs of the shops be taken showing the workmen, tools, etc. These pictures were taken, and on a Sunday in November 1932, at 144 East 24th Street, New York City, Mr. Newell brought the pictures in, and Mr. Homer laid out a plan for their presentation to the Navy Department. The suggestions made were carried out on the following Monday. Mr. Homer left New York for Washington Monday night, and on Tuesday checked around the Navy Department and found that the rumor had been killed, and that the Bath bid would be considered. Result: On December 11, 1932, contract was awarded to Bath Iron Works Corporation for the destroyer *Dewey*, contract price about three millions dollars.

April 6, 1933: Mr. Homer, having conceived an idea for allotment of work for relief of unemployment, called Mr. Newell at Bath and asked him to come to Washington for a conference.

April 7, 1933: Mr. Newell arrived and spent two days at Mr. Homer's office going over the labor situation, the relief of unemployment, etc., and a plan was prepared, including charts, etc., for presentation to the President.

April 13, 1933: This plan was submitted to the White House by Mr. Homer, who delivered same to Mr. Marvin H. McIntyre personally, who, in turn, submitted it to the President.

April 16, 1933: This plan was returned by Mr. McIntyre with the approval of the President, who asked that the matter be taken up with Assistant Secretary of the Navy Henry Roosevelt, and the idea sold to him.

April 17, 1933: Mr. Homer talked with Mr. Newell at Bath and told him what had happened, and that he had arranged for a conference with Assistant Secretary Roosevelt on the morning of April 18.

April 18, 1933: At 9:30 a.m. Mr. Homer had a conference with Assistant Secretary of the Navy Henry Roosevelt; Admiral Land, Chief of the Bureau of Construction and Repair; Admiral Robinson, Chief of the Bureau of Engineering; Admiral Brinser, in charge of navy yards; and Admiral M. Lurfin, Judge Advocate General of the Navy. This conference lasted for several hours, and, at the end, it was agreed that the plan was practical, and it was turned over to the Navy Department without obligation, to be used as they saw fit.

Early in July, a rumor having started around the Navy Department that the Bath Iron Works wished that they did not have the *Dewey* to build, as they found that it was a large job to handle and were having difficulty in financing it, and felt that they should not go in for any further work of this kind, Mr. Homer immediately called Mr. Newell by telephone, and he came to Washington and succeeded in refuting these rumors.

July 24, 1933: Mr. Newell conferred at Mr. Homer's office with Mr. L. C. Rosenkrans of the Fidelity and Deposit Company of Maryland. While in Mr. Homer's office on this date, Mr. Newell told Mr. Homer that he had figured Mr. Homer in on the bid for the destroyers, and that he was deeply appreciative of what Mr. Homer had done not only on the new bid but also on the *Dewey*.

July 26, 1933: Bids for the naval program destroyers were opened; and Admiral Murfin, Judge Advocate General of the Navy, rejected the Bath Iron Works bid as being illegal, on the grounds that they had not presented fixed-price bid as well as adjusted-price bid. Mr. Newell said that afternoon that he was going home and that he hoped he would have better luck next time, that he had felt that he was doing the right thing and that it was unfortunate that the matter had come out that way. At Mr. Homer's urging, Mr. Newell stayed here to confer as to what could be done to overcome the situation.

July 27, 1933: Mr. Homer called Admiral C. J. Peoples, Paymaster General of the Navy, who is the President's closest friend in the Navy Department, to luncheon and they conferred with him as to the best method to be followed in overcoming this awkward situation. Admiral Peoples concurred in the suggestions of Mr. Homer, and made further suggestions which were immediately carried out: Ten telegrams were prepared in Mr. Homer's office and they were transmitted to Bath by Mr. L. E. Thebeau to his secretary, who, in turn, transmitted them to the parties who were to send them to the President. At 6:30 p. m. Mr. Homer called Mr. Marvin McIntyre in the presence of Mr. Thebeau and asked that these telegrams be segregated from the mass of telegrams and delivered to the President at breakfast. This was done.

July 28, 1933: At 2 p. m. the President called to the White House, Admiral Stanley, Chief of Operations; Admiral Murfin, Judge Advocate General of the Navy; Admiral Robinson, Chief of the Bureau of Engineering; Admiral Land, Chief of the Bureau of Construction and Repair; and Admiral Peoples, Paymaster General of the Navy, for a conference.

July 29, 1933: Mr. Newell, acting under the advice of Mr. Homer went to the Navy Department, where he was told to call to a conference Mr. J. W. Powell, president of the United Drydocks Company, and Mr. L. I. Korndorff, President of the Federal Shipbuilding and Dry Dock Company. Mr. Newell called these gentlemen and asked them to come to Washington and confer with him and insisted that they do so. (It will be noted at this point, that Mr Newell's situation is completely reversed, that he is now in command of the situation, instead of being out.

July 30, 1933: Mr. Powell, Mr. Korndorff, and Mr. Newell spent the entire day until 6:30 at night in Mr. Homer's apartment, #722 of the Hay Adams House, and reached a definite agreement as to procedure and that each would have two destroyers to build. Mr. Homer this day took Admiral Peoples, Mr. Thebeau Treasurer of the Bath Iron Works, and Mr. Nugent of the Public Works Administration to Harper's Ferry for an all-day trip.

July 31, 1933: Mr. Newell, Mr. Powell, and Mr. Korndorff went to the Navy Department at 9 o'clock and saw Captain Claude Jones, of the Bureau of Engineering; there they met Admiral Robinson and Admiral Land and offered to work together, building from one set of designs.

August 3, 1933: The Navy Board went to see the President at Hyde Park for his decision in regard to the contracts, which came out exactly as planned regarding the three above-mentioned yards.

August 4, 1933: Mr. Homer went to Captain Stark's office and secured for Mr. Newell word of the award of the contracts and got an advance copy of the News Release and delivered same to him.

Between August 4 and August 26, Mr. Newell and Mr. Thebeau were working in New York endeavoring to get bond.

August 26, 1933: Mr. Newell returned to Washington with Mr. Homer.

September 5 and 6, 1933: Mr. Newell and Mr. Thebeau here in regard to bond. Constantly in conference with Mr. Homer's partner, Mr. Perkins, and with Mr. Homer by long distance telephone.

September 7 and 17, 1933: Either Mr. Newell or Mr. Thebeau was in daily conference with either Mr. ——— or Mr. Perkins relative to the contract and bond on the destroyers.

September 18, 1933: Mr. Newell wrote a letter in the office of Mr. Homer to the Secretary of the Navy asking for an extension of time for the securing of bond. The Navy Department said that the time had expired and they did not care to hold the matter up or to have any publicity by granting a further extension of time, but that they would hold the matter in abeyance.

September 19, 1933: Mr. Homer was given a full power of attorney covering these destroyers, copy of which is herewith attached.

Contract was finally signed and bond secured on or about Sept. 22, 1933, and the work was completed.

Mr. Howell, before leaving for Bath, made the statement that the fee he figured to pay Mr. Homer for this work was so large that he would have to spread it over the life of the contract. Mr. Homer agreed to that, and asked what figure he had in mind. To this question, Mr. Newell replied that they would discuss it later, but that he was sure Mr. Homer would be perfectly satisfied.

Mr. Newell also stated, on being asked what he expected the profit to be on naval work in the Bath yards, that the profit on the *Dewey* would be about $450,000, and the profit on the other two destroyers would be a little over a million dollars.

The total amount of contract awarded to the Bath Iron Works Corporation as a result of Mr. Homer's efforts, as outlined above, is about $9,000,000.

The following information was made a part of the record pursuant to instructions of the chairman. (See text, p. 4746.)

Bids and evaluations

LIGHT CRUISERS NOS. 26 TO 31—1927

Bidder:	*Bid*
Newport News:	
1 ship	$10,642,000
2 ships	10,450,000
Bethlehem Ship:	
1 ship	10,675,000
2 ships	10,540,000
American Brown Boveri (New York Ship):	
1 ship	10,815,000
2 ships	10,708,000

Bidder	Bid	Adjustment for plans	Adjusted price	Time in months
Bethlehem	$10,750,000	$200,000	$10,553,000	36
New York Ship	10,903,200	200,000	10,703,200	36
Newport News	11,130,000			36

AIRCRAFT CARRIER NO. 4—OCT. 16, 1930

Bidder	Bid price	Fuel-consumption correction	Corrected bid price
Newport News	$15,560,000		$15,560,000
New York Ship	16,334,000	−37,875	16,296,125
Bethlehem	16,760,000	−112,075	16,647,925

LIGHT CRUISER NO. 37—FEB. 13, 1931

New York Ship	$10,450,000		$10,450,000
Bethlehem	10,695,000	+109,475	10,804,475
Newport News	11,300,000	+244,375	11,544,375

BIDS AND EVALUATIONS

(Attached to letter by C. & R. No. 348 to 358/L4–(c), Eng. No. DD348/L4 (9–29–Dd), dated Sept. 29, 1931, addressed to Judge Advocate General)

NAVY DEPARTMENT,
Washington, D. C., September 16, 1931.

PROPOSALS FOR THE CONSTRUCTION OF TORPEDO BOAT DESTROYERS OF THE 348 TO 358 CLASS

The bids for the construction of torpedo boat destroyers of the 348 to 358 class were opened shortly after noon, September 16, 1931, at the Navy Department in the presence of the Secretary of the Navy and the Assistant Secretary of the Navy.

BATH IRON WORKS CORPORATION, BATH, MAINE

(Bid in duplicate; bond for $75,000)

	Each
Class I:	
1 destroyer to be constructed at Bath, Maine, and delivered at the Navy Yard, Boston, Mass., within 30 months from date of contract for	$2, 626, 000
2 destroyers, 1 within 30 months and the other within 33 months from the dates of contracts for	2, 380, 000
Class II (*a*):	
1 destroyer within 30 months from date of contract for	3, 166, 000
2 destroyers, 1 within 30 months and the other within 33 months from date of contracts for	2, 931, 000

BETHLEHEM SHIPBUILDING CORPORATION, NEW YORK, N. Y.

(Bid in duplicate; bond for $75,000)

Class I:	
1 destroyer to be constructed at Quincy, Mass., and delivered at the Navy Yard, Boston, Mass., within 24 months from date of contract for	2, 893, 000
2 destroyers, 1 within 24 months and the other within 26 months from date of contracts for	2, 615, 000
Class II:	
1 destroyer within 26 months from date of contract for	3, 044, 000
2 destroyers, 1 within 26 months and the other within 28 months from date of contract for	2, 738, 000

MARYLAND DRY DOCK CO., BALTIMORE, MD.

(Bid in duplicate; bond for $75,000)

Class I:	
1 destroyer to be constructed at Baltimore, Md., and delivered at the Navy Yard, Norfolk, Va., within 30 months from date of contract for	3, 804, 982
2 destroyers, 1 within 30 months and the other within 33 months from date of contract for	3, 664, 433
Class II: No bid.	

NEWPORT NEWS SHIPBUILDING & DRY DOCK CO., NEWPORT NEWS, VA.

(Bid in duplicate; bond for $75,000)

Class I:	
1 destroyer to be constructed at Newport News, Va., and delivered at the Navy Yard, Norfolk, Va., within 27 months from date of contract for	$3,040,000
2 destroyers, 1 within 27 months and the other within 30 months from date of contract for	2,660,000
Class II (1):	
1 destroyer for delivery within 27 months from date of contract for	3,080,000
2 destroyers, 1 within 27 months and the other within 30 months from date of contract for	2,700,000
Class II (2):	
1 destroyer to be delivered within 27 months from date of contract for	3,460,000
2 destroyers, 1 within 27 months and the other within 30 months from date of contract for	3,080,000

NEW YORK SHIPBUILDING CO., CAMDEN, N. J.

(Bid in duplicate; bond for $75,000)

Class I:	
1 destroyer to be constructed at Camden, N. J., and delivered at the Navy Yard, Philadelphia, Pa., within 25 months from date of contract for	$2,925,000
2 destroyers, 1 within 25 months and the other within 28 months from date of contract for	2,675,000
Class II: No bid.	

PUSEY & JONES CORPORATION, WILMINGTON, DEL.

(Bid in duplicate; bond for $50,000)

Class I:	
1 destroyer to be delivered at Wilmington, Del., and delivered at the Navy Yard, Philadelphia, Pa., within 26 months from date of contract for	2,895,000
No bid submitted for 2 destroyers.	
Class II: No bid.	

UNITED DRY DOCKS, INC., NEW YORK, N. Y.

(Bid in duplicate; bond for $75,000)

Class I:	
1 destroyer to be constructed at Mariners Harbor, Staten Island, N. Y., and delivered at the Navy Yard, New York, within 30 months from date of contract for	2,645,000
2 destroyers, 1 within 30 months and the other within 22 months from date of contract for	2,500,000
Class II (*a*):	
1 destroyer within 20 months from date of contract for	2,720,000
2 destroyers, 1 within 20 months and the other within 22 months from date of contract for	2,570,000
Class II (*b*):	
1 destroyer within 20 months from date of contract for	3,020,000
2 destroyers, 1 within 20 months and the other within 22 months from date of contract for	2,680,000
Class II (*c*):	
1 destroyer within 20 months from date of contract for	2,900,000
2 destroyers, 1 within 20 months and the other within 22 months from date of contract for	2,630,000

Bids and evaluations. Aug. 1, 1933

AIRCRAFT CARRIERS NOS. 5 AND 6

Bidder	Basis of bid	Price	Fuel consumption evaluation	Evaluated bid price
Newport News Shipbuilding & Dry Dock Co.	Fixed price, 1 ship	$24, 700, 000		$24, 700, 000
	Fixed price, 2 ships	23, 000, 000		23, 000, 000
	Adjusted price, 1 ship	20, 600, 000		20, 600, 000
	Adjusted price, 2 ships	19, 000, 000		19, 000, 000
New York Shipbuilding Co	Fixed price, 1 ship	25, 930, 000	+5, 925	25, 935, 925
	Fixed price, 2 ships	24, 265, 000	+5, 925	24, 270, 925
	Adjusted price, 1 ship	21, 960, 000	+5, 925	21, 965, 925
	Adjusted price, 2 ships	20, 200, 000	+5, 925	20, 205, 925
Bethlehem Shipbuilding Corporation	Fixed price, 1 ship	26, 140, 000	+271, 200	26, 411, 200
	Fixed price, 2 ships	24, 185, 000	+271, 200	24, 456, 200
	Adjusted price, 1 ship	22, 700, 000	+271, 200	22, 971, 200
	Adjusted price, 2 ships	20, 920, 000	+271, 200	21, 191, 200

DESTROYERS NOS. 356 TO 363

Bidder	Basis of bid each of 4 ships	Price	Evaluation	Evaluated bid price
Bethlehem Shipbuilding Corporation	Class I, fixed price	3, 783, 000		
	Class I, adjusted price	3, 440, 000		
	Class II, fixed price	3, 896, 000		
	Class II, adjusted price	3, 542, 000		
	Class III, fixed price	4, 025, 000		
	Class III, adjusted price	3, 760, 000		
	Class IV, fixed price	4, 135, 000		
	Class IV, adjusted price	3, 862, 000		
New York Shipbuilding Co	Class I, fixed price	3, 916, 000	−38, 425	3, 877, 575
	Class I, adjusted price	3, 572, 000	−38, 425	3, 533, 575
	Class II, fixed price	3, 965, 000	−312, 250	3, 652, 750
	Class II, adjusted price	3, 695, 000	−312, 250	3, 382, 750
	Class III, fixed price	3, 815, 000	−38, 425	3, 776, 575
	Class III, adjusted price	3, 710. 000	−38, 425	3, 671, 575
	Class IV, fixed price	3, 775, 000	−312, 250	3, 462, 750
	Class IV, adjusted price	3, 670, 000	−312, 250	3, 357, 750
United Dry Dock	Class III, fixed price	4, 290, 000	−125, 025	4, 164, 975
	Class III, adjusted price	3, 730, 000	−125, 025	3, 604, 975
	Class IV(1), fixed price	4, 550, 000	−257, 125	4, 292, 875
	Class IV(1), adjusted price	3, 960, 000	−257, 125	3, 702, 875
	Class IV(2), fixed price	4, 690, 000	−525, 425	4, 164, 575
	Class IV(2), adjusted price	4, 080, 000	−525, 425	3, 654, 575
	Class IV(3), fixed price	4, 650, 000	−601, 675	4, 048, 325
	Class IV(3), adjusted price	4, 050, 000	−601, 675	3, 448, 325
	Class IV(4), fixed price	4, 800, 000	−492, 500	4, 307, 500
	Class IV(4), adjusted price	4, 170, 000	−492, 500	3, 677, 500
	Class IV(5), fixed price	5, 080, 000	−774, 200	4, 305, 800
	Class IV(5), adjusted price	4, 420, 000	−774, 200	3, 645, 800
Newport News Shipbuilding & Dry Dry Dock Co.	Class I, fixed price	4, 200, 000	+38, 400	4, 238, 400
	Class I, adjusted price	3, 500, 000	+38, 400	3, 538, 400
	Class III, fixed price	4, 200, 000	+38, 400	4, 238, 400
	Class III, adjusted price	3, 500, 000	+38, 400	3, 538, 400
Federal Shipbuilding & Dry Dock Co.	[1]			

[1] No bids for 4 ships.

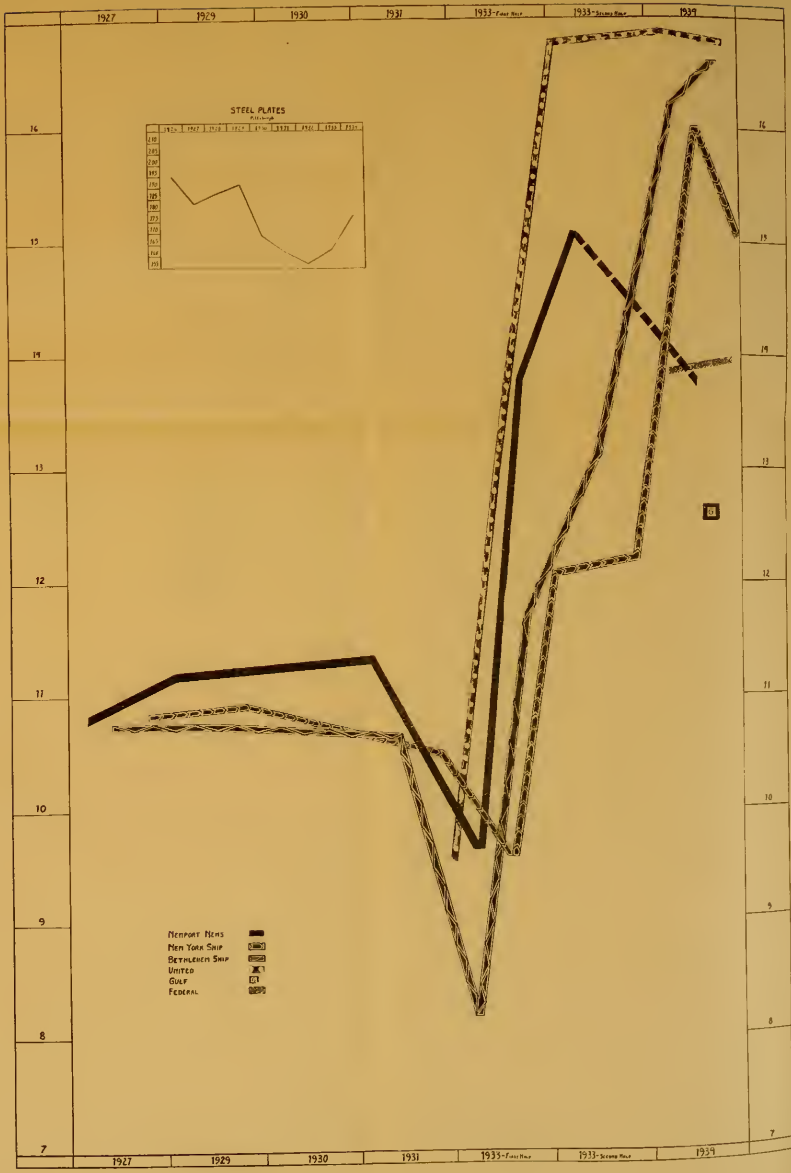
DESTROYERS NOS. 634 TO 379

Bidder	Basis of bid 2 ships	Price	Evaluation	Evaluated bid price
United Dry Dock, Inc	Fixed price	3, 910, 000	−236, 525	3, 673, 475
	Adjusted price	3, 400, 000	−236, 525	3, 163, 475
New York Shipbuilding Co	Fixed price	3, 825, 000	−120, 275	3, 704, 725
	Adjusted price	3, 650, 000	−120, 275	3, 529, 725
Bethlehem Shipbuilding Corporation	Fixed price	3, 755, 000	−21, 375	3, 733, 625
	Adjusted price	3, 413, 000	−21, 375	3, 391, 625
Bath Iron Works Corporation	do	3, 429, 000	−141, 275	3, 287, 725
Federal Shipbuilding & Dry Dock Co.	Fixed price	3, 918, 000	−76, 245	3, 841, 755
	Adjusted price	3, 410, 800	−76, 245	3, 334, 555
Maryland Dry Dock Co	do	3, 498, 894	−134, 675	3, 364, 219
Warwick Machine Co	Fixed price	5, 259, 000	+139, 350	5, 398, 350
	Adjusted price	4, 383, 000	+139, 350	4, 522, 350
Gulf Industries, Inc	Fixed price	3, 225, 000		3, 225, 000
	Adjusted price	3, 025, 000		3, 025, 000
Pusey & Jones Corporation	[1]			

[1] No bid for 2 ships.

CRUISER BIDS AND ESTIMATES

1927-1939



Bids and evaluations, Aug. 1, 1933—Continued

SUBMARINES NOS. 174 AND 175

Bidder	Basis of bid	Number of ships	Fixed price	Adjusted price
Electric Boat Co	Class I	1	$3, 200, 000	$2, 912, 000
	do	2	2, 820, 000	2, 566, 000
	Class II	1	3, 180, 000	2, 894, 000
	do	2	2, 800, 000	2, 548, 000
	Class III	1	3, 150, 000	2, 866, 000
	do	2	2, 770, 000	2, 521, 000
Sun Shipbuilding & Dry Dock Co	Class I	1	2, 931, 000	(1)
	Class II	1	2, 906, 000	(1)

(1) No bid.

LIGHT CRUISERS NOS. 42 TO 45

Bidder	Basis of bid	Price	Fuel consumption evaluation	Evaluated bid price
New York Shipbuilding Corporation	Fixed price, 1 ship	12, 271, 000		
	Fixed price, 2 ships	11, 677, 000		
	Adjusted price, 1 ship	11, 870, 000		
	Adjusted price, 2 ships	11, 515, 000		
Bethlem Shipbuilding Corporation	Fixed price, 1 ship	13, 100, 000	+263, 250	13, 363, 250
	Fixed price, 2 ships	12, 780, 000	+263, 250	13, 043, 250
	Adjusted price, 1 ship	11, 915, 000	+263, 250	12, 178, 250
	Adjusted price, 2 ships	11, 610, 000	+263, 250	11, 873, 250
Newport News Shipbuilding & Dry Dock Co.	Fixed price, 1 ship	15, 100, 000	+166, 900	15, 266, 900
	Fixed price, 2 ships	13, 900, 000	+166, 900	14, 066, 900
	Adjusted price, 1 ship	12, 800, 000	+166, 900	12, 966, 000
	Adjusted price, 2 ships	11, 600, 000	+166, 900	11, 766, 900
United Dry Dock, Inc	Fixed price, 1 ship	16, 500, 000	−196, 850	16, 303, 150
	Fixed price, 2 ships	15, 600, 000	−196, 850	15, 403, 150
	Adjusted price, 1 ship	13, 800, 000	−196, 850	13, 603, 150
	Adjusted price, 2 ships	12, 975, 000	−196, 850	12, 778, 150

HEAVY CRUISER NO. 40

Bethlehem Shipbuilding Corporation, Ltd.	Fixed price	11, 720, 000		11, 720, 000
	Adjusted price	10, 824, 000		10, 824, 000
New York Shipbuilding Co	Fixed price	12, 100, 000	−2, 825	12, 097, 175
	Adjusted price	11, 050, 000	−2, 825	11, 047, 175
Newport News Shipbuilding & Dry Dock Co.	Fixed price	13, 800, 000	−3, 000	13, 797, 000
	Adjusted price	11, 800, 000	−3, 000	11, 797, 000
United Dry Dock, Inc	Fixed price (A)	14, 600, 000	−325, 250	14, 274, 750
	Adjusted price (A)	12, 000, 000	−325, 250	11, 674, 750
	Fixed price (B)	15, 200, 000	−325, 250	14, 874, 750
	Adjusted price (B)	12, 650, 000	−325, 250	12, 324, 750

The following cost-plus contract is included in the record at the request of Senator Bone. See page 4551.

Nos. 1 to 5.

[Acts of August 29, 1916, and March 4, 1917]

CONTRACT FOR THE CONSTRUCTION OF BATTLE CRUISER OF ABOUT 35,000 TONS TRIAL DISPLACEMENT, NO. 3

CONTRACT, of two parts, made and concluded this Fifth day of May A. D. 1917, by and between the New York Shipbuilding Corporation, a Corporation formed under the Laws of the State of New York and doing business at Camden, in the State of New Jersey, represented by the president of said corporation, party of the first part (hereinafter called the contractor), and the United States, represented by the Secretary of the Navy, party of the second part (hereinafter called the department).

Whereas the acts making appropriations for the Naval Service for the fiscal years ending June 30, 1917 and 1918, approved, respectively, August 29, 1916, and March 4, 1917, authorized the construction of five battle cruisers; and

Whereas the drawings, plans, and specifications for such battle cruisers have been duly provided, adopted, and approved by the department; and

Whereas the Congress having declared by joint resolution, approved April 6, 1917, that war exists, between the United States and Germany, the President hereby places with the New York Shipbuilding Corporation, as an order under the provisions of said act of March 4, 1917, the requirement that it comply with the contract hereinafter set forth, to construct one of said vessels, complete in all respects, with the exceptions stated in the specifications, which vessel is for the purposes of this contract designated and known as Battle Cruiser No. 3.

NOW, THEREFORE, THIS CONTRACT WITNESSETH, That, in consideration of the premises and for and in consideration of the payments to be made as hereinafter provided, the contractor hereby covenants and agrees to and with the department as follows—that is to say:

First.—The contractor will make the necessary outlays in advance and construct, in accordance with the provisions of the acts of Congress above mentioned, and in conformity with the aforesaid drawings, plans, and specifications, including duly authorized changes therein, one first-class battle cruiser of about 35,000 tons trial displacement, and will deliver the vessel to an officer designated by the department at the contractor's works.

Second.—The construction of said vessel (the word vessel as used throughout this contract being intended to include everything covered by the drawings, plans, and specifications above referred to) shall conform in all respects to and with said drawings, plans, and specifications, including duly authorized changes therein, which are hereto annexed, and shall be deemed and taken as forming a part of this contract with the like operation and effect as if the same were incorporated herein. They contain information of a confidential character that can not be made public without detriment to the Government's interests and they are to be treated as confidential by the parties to this contract. No omission in the drawings, plans, and specifications of any detail, object, or provision necessary to carry this contract into full and complete effect, in accordance with the object and intent of the acts of Congress above referred to, shall operate to the disadvantage of the department, but the same shall be staisfactorily supplied, performed, and observed by the contractor, and compensation by reason of, or for, or on account of, such extra performance, shall be made to the contractor on the same basis as for the work performed in general under this contract; and it is hereby further provided, and this contract is upon the express condition, that the provisions of this contract, and the drawings, plans, and specifications aforesaid may be changed by the department, but no such changes shall be made when the cost thereof shall, in the execution of the work, exceed five hundred dollars ($500), except on the written order of the Secretary of the Navy.

Third.—The contractor shall furnish all the special-treatment and nickel-steel material and the bolts, rivets, butt straps, and accessories required in the construction of the vessel as shown and described in detail in the plans and specifications. The department shall furnish all the armor plates and armor bolts to be used in the construction of the vessel, including such as may be required in the construction of the side and athwartship armor, turrets, barbettes, casemates, uptakes, fire-control tower, conning tower, and armored tube. The contractor shall, as rapidly as possible, and within the periods of time prescribed by the specifications, furnish working drawings and templates, subject to the approval of the Secretary of the Navy, showing the dimensions and shape necessary for the proper manufacture of each and every armor plate herein agreed to be furnished by the department; the armor plates furnished by the department shall be trimmed to the drawing and template sizes and shapes, within reasonable manufacturing limits, as set forth in the armor specifications, and drilled and tapped for all armor bolt holes therein, as shown by the said approved drawings and templates; each group of the armor will be delivered with the armor bolts at the shipyard of the contractor within the time prescribed for such group in the specifications, the contractor to receive all armor and other material to be delivered by the department whenever delivered and whether or not the work is ready for its installation; and the contractor shall furnish all rivets and other fastenings, and drill, tap, and fit all holes for rivets and other fastenings used to connect any part of the hull framing to the armor for constructive purposes, except as hereinbefore mentioned, and properly fit, fix, place, and secure to the vessel all the armor, as required by the aforesaid drawings, plans, and specifications, and the standard practice in vogue at the date of this contract.

The armament and ordnance outfit complete will be supplied by the department, but will be installed by the contractor in accordance with the specifications.

The department does not guarantee to deliver the armor in advance of the times stated in the specifications, nor the ordnance and other articles furnished by it in advance of such times as are necessary to permit the orderly completion of the vessel as a whole; but should the contractor advance the general progress the department will use its best endeavers to expedite the delivery of the armor and ordnance correspondingly: *Provided*, That it shall be optional with the department to omit the installation of any parts of the turret armor or the ordnance in other parts supplied by the department but required to be installed by the contractor and the vessel shall then be completed in all respects not involved in the omission of such installations.

Fourth.—The materials to be used in the construction of the vessel shall be of the quality and characteristics best adapted to the various purposes for which they may be used and shall conform to the specifications for inspection of material for use in the construction of the hulls and the machinery of vessels for the United States Navy, approved by the Secretary of the Navy, which specifications are annexed to and form a part of this contract. The materials and workmanship used and applied in the construction of the vessel in details and finish in all their parts shall be first class and of the very best quality and shall, from the beginning to the end of the work, be subject to the inspection of the Secretary of the Navy, who may appoint suitable inspectors to whom the contractor shall furnish such samples of said materials, and such information as to the quality thereof and the manner of using the same as may be required, and also any assistance such inspectors may require in determining the character of workmanship applied and the weight and quality of steel and other metals, and of wood and other materials, either used or intended for use in the construction of the vessel, its fittings, equipments, machinery, devices, appliances, or appurtenances, and that the inspectors may with the approval of the said Secretary, peremptorily reject any unfit workmanship or material, or forbid the use thereof. The inspectors shall at all times during the progress of the work have full access thereto, and the contractor shall furnish them with full facilities for the inspection and superintendence of the same

Fifth.—The contractor will prepare such plans or drawings as may be necessary during the progress of the work, and will submit the same to the department for its approval as required by the specifications before the work is begun. In addition, such finished plans as are required by the specifications are to be furnished. If required by the department, the contractor shall furnish Vandyke and other prints of plans and schedules of the vessel for use in the construction of a similar vessel in a navy yard, the contractor to be reimbursed on the same basis as for other work performed in general under this contract.

Sixth.—Said vessel and all materials and appliances provided, by either the contractor or the department, for and used, or to be used, in the construction thereof shall be kept duly insured against fire and marine risks, settling of stocks, breakage of ways, and risks of launching, which insurance shall be renewed and increased, from time to time, by the contractor, until the delivery of the vessel, the loss, if any, to be stated in the policies as payable to the Secretary of the Navy; the insurance to be effected in such manner and in such companies as shall be approved by him, and in an amount to be fixed, from time to time, by him, not exceeding the sum of the payments made under this contract plus the sum of $500,000 to cover the materials and appliances supplied by the department: *Provided*, That the amount of insurance required shall at no time exceed the amount available in the insurance market.

Seventh.—Unless prevented by strikes, the work under this contract shall be prosecuted at all times with the utmost vigor and dispatch, without interruption for any cause within the control of the contractor, and the number and class of men engaged on the contract, and the hours of work, subject to the limitations in the fourteenth clause shall be subject to the approval and direction of the department, provided that not more than 70 percent of the force of the plant distributed in a normal way and engaged on new construction shall be required to work on this and other naval vessels building. It is understood that the contractor proposes to extend its present plant and to add to its present facilities especially for the purpose of carrying out this contract, and that it is to be specially compensated therefor as hereinafter provided for, but the contractor will not be required to build a dry dock capable of accommodating this vessel.

Eighth.—The contractor will notify the department thirty days beforehand of the date of launching, so that a sponsor for the vessel may be selected, but this stipulation does not impose on the contractor any obligation to provide entertainment or to incur any similar expense in connection with the launching.

Ninth.—Said vessel shall be sufficiently strong to carry safely her personnel and the armor, armament, ammunition (including torpedoes and their appendages), equipment, fuel oil, stores, and machinery prescribed by the Secretary of the Navy and indicated in the drawings, plans, and specifications, but the contractor is not hereby required to accept responsibility for the general strength of the vessel necessarily involved in the general design and specifications. The total weight of said machinery, including engines, boilers, and appurtenances, all fixtures in engine and boiler rooms, smoke pipes, distilling apparatus, spare parts, heating apparatus, tools in workshops, etc., and water in boilers, condensers, evaporators, feed tanks filled to two-thirds their full capacity, pumps, pipes, and stern tubes—that is to say, all weights under cognizance of the Bureau of Steam Engineering, as set forth in the weight instructions, Navy Department, Bureau of Steam Engineering, 1903, modified as may be required for the type of machinery finally adopted, except supplies furnished by the Government (but not including the reserve feed water in double bottoms or tanks or spare parts of the machinery not usually carried on board, as enumerated in the specifications)—also including electric plant complete, with all spare parts, shall not exceed 6,500 tons; this total weight to be determined from the certified records of the actual weights of the parts of the machinery as they are sent on board the vessel to be connected up, except the weight of the contained water, which shall be calculated from the actual volumes in steaming condition, as shown on the certified drawings of the completed machinery; the weight to be calculated for salt water, except for those parts where fresh water only is used. If said total weight be exceeded, a deduction of two hundred dollars ($200) a ton shall be made from the reserve to be held by the department as hereinafter provided for each ton in excess of that stipulated and if said total weight be exceeded by 5 per cent a further deduction of ten thousand dollars ($10,000) shall be made from the said reserve. If said total weight is less than 6,100 tons, a bonus of two hundred dollars ($200) a ton shall be paid by the department for each ton of weight below that stipulated, and if said total weight be less by 5 per cent a further bonus of ten thousand dollars ($10,000) shall be paid to the department, all subject to the limitation in amount given in Clause eleventh.

The total weight of auxiliary machinery covered by the plans and specifications of hull shall not exceed five hundred and eight-five (585) tons, said machinery including the following: Steering gear, including hydraulic rams, connecting rods, pins, stern tubes, motors, pumps, speed gears, motor attachments, transmission shafting, bearings, and bedplates; anchor windlass and bedplate, with electric-motor attachments; electric machinery for boat cranes, including motors, controllers, pinions, shafting, drums, and gears, but excluding turning rack; ammunition-handling machinery (exclusive of turret hoists), with motors, their bedplates, controlling panels, sprockets, chains, shafting, and gears, but excluding fixtures permanently attached to the hull structure; winches complete, with their bedplates and controllers; electric capstan complete, with bedplate and controller; ventilating motors, fans, and bedplates (including turret fans), with accessories complete; all electrically operated laundry appliances; electric pumps and bedplates, with their accessories; turret-turning machinery, including motors, bedplates, worms, variable-speed and other gears, shafting and accessories, but excluding racks on turret foundations. All the foregoing auxiliary machinery is to include bedplates, stands, controllers, attachments, also all accessories usually supplied by subcontractors therefor and electrical and other spare parts in accordance with the requirements of the specifications and allowances. If said total weight be exceeded, a deduction of two hundred dollars ($200) a ton shall be made from the said reserve for each ton in excess of that stipulated. If said total weight is less than 560 tons a bonus of two hundred dollars ($200) a ton shall be paid by the department for each ton of weight less than that stipulated; all subject to the limitation in amount given in Clause 11.

Tenth.—When the machinery is substantially complete, except minor items of work that may, in the discretion of the Secretary of the Navy, be left unfinished, the contractor shall make trials at partial power at dock to demonstrate such reasonable performance as may be required by the Secretary of the Navy.

After these dock trials have been completed the machinery shall be opened for such examination as the Secretary of the Navy may direct. Any defects or deficiencies that appear will be corrected as directed by the department, after which the machinery shall be closed and reconnected ready for service.

The contractor shall be compensated for these trials and for all work required therefor and consequent thereupon on the same basis as herein provided for the work generally to be performed under this contract.

After delivery, as herein provided for, and prior to the expiration of six months therefrom, the vessel (with clean bottom, clean boilers, and machinery in good adjustment) shall be subjected to trials by and at the expense of the department to test her and her speed, such trials to be as prescribed by the Secretary of the Navy and to include the following, viz:

(*a*) A progressive trial over a measured mile course in water not less than 100 fathoms deep for standardizing the screws, extending from maximum speed down to a speed of nine (9) knots; about twenty-nine runs to be made over the course in order to adequately cover the range of speed desired. This progressive trial is to be made with the vessel weighted as specified hereinafter.

Five consecutive runs must be made at the highest speed attainable and the mean speed and revolutions for these runs carefully ascertained, and three consecutive runs must be made at each of the following speeds, as nearly as possible: Thirty-two and one-half (32½) knots, thirty (30) knots, twenty-eight (28) knots, twenty-six (26) knots, twenty-two (22) knots, seventeen (17) knots, twelve (12) knots, and nine (9) knots; the mean speed and revolutions for the several groups of runs to be carefully ascertained by the trial board, in order to determine the curve of speed and revolutions, the vessel to be so weighted that the middle run at the maximum speed will take place, as nearly as may be, at the mean trial displacement specified hereinafter.

(*b*) A full speed endurance and fuel-oil consumption trial of four hours' duration in the open sea in deep water at the highest speed attainable, the power developed by the propelling machinery of the vessel upon this trial, is estimated to be not less than an average of 180,000 shaft horsepower, to be determined by approved torsion meters connected to the shafting abaft the propelling motors and thrust bearings. The torsion meter readings shall be compared and checked with the electrical input and motor characteristics and constants. During this trial the steam pressures in the boilers, piping, and generator turbine steam chests shall not exceed those stated in the machinery specifications. This full-speed trial is to be made with the vessel weighted as specified hereinafter.

(*c*) An endurance and fuel-oil consumption trial of four hours in the open sea in deep water at an average uniform speed of thirty (30) knots as nearly as possible; the vessel to be weighted as specified hereinafter.

(*d*) An endurance and fuel-oil consumption trial of four hours in the open sea in deep water at an average uniform speed of about twenty-five or about twenty-six knots, at the option of the contractor; the vessel to be weighted as specified hereinafter.

(*e*) An endurance and fuel-oil consumption trial of four hours in the open sea in deep water at a speed of about nineteen (19) knots as nearly uniform as possible; the vessel to be weighted as specified hereinafter.

(*f*) An endurance and fuel-oil consumption trial of four hours in the open sea in deep water at an average uniform speed of sixteen (16) knots as nearly as possible; the vessel to be weighted as specified hereinafter. This trial shall be made as nearly as possible under service cruising conditions.

(*g*) A fuel-oil consumption trial of four hours in the open sea at an average uniform speed of ten (10) knots as nearly as possible; the vessel to be weighted as specified hereinafter. This trial should be made as nearly as possible under service cruising conditions.

(*h*) Trials will be conducted to determine the ability of the vessel when going ahead at full speed to back satisfactorily, the minimum torque of the motors during reversal shall be at least equal to that required to obtain full speed ahead; to determine the time required to bring the vessel dead in the water, and the distance ahead reached when steaming at full speed; to test the steering gear, both when going ahead at full speed and when backing at progressively increasing speeds until the rudder torque for backing equals the go-ahead torque under full speed; and to test the anchor gear.

On trials *b*, *c*, *d*, *e*, *f*, and *g*, there shall be carefully determined and recorded the fuel-oil consumption for all purposes and the amounts of water required to be used for make-up feed and the amount of steam consumed by the main turbines. All necessary auxiliaries shall be in operation, including all those usually required under service cruising conditions, and especially such dynamos as may be necessary for efficiently lighting the vessel and operating at their normal speed the hull ventilating fans; the evaporating and distilling plant will be in operation on each trial, except trial *b*, to produce 1,050 gallons of fresh water per hour. The pumping system and forced-draft air system will be operated as required. The steam consumption of the main turbines will be ascertained in the following manner: On all trials one main turbine shall be operated on live steam only—that is, without any auxiliary exhaust steam being admitted to its casing—and its steam consumption will be measured for one hour.

During the last three hours of all trials part of the auxiliary exhaust may be used in the main turbine casings and the fuel-oil consumption will be measured.

On all the above trials there shall be observed and recorded by representatives of the trial board such additional data as may be considered by the board to be of professional interest.

The department will supply special revolution counters and will test the torsion apparatus provided by the contractor at its works on the shafts before installation on the ship, as necessary for the purpose of determining the accuracy of the torsion apparatus and the shaft horsepower on each trial, but the contractor will furnish the torsion apparatus and all labor and material necessary for the installation of all apparatus furnished by the department, and for the tests of the shafts. The contractor will provide, and install, if required, temporary tanks, piping, and all connections in such manner as may be prescribed by the Secretary of the Navy for ascertaining the fuel-oil and water consumptions, and all other appliances and apparatus necessary to ascertain the horsepower on each trial and the fuel-oil, make-up feed, and water consumptions on each of trials *b*, *c*, *d*, *e*, *f*, and *g*.

On trial *b* the horsepower developed by the propelling machinery shall not be less than an average of 165,000 shaft horsepower.

The fuel oil and lubricating oil used on all trials shall be in accordance with the United States Navy specifications for such oils. The consumption of fuel oil for all purposes on trials *c*, *d*, *e*, and *f*, including that necessary for all auxiliaries in use on the trials, shall not exceed for each nautical mile run 3,300 pounds at 30 knots; 2,765 pounds at 26 knots, or 2,600 pounds at 25 knots; 1,555 pounds at 19 knots; 1,410 pounds at 16 knots; the consumption of fuel at these speeds to be determined by the trial board from a curve based on the rate of fuel oil consumed on trials *b*, *c*, *d*, *e*, *f*, and *g*, and corrected to a standard of 19,500 B. T. U. per pound of fuel oil. Samples of the fuel oil used on each of these trials shall be taken by the trial board, who shall have such analysis and determinations of calorific value of a composite thereof made as are necessary in reducing the fuel-oil consumptions to a basis of 19,500 B. T. U. per pound.

The mean trial displacement of the vessel shall be that corresponding to the vessel complete with all permanent and portable fittings of every kind, with all machinery and all auxiliaries, both steam and electric, piping, tools, spare parts, etc., complete, as usually carried on board in service; with outfits of all kinds complete and two-thirds of the full supply of all stores, as furnished by the contractor under the contract and specifications, with 2,133 tons of fuel oil; with 500 tons of reserve feed water for steaming purposes; with 120 tons of fresh water for drinking purposes, and with the following items furnished by the department: Battery, complete, including torpedo tubes, guns, mounts, etc., 1,650 tons; ammunition, including torpedoes, designed full supply, 1,221 tons; electrical outfits furnished by the department (Bureau of Steam Engineering), 172 tons; equipment furnished by the department, including anchors, chains, hawsers, canvas outfit, galley and mess equipment, navigation instruments, etc., 274 tons; outfits furnished by the department, including boats, aeroplanes and launching machinery, furniture, blocks, etc., 134 tons; supplies and stores furnished by the department, 354 tons; officers, crew, and effects, 168 tons. Should the vessel not be provided at the time of the trials with all the actual parts or objects forming the total weight as above enumerated, suitable ballast shall be put by the department in such positions as may be directed to make up the weights to the total amount required to be carried by the vessel as aforesaid. Should any part of the vessel, her outfit, and stores to be furnished by the contractor be not completed at the time of the trials, ballast will be placed on board in suitable positions to represent the weight of such unfinished parts as have hot been placed on board the vessel. The weights of all temporary installations for purposes of trials, including tanks, piping, etc., for determining the fuel-oil and water consumptions will be considered as part of the ballast weights. Should the vessel as prepared for trial with the above-enumerated weights exceed the designed displacement, on trial, of the department's design, the department will run the trials at such increased displacement: *Provided*, That if any changes in the plans or specifications are proposed and executed by the department, resulting in a net increased weight, deduction from the amount of ballast or fuel oil required to be carried on trial shall be made equivalent to the net increased weight of such changes.

The displacement at the beginning of each trial shall be the above-defined mean trial displacement, plus one-half of the estimated fuel oil, water, and other consumables necessary for the trial.

If at and upon said trials there shall be any failure of the vessel to meet fully the requirements of this contract, the department will make further trials at its expense, sufficient in number to reasonably demonstrate her capacilities: *Provided*, That the number of trials shall be determined and limited by the Secretary of the Navy.

Provided that all the foregoing guaranties and each and every other guaranty contained in any section of this contract relating to the performance of machinery are dependent upon the complete performance by the manufacturers of the electric-propelling machinery of each and every one of their written undertakings, understandings, guaranties, and assurances to the department: *And provided further*, That the above guaranties of fuel-oil consumption are based upon an evaporative efficiency of the boilers as follows: When burning oil at the rate of one pound of oil per square foot of heating surface per hour, the equivalent evaporation from and at 212 degrees Fahrenheit, per pound of oil, shall equal or exceed 14.0 pounds of water per pound of oil; when burning oil at the rate of 0.5 of a pound of oil per square foot of heating surface per hour, the equivalent evaporation from and at 212 degrees Fahrenheit, per pound of oil, shall equal or exceed 15.2 pounds of water per pound of oil; when burning oil at the rate of 0.4 of a pound of oil per square foot of heating surface per hour, the equivalent evaporation from and at 212 degrees Fahrenheit, shall equal or exceed 15.4 pounds of water per pound of oil. The evaporative efficiency shall be determined by tests on an 8,250 square foot total heating and superheating surface White-Forster boiler to be installed and tested at the navy yard, League Island. Should the tests of this boiler show an evaporation less than that given above, the guaranties of furl-oil consumption will be changed proportionately to the actual evaporative efficiency on test. The performance will be reduced to a basis of oil having 19,500 B. T. U. per pound.

Eleventh.—If, at and upon the trials beforementioned, the guaranties specified be not fulfilled there shall be deductions from the reserve as follows: On trial *b*, at a rate of ten dollars ($10) per horsepower for each shaft horsepower below one hundred and sixty-five thousand (165,000). On trial *c*, at a rate of sixty dollars ($60) a pound for the amount of excess on trial *c;* on trial *d*, at a rate of one hundred dollars ($100) a pound for the amount of excess on trial *d;* on trial *e*, at a rate of one hundred and fifty dollars ($150) a pound for the excess on trial *e;* on trial *f*, at a rate of one hundred and fifty dollars ($150) a pound for the amount of excess on trial *f: Provided, however*, That the total deductions for all trials shall not exceed one hundred and fifty thousand dollars ($150,000).

If, at and upon the trials beforementioned, the guaranties specified be more than fulfilled there shall be a bonus added to the reserve as follows: On trial *b*, at a rate of ten dollars ($10) per horsepower for each shaft horsepower in excess of one hundred and eighty thousand (180,000). On trial *c*, at a rate of sixty dollars ($60) a pound for each pound of oil less than 3,020 pounds per knot; on trial *d*, at a rate of one hundred dollars ($100) a pound for each pound of oil less than 2,440 pounds per knot at 26 knots, or at a rate of one hundred dollars ($100) a pound for each pound of oil less than 2,300 pounds per knot at 25 knots; on trial *e*, at a rate of one hundred and fifty dollars ($150) a pound for each pound of oil less than 1,322 pounds per knot; on trial *f*, at a rate of one hundred and fifty dollars ($150) a pound for each pound of oil less than 1,146 pounds per knot: *Provided, however*, That the total bonus for all trials shall not exceed one hundred and fifty thousand dollars ($150,000).

In case of failure to fulfill the guaranties on certain trials and the earning of a bonus on other trials, the final amount of penalty or bonus to be awarded will be the difference between the total penalty of all trials and the total bonus of all trials, and neither of these totals shall be taken as more than one hundred and fifty thousand dollars ($150,000): *And provided also*, That the aggregate penalty, or bonus, for either overweight or underweight of main propelling machinery and hull auxiliaries, taken together, shall be limited to fifty thousand dollars ($50,000): *And provided also*, That if failure to attain the contract speed on any of the trials is clearly due to displacement in excess of 35,000 tons, the Secretary of the Navy shall have discretionary authority to make remission of penalties therefor that may be definitely attributable to such excess weights of hull and fittings as may be shown to have been entirely beyond the control of the contractor after exercising all practicable care and diligence in constructing the vessel in conformity with the plans and specifications, but such remission of penalty shall not be construed as giving any claim for bonus on trial performances.

On completion of the dock trials above mentioned, and when the vessel is substantially completed, except minor items of work that may, in the discretion of the Secretary of the Navy be left unfinished until after delivery, the vessel shall be delivered and shall thereupon be conditionally accepted, and the Department shall take possession of the vessel and shall be responsible for the safety thereof, and payment of all money due under this contract shall be made, subject, however, to a special reserve therefrom of $200,000, as provided for under paragraph 3 of the seventeenth clause of this contract.

In case of conditional acceptance of said vessel, the said special reserve of two hundred thousand dollars ($200,000) shall be held for a period of six months from the date such acceptance takes effect, provided that during said period the vessel may be tried, after being fully equipped, armed, or weighted correspondingly, and in all respects complete and ready for sea, under conditions prescribed or approved by the Secretary of the Navy, the expenses of such trials to be borne by the department.

If, at any time within six months after the conditional acceptance of said vessel any weakness, deficiency, defect, failure, breaking down, or deterioration in the vessel, other than that due to general design, vibration due to the propelling machinery, propellers or rudder, or to fair wear and tear, shall appear, the same shall be corrected and repaired to the satisfaction of the Secretary of the Navy, at the expense of the contractor: *Provided*, That the department may postpone such trials until after the expiration of said period, or may thereafter subject the vessel to other similar trials, if such course shall be advisable on account of the exigencies of service in war or on account of repairs or alterations, required by defects or deficiencies for which the contractor is responsible, developed within said period, and the settlement of penalties and bonuses dependent on such trials shall be correspondingly postponed, but such balance of the special reserve of two hundred thousand dollars ($200,000) as may be found due the contractor by the Secretary of the Navy shall be paid. The contractor may, if it so desires, have representatives of its own selection on board said vessel at any time during said period, or during subsequent trials, who shall have full opportunity to observe and inspect the working of the vessel in all its parts, but without any directing or controling power over the same, and in case such representatives shall be civilians, their compensation and expenses shall be paid by the contractor and reimbursed by the department.

If, on the expiration of six months from the date of conditional acceptance of the vessel or on the conclusion of all trials the department may deem it advisable to make after the expiration of said period, there shall appear no weakness, deficiency, defect, failure, breaking down, or deterioration, in her, other than that due to general design, vibration due to the propelling machinery, propellers or rudder, or to fair wear and tear, then she shall be finally accepted, and the said special reserve and net bonuses or penalties earned paid, less such deductions as may be made under the provisions of this contract: *Provided, however*, That the collective liability of the contractor for the breach of guaranties and agreements as to material, workmanship, and performance contained anywhere in this contract shall be limited to one hundred and fifty thousand dollars ($150,000), and penalties and deductions provided for in this contract shall not in the aggregate exceed this amount.

The total bonus for trial performances and weight of machinery shall not exceed, in the aggregate, one hundred and fifty thousand dollars ($150,000). Bonus shall be payable as soon as practicable after completion of trials.

The contractor shall be informed of all defects and deficiencies discovered during said period for which it is held responsible, and the decision of the Secretary of the Navy as to the responsibility of the contractor for such defects and deficiencies shall be final and binding on the parties to this contract. The actual cost of making good all defects and deficiencies for which the contractor is held responsible shall be deducted from the payment to be made in final settlement under this contract: *Provided*, That in order to expedite such final settlement, if the work of remedying any of the reported defects shall not have been undertaken within six months from the conditional acceptance of the vessel, the estimated cost of making good such defects shall be ascertained and determined by the compensation board and deducted in lieu of the actual cost of such items in final settlement, as aforesaid.

The department having received designs, plans, specifications, assurances, and guaranties of the electric propelling machinery direct from the manufacturers, which it finds satisfactory, has communicated the same to the contractor and has required the contractor to purchase the same and to install it: *Provided, however,* That, notwithstanding the language of any section of this contract to the contrary, the obligation of the contractor shall not extend further with respect thereto than to properly install the same and run satisfactory dock trials.

Twelfth.—In case of the failure or omission of the contractor at any stage of the work prior to its completion, not due to strikes or any other cause or causes beyond its control, to go forward with the work and make satisfactory progress toward its completion, the department may declare this contract forfeited. In case such forfeiture shall be declared, the title to said vessel, or so much thereof as shall have been completed, and to all materials on hand applicable thereto, shall forthwith vest in the department; and the department may immediately enter the works and premises of the contractor and take possession of said vessel and materials. The Secretary of the Navy shall thereupon cause to be taken and filed a full and complete statement and inventory of all work done or begun in, upon, or about said vessel, and of all materials purchased therefor by a board consisting of not less than five persons, qualified by knowledge and experience for the discharge of their duties, to be appointed by the Secretary of the Navy which board shall proceed without unnececssary delay to examine such work and materials, and upon such examination the contractor may attend, by representative, and if it so desires, by counsel, and submit such evidence as the board may deem proper.

Thirteenth.—On receipt of the report and inventory of said board, and on its approval thereof, the department may proceed with the completion of said vessel in accordance with this contract, either at the works of the contractor or elsewhere, by contract or otherwise, in its discretion, using for that purpose all suitable materials on hand, and included in the inventory aforesaid, and may remove said vessel and materials to such other place or places as may be requisite to the exercise of such discretion, and the contractor, on receiving notice of the intention of the department to proceed with the completion of the work, will surrender said vessel and all materials on hand, together with the use, if required, of the yard or plant, and all machinery, tools, and appliances appertaining thereto and theretofore used, or necessarily to be used, in and about the finishing of the work.

Upon final settlement of the liability of the contractor under this contract it shall be charged with such penalties or credited with such bonuses as may be earned under the various clauses providing for such penalties or bonuses and shall be paid such amounts for accrued but unpaid parts of item (*a*), and under items (*b*), (*c*), (*d*), and (*e*) of paragraph 1 of the seventeenth clause of this contract together with such allowances for adjustment of special rental provided for under paragraph 7 of the seventeenth clause as shall be determined by the compensation board.

Fourteenth.—Subject to the conditions enumerated in section 2 of the eight-hour law of June 19, 1912, no laborer or mechanic doing any part of the work contemplated by this contract, in the employ of the contractor or any subcontractor contracting for any part of said work contemplated, shall be required or permitted to work more than eight (8) hours in any one calendar day upon such work. For each violation of this provision a penalty of five dollars ($5) shall be imposed for each laborer or mechanic for every calendar day in which he shall be required or permitted to labor more than eight (8) hours upon said work, and the amount of any such penalties shall be withheld for the use and benefit of the United States from any moneys becoming due under this contract, whether the violation of this provision is by the contractor or any subcontractor: *Provided, however,* That if Executive Order No. 2554, of March 22, 1917, wherein the President declares as follows, viz:

"In order to enable the Navy Department to meet the requirements of law to secure the more expeditious construction of ships and procurement of munitions authorized, and by virtue of the authority vested in me by the provisions of the act of Congress approved March 4, 1917, entitled 'An act making appropriations for the naval service for the fiscal year ending June thirtieth, nineteen hundred and eighteen, and for other purposes,' whereby it is provided 'That in case of national emergency the President is authorized to suspend provisions of law prohibiting more than eight hours labor in any one day of persons engaged upon work covered by contracts with the United States: *Provided further,* That the wages of persons employed upon such contracts shall be computed on a basic day rate of eight hours, with overtime rates to be paid for at not less than time and one-half for all hours work in excess of eight hours,' I do hereby authorize the suspension of the provisions of law prohibiting more than eight hours of labor in any one day of persons engaged in such work under contract with the Navy Department in all navy yards and private establishments where such suspension of the provisions of the law will result in hastening preparation to meet present emergency conditions." Shall be made applicable to work under this contract and that if overtime work is authorized under the terms of this or other act, the hours of such overtime shall be subject to the approval and direction of the department.

Fifteenth.—This contract shall not, nor shall any interest therein, be transferred by the contractor to any other person or persons, and in the performance of this contract, no person shall be employed that is under sentence of imprisonment at hard labor.

Sixteenth.—No Member of or Delegate to Congress, officer of the Navy, nor any person holding any office or appointment under the Navy Department, is or shall be admitted to any share or part of this contract, or to any benefit to arise therefrom; but this stipulation, so far as it relates to Members of or Delegates to Congress, shall not be construed to extend to this contract, it being made with an incorporated company.

Seventeenth.—The department in consideration of the premises does hereby contract, promise, and engage to and with the contractors as follows:

1. The price to be paid for the vessel to be constructed and furnished in accordance with this contract, including authorized changes therein, shall be the actual cost, plus 10 percent for profit. For the purpose of this contract actual cost shall be generally as defined in the revenue bill approved September 8, 1916, section 302, in so far as the requirements of said revenue bill are applicable to and not inconsistent herewith. The accounts and records of the contracts appertaining to this work shall be open at all times to the department and its representatives, and such statements and returns relative to the expenditures shall be made as are directed by the department. No change shall be required in the present methods and principles of keeping costs, provided the department finds them adequate for the determination of actual costs. All information obtained from the contractors' accounts and records shall be treated as confidential.

The actual cost shall include the following, and items similar thereto in principle:

(*a*) The cost of labor and materials, machinery, equipment, and supplies entering into or expended in the manufacture, building, or construction of the vessel, and other direct charges, such as insurance on the vessel, etc.

(*b*) A proper proportion of running expenses, including ordinary rentals, cost of repairs and maintenance, light, heat, power, insurance, management, salaries, and other indirect charges.

(*c*) A proper proportion of interest accrued within the taxable year on bonds or other debts or loans, contracted to meet the needs of the business and the proceeds of which have been actually used to meet such needs.

(*d*) A proper proportion of taxes of all kinds accrued during the taxable year with respect to the business or property.

(*e*) A proper proportion of physical losses actually sustained within the taxable year in connection with the business, including losses from fire, flood, storm, riot, vandalism, any acts of God, acts of war, or other casualties, and not compensated for by insurance or otherwise, and a proper proportion of a reasonable allowance for losses and damages resulting from displacement of or delay in work contracted for prior to the date of this contract caused by or contributed to by work under emergency conditions performed by the contractor for the department.

(*f*) A reasonable allowance, according to the conditions, for depreciation of values of plant and property. Exceptional depreciation of extensions, increases, and additions to plant and property specially acquired for or devoted to the manufacture or erection of the work or the construction of the vessel under this contract will be accounted for in payments under the item special rentals provided for in paragraphs 3 and 7 of this clause.

2. The contractor shall use every endeavor to obtain the materials, machinery, equipment, appurtenances, supplies, etc., under this contract at the lowest possible prices, and shall in no case pay higher prices than required by the existing market conditions nor higher prices than are or would be paid for similar materials, etc., purchased at the same time and under like circumstances and conditions for other work in progress in the yard. Specifications and guaranties of all materials, machinery and equipment, and the agreements under which such are purchased

shall be subject to the approval of the department, and orders, prices, and awards shall be subject to the approval of the compensation board.

3. Higher rates of pay for day's labor shall not be allowed under this contract than are paid for similar work in progress in the contractor's yard: *Provided*, That nothing herein shall be construed to prevent the contractor from assigning work in divisions or pieces at prices or rates considered reasonable according to its present practice. Payments shall be made by the department monthly within fifteen (15) days after submission of bills to cover the approved actual cost for the previous month, as defined under items (*a*) to (*f*); inclusive, together with a sum equal to ten percent thereof, and the special rentals for additional plant and equipment provided for in paragraph 7 of this clause. The reservation of $200,000 called for under the eleventh clause of this contract shall be withheld from the last of said monthly payments as shall be determined by the compensation board. The parts of the vessel paid for under the system of partial payments above specified become thereby the sole property of the United States.

In the event that for any cause not due to the default of the contractor, the partial payments herein provided for shall cease, the contractor shall have the right to discontinue work upon the said vessel and shall be relieved of its liability for such discontinuance of work under the contract without prejudice to any of its rights hereunder.

4. No payments shall be made except upon bills in quadruplicate certified by the proper inspectors of the vessel, in such manner as shall be directed by the Secretary of the Navy, whose final approval of all bills thus certified shall be necessary before payment thereof.

5. All warrants for payments under this contract shall be made payable to the contractor or its order.

6. When a payment is to be made under this contract, as a condition precedent thereto, the Secretary of the Navy may, in his discretion, require evidence satisfactory to him, to be furnished by the contractor, showing what, if any, liens or rights in rem of any kind against said vessel, or her machinery, fittings, or equipment, or the material on hand for use in the construction thereof, have been or can be acquired for or on account of any work done, or any machinery, fittings, equipment, or material already incorporated as a part of said vessel, or on hand for that purpose; but it is whereby further stipulated, convenanted, and agreed, by the contractor for itself and on its own account and for and on account of all persons, firms, associations, and corporations furnishing labor and materials for said vessel, and this contract is upon the express condition that no lien or rights in rem of any kind shall lie or attach upon or against said vessel or her machinery, fittings, or equipment, or the materials therefor, or any part thereof, or of either, for or on account of any work done upon or about said vessel, machinery, fittings, equipment, or materials, or of any materials furnished therefor or in connection therewith, nor for or on account of any other cause or thing or of any claim or demand of any kind, except the claims of the department.

7. For the determination of the actual cost as defined above a "compensation board" composed of not more than six nor less than three officers of the Navy shall be appointed by the Secretary of the Navy. This board shall ascertain, estimate, and determine the actual cost in accordance with the seventeenth clause hereof, and the decision of said board or a majority thereof shall be binding on both parties to the contract, subject to the approval of the department. Wherever possible it will lay down in advance the methods to be followed in estimating and determining the actual cost, and where this cannot be done it will act within three months of the date of the receipt thereof on any claim submitted by the contractor. It will determine the methods to be followed by the contractor in preparing bills and by the inspectors in certifying to them, and will determine the items which must be referred for its decision.

It will determine a fair special rental to be allowed the contractor for the use of such additional plant and equipment as must be provided for and used in the carrying out of this contract, such rental to be determined monthly, so nearly as may be to recompense the contractor not to exceed fifty percent of the actual cost of such additional plant and equipment, when and as the expenditures therefor are made: *Provided*, That at the close of the contract the compensation board will then estimate, ascertain and determine the value to the contractors of such additional plant and equipment at that time, taking account of all the circumstances, such as additional use made of said additional plant and equipment during the period of the contract, the condition of the shipbuilding business, the desirability of such equipment at that time in carrying on the business, its first cost as compared with the first cost in a normal material and labor market, its replacement value at the time when said determination is being made.

In cash the special rental that has been allowed from time to time during the period of the contract does not equal the difference between the first cost of said additional plant and equipment and the value as ascertained at the close of the contract for said additional plant and equipment, the department will pay to the contractor a sum equal to said difference. In case the special rental that has been allowed from time to time during the period of the contract is in excess of the difference between the first cost of said additional plant and equipment and the value as ascertained at the close of the contract, the department will deduct from the final payments and reserve due the contractor a sum equal to said difference: *Provided,* That no special rental shall be paid for any such additional plant and equipment whose installation shall not have been passed upon and approved by the compensation board.

8. When all the conditions, convenants, and provisions of this contract shall have been performed and fulfilled by and on the part of the contractor, it shall be entitled, within 10 days after the filing and acceptance of its claim, to receive the said special reserve or so much thereof as it may be entitled to, together with the net bonuses or penalties earned, on the execution of a final release to the department, in such form and containing such provisions as shall be approved by the Secretary of the Navy, of claims against the United States arising under or by virtue of this contract. But it is understood that matters forming elements of price or cost under this contract, when in dispute between the contractor and third persons, shall be excepted from the operation of said release: *Provided, however,* That the contractor may at any time be required by the Secretary of the Navy to settle any such demands upon a decision of the compensation board on the matters in dispute.

Eighteenth.—If any doubts or disputes arise as to the meaning of anything in the contract, drawings, plans, or specifications, or if any discrepancy appear between said drawings, plans, or specifications and this contract, the matter shall be referred at once to the Secretary of the Navy for determination; and his decision in the premises shall be conclusive and binding upon the parties hereto: *Provided,* That both parties hereto shall have the right of appeal to the President of the United States.

IN WITNESS WHEREOF the respective parties hereto have hereunto set their hands and seals the day and year first above written.

SIGNED AND SEALED IN THE PRESENCE OF—

NEW YORK SHIPBUILDING CORPORATION,
SAML M. KNOX, *President,*
THE UNITED STATES, by F. D. ROOSEVELT,
As Acting Secretary of the Navy.

Attest:

J. T. WICKERSHAM, *Secretary.*
D. W. T.
R. S. G.
GRAHAM EGERTON, *Solicitor,*
As to F. D. Roosevelt, Acting Secretary of the Navy.

28783-26

[COPY]

OCTOBER 11, 1920.

Subject: Battle Cruiser No. 3, U. S. S. *Saratoga;* changes under the contract.

NEW YORK SHIPBUILDING CORPORATION,
Camden, New Jersey.

GENTLEMEN: 1. The Department has received your letter of October 7, 1920, proposing as changes under the contract for Battle Cruiser No. 3, U. S. S. *Saratoga,* the following:

"(*a*) Changes set forth in the revised plans and specifications which have now been received.

"(*b*) A change in the seventeenth section of such contract by which the price to be paid for such vessel, including authorized changes therein, shall be the actual cost, as defined in such contract, from the beginning, plus a fixed fee for profit of two million dollars ($2,000,000) instead of actual cost, as therein defined, plus ten percent (10%) for profit. Such fixed fee shall include all profits heretofore paid under such contract. Payment of the fixed fee shall be made monthly at the rate of ten percent (10%) of the cost, until such payments shall equal one million eight hundred thousand dollars ($1,800,000). The balance, two hundred thousand dollars ($200,000) of such fixed fee as to such vessel shall constitute the special reserve of two hundred thousand dollars ($200,000) provided in such contract.

"(c) In case changes in such vessel involving increased costs are authorized after this date, the definite compensation, above fixed, shall be increased in the same proportion as the cost of the changes bears to the cost of the vessel, exclusive of such changes.

2. The Department hereby accepts your proposal and approves the changes set forth in paragraph one above as changes under its contract #352, dated May 5, 1917, for the construction of Battle Cruiser No. 3, U. S. S. *Saratoga.*

3. The Department will, by separate correspondence, communicate with you relative to changes as to the trial requirements.

Very respectfully,

GORDON WOODBURY,
Acting Secretary of the Navy.

The following information was supplied by the Navy Department in connection with Mr. Parker's testimony. (See text, p. 4598.)

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, February 2, 1935.

Hon. W. WARREN BARBOUR,
United States Senate, Washington, D. C.

MY DEAR SENATOR BARBOUR: This is to acknowledge receipt of your letter of January 24, 1935, and to supply you with the information which you requested therein.

It is noted in the transcript of testimony which you forwarded to me that mention is made of the sum of $377,000, which is, as I understand it, a sum of money which was included as a part of the cost of battle cruiser *No. 3*, this cost being income taxes.

The Navy Department has no knowledge of this sum of money, for the records here appear to indicate that income and excess-profits taxes were never allowed to be included as elements of cost for vessels building for the Navy Department under cost-plus contracts.

The contract for battle cruiser *No. 3* was signed as of date May 5, 1917, and included therein a provision of the items which would be permitted to be charged as part of the cost of the vessel; the essential features of title III, section 302, of the Revenue Act of September 8, 1916, were used as a basis for establishment of these elements.

The contract for this vessel was made pursuant to congressional authority given in the Naval Appropriation Act approved August 29, 1916.

With particular reference to Mr. Parker's statement that it was absolutely necessary that his company charge all taxes to cost, I do not believe that much weight should be given to this, as it is obvious that the Navy Department would not want anything charged as a cost unless it was thought to be right.

On the date of May 5, 1917, the date of the signing of the contract for battle cruiser no. 3, the Navy Department issued a letter defining the duties of the Compensation Board which was set up for the administration of this and other contracts of a similar nature

This Board is still in existence and under date of February 31, 1935, it has reported to me as follows:

"Subject: Inquiry concerning income and excess-profits taxes—inclusion in costs of cost-plus contracts—New York Shipbuilding Co.

"Reference: Letter from Hon. W. Warren Barbour, dated January 24, 1935, to the Secretary of the Navy.

"Enclosures:

"A. List of contracts with New York Shipbuilding Co. for naval vessels, determination of cost of which was under the cognizance of the Compensation Board.

"B. Copy of Compensation Board's letter, no. 407–14,407, dated September 26, 1917, to Secretary of the Navy.

"C. Copy of Secretary of the Navy's letter, no 26529–80:2, dated January 24, 1918, to Compensation Board.

"D. Copy of letter of Bethlehem Shipbuilding Corporation, Ltd., to Secretary of the Navy, dated March 14, 1918.

"E. Copy of Compensation Board's letter, no. 407, dated April 13, 1918, to Secretary of the Navy via Office of the Solicitor, Bureau of Construction and Repair, Bureau of Steam Engineering.

"F. Copy of Acting Secretary of the Navy's letter, no. 26529:80 S/N/Ep, dated May 8, 1918, to the William Cramp & Sons Ship and Engine Building Co., New York Shipbuilding Corporation, et al.

"G. Copy of Newport News Shipbuilding & Dry Dock Co.'s letter dated July 9, 1918, to the Secretary of the Navy.

"H. Copy of Compensation Board's first endorsement, no. N–407,407, dated September 7, 1918, to Secretary of the Navy via Office of the Solicitor, Bureau of Construction and Repair, Bureau of Steam Engineering.

"I. Copy of New York Shipbuilding Corporation's letter to Compensation Board, dated August 15, 1918.

"J. Copy of Secretary of the Navy's letter to the president and general manager, Newport News Shipbuilding & Dry Dock Co., dated February 12, 1921.

"1. Reference requests certain information concerning the inclusion of income and excess-profits taxes in costs of cost-plus contracts for the vessels built by the New York Shipbuilding Co. for the Navy Department. It also requests certain other information concerning the preparation of the contracts for such vessels. This information, as far as obtainable from the files of the Compensation Board, is given below.

"2. The Compensation Board did not prepare or negotiate any of the contracts with the New York Shipbuilding Co. or other shipbuilders. The duties of the Compensation Board were confined to the administration of the contracts and are strictly defined by Department's letter under date of May 5, 1917, as follows:

"'Subject: Assignment of duties of Compensation Board.

"'Reference: (*a*) Department order March 22, 1917.

"'1. The Compensation Board created by the Department's order, reference (*a*), will be charged with the following and such other specific duties as may be assigned to it hereafter:

"'(*a*) To ascertain, estimate, and determine, in accordance with the terms of contracts, the actual costs of vessels building or about to be built under contract with the Navy Department on a "cost-plus-profit" basis.

"'(*b*) To decide upon, control, and supervise the execution of all methods necessary to be established to carry out its duties, especially those defined in the contracts for vessels building or to be built upon the "cost-plus-profit" basis.

"'(*c*) The Board is authorized to call upon the bureaus and offices of the Department for such information and assistance as may be necessary in the execution of the work assigned to it, and it will be furnished with copies of contracts and such other data as may be necessary in the proper performance of its duties.'

"3. The contracts which the Navy Department executed with the New York Shipbuilding Co. at this time were for the construction of two battleships, one of which contracts, however, was subsequently canceled as a result of the Treaty Limiting Naval Armament, concluded February 6, 1922. This contract, dated January 17, 1917, Department, no. 167–A, was originally on a fixed-price basis, but was changed by supplementary contract to a cost-plus basis under date of July 17, 1917, Department, no. 167–B. All of the other contracts executed with the New York Shipbuilding Co. during this period were also on a cost-plus basis and were for the following vessels: 1 battle cruiser, construction of which was held up by the Treaty Limiting Naval Armament and subsequently converted into an airplane carrier; also 3 contracts covering altogether 30 torpedo-boat destroyers. A memorandum (enclosure A) indicating the different contracts executed by the Navy Department about this time with the New York Shipbuilding Corporation is enclosed for your further information.

"4. As noted in paragraph 2 above, the duties of the Compensation Board were confined solely to the determination of actual cost as defined by the provisions of the several contracts. At the time of the execution by the Navy Department of the cost-plus contracts made during the year 1917 and prior to October 3 of that year, the conditions governing the application of the Federal income tax were definitely set forth in the Revenue Act of September 8, 1916. The Revenue Act of October 3, 1917, enacted by the Congress, made radical changes in the rates of income taxes imposed upon corporations, the method of their computation, and the period during which the tax should be paid. Section 200 of title II of the act of October 3, 1917, defines the term 'taxable year' for the purposes of that act as follows:

"'The term "taxable year" means the twelve months ending December thirty-first, excepting in the case of a corporation or partnership which has fixed its own fiscal year, in which case it means such fiscal year. The first taxable year shall be the year ending December thirty-first, nineteen hundred and seventeen, except that in the case of a corporation or partnership which has fixed its own fiscal year, it shall be the fiscal year ending during the calendar year nineteen hundred and seventeen.'

"5. This act made provisions specifically excluding 'income and excess-profits taxes' from the authorized deductions in determining net income. (See sec. 1207 of said act of Oct. 3, 1917.)

"6. Prior to the passage of the act of October 3, 1917, in considering the provisions of the cost-plus contracts executed with the different shipbuilders, the question arose with the Compensation Board as to whether it was proper to allow income and excess-profits taxes as elements of cost and hence to be reimbursed to the contractor as ordinary costs are reimbursable, i. e., the full value thereof plus 10 percent.

"7. After fully considering the matter, the Compensation Board addressed a letter to the Department under date of September 26, 1917 (enclosure B), stating that the Compensation Board was of the opinion 'that no part of income taxes, munitions taxes, excess-profits taxes, or similar taxes is allowable as part of the costs of naval vessels under construction at private shipyards', and requesting the decision of the Navy Department in this regard. Under date of January 24, 1918, the Acting Secretary of the Navy rendered a decision in this matter, stating:

"'As a contract must, if possible, be construed to effect a lawful purpose, these contracts are not to be construed to exempt contractors from the payment of these taxes by including them as a part of the costs to be paid by the Department' (enclosure C).

"Under date of January 25, 1918, all cost-inspection boards were supplied with a copy of the Department's decision as regards the exclusion of 'income and excess-profits taxes' from costs, although the cost-inspection boards had previously been instructed by the Compensation Board under date of November 7, 1917, that no part of income and excess-profits taxes were to be allowed as elements of cost.

"8. Subsequent to the decision of the Department, a number of the larger shipbuilding companies requested the Department to enter into a friendly suit before the Court of Claims in order that the interpretation of the clause of the contracts concerning income and excess-profits taxes might be speedily and definitely settled (enclosure D). This request of the shipbuilding companies was by the Department referred to the Compensation Board for comment (enclosure E), and as a result was denied by the Department (enclosure F). Subsequent to the original decision of the Department (enclosure C), the Newport News Shipbuilding & Dry Dock Co., under date of July 9, took up the matter of the allowance of income and excess-profits taxes as an allowable element of cost (enclosure G). This correspondence was again referred to the Compensation Board for comment. (See enclosure H.) The Newport News Shipbuilding & Dry Dock Co., in taking up the question of income and excess-profits taxes for their own account, were joined in the matter by the New York Shipbuilding Corporation. (See enclosure I.) After the decision of the Department, there followed a voluminous correspondence between the shipbuilders and the Department concerning the income and excess-profits taxes, which resulted in the Department reaffirming its former decisions and advising the contractors as follows:

"'If, under the provisions of the contract, you desire to submit an appeal to the President, it is suggested that this appeal be submitted as promptly as possible.' (See enclosure J.)

"9. Two of the shipbuilders—Newport News Shipbuilding & Dry Dock Co. and the Bath Iron Works—appealed to the President of the United States in accordance with the provisions of the contract. The President submitted the appeal of the contractors to the Attorney General of the United States for review and a decision. The decision of the Attorney General was adverse to the contractors, and under date of August 22, 1923, the President of the United States affirmed the decision of the Secretary of the Navy and directed that the contractors be informed of the action taken by him.

"10. The foregoing is a brief résumé concerning 'income and excess-profits taxes' to show that such taxes were never allowed by the Compensation Board to be included as elements of costs of vessels building for the Navy Department under cost-plus contracts.

"11. It may be pertinent to note that one shipbuilder, in his accumulated costs prior to the passage of the act of October 3, 1917, had included income taxes to the amount of $1,695.14. Credit for this amount, however, was taken by the Cost Inspection Board in April 1918 by direction of the Compensation Board; later the contractor, in his July 1918 bills, included this amount, which, however, was promptly deducted from his bill and disallowed by the Compensation Board.

"12. Concerning that portion of Senator Barbour's letter referring to the preparation and negotiation of cost-plus contracts and all papers and correspondence pertinent thereto, reference is suggested to the Secretary's office and files, since the Compensation Board had nothing to do with the preparation of the contracts in question.

"W. L. Capps,
"*Rear Admiral, Construction Corps,*
"*United States Navy (retired),*
"*Senior Member.*"

The enclosures referred to in this communication are attached herewith as being those which you desired to have.

Your particular attention is invited to the insistence shown by the shipbuilders in this correspondence to have income taxes and excess-profits taxes permitted as a part of the cost, and your particular attention is further invited to the fact that the Navy Department never would allow the inclusion of such taxes; this seems to nullify the testimony of Mr. Parker in this respect.

Sincerely yours,

Claude A. Swanson.

Enclosures A to J.

Enclosure A

List of Contracts With the New York Shipbuilding Co. for Naval Vessels, Determination of Cost of Which Was Under the Cognizance of the Compensation Board

BATTLESHIPS—"COLORADO", NO. 45, AND "WASHINGTON",[1] NO. 47

Original contract: Fixed price, Dept. No. 167–A, dated January 17, 1917.

Supplementary contract: Changing from fixed price to cost plus, Dept. No. 167–B, July 17, 1917.

BATTLE CRUISER NO. 3—"SARATOGA"

Original contract: Cost plus, Dept. No. 352, dated May 5, 1917.

Supplementary contract: Converted into an airplane carrier, price changed from cost plus to cost and a fixed fee, Dept. No. 352–A, dated October 3, 1922.

Supplementary contract: Changing to a fixed price, Dept. No. N.O.D. No. 61, dated May 18, 1927.

TORPEDO BOAT DESTROYERS

Nos. 125/130 (6): Cost plus, Dept. No. 540/545, dated July 11, 1917.
Nos. 157/160 (4): Cost plus, Dept. No. 893/896, dated September 28, 1917.
Nos. 231/250 (20): Cost plus, Dept. No. 899, dated December 29, 1917.

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[1] The contract for this vessel was canceled as a result of the Treaty Limiting Naval Armament, concluded Feb. 6, 1922, between United States of America, British Empire, France, Italy, and Japan.

ENCLOSURE (B)

[Copy]

COMPENSATION BOARD,
NAVY DEPARTMENT,
Washington, D.C., September 26, 1917.

407-14
407

To: The Secretary of the Navy.

Subject: Question as to whether income tax, excess-profits tax, and munitions tax should be treated as elements of cost in cost-plus-profit contracts.

References: (*a*) Seventeenth clause of standard contracts for construction of naval vessels.
(*b*) Twenty-first clause of standard contracts for construction of submarines.

1. The seventeenth clause of the standard contracts covering naval vessels being constructed at private shipyards on the basis of cost plus profit, reference (*a*), provides that the actual cost shall include the following and items similar thereto in principle:

"A proper proportion of taxes of all kinds accrued during the taxable year with respect to the business or the property."

The twenty-first clause of the standard contracts covering submarine torpedo boats being constructed at private shipyards on the basis of cost plus profit, reference (*b*), provides that the actual cost shall include the following and items similar thereto in principle:

"A proper proportion of taxes of all kinds, including munitions tax, accrued during the taxable year with respect to the business or property."

The seventeenth and the twenty-first clauses, respectively, in the above-quoted contracts state in paragraph 1, fourth sentence:

"No change shall be required in the present methods and principles of keeping costs, provided the Department finds them adequate for the determination of actual costs."

2. The question has arisen as to whether it is proper to allow income taxes and excess-profits taxes as elements of cost, and hence to be reimbursed to the contractor, as ordinary costs are reimbursable; i.e., the full value thereof plus 10 percent. Particular attention is invited to the fact that this question has no relation to the matter of personal-property taxes, real-estate taxes, or capital-stock taxes.

3. In view of the following considerations, it would appear that income taxes and excess-profits taxes cannot be regarded as costs of naval vessels under construction on the cost-plus-profit basis. It would seem that the true interpretation should depend upon the meaning and the purpose of the laws levying the income taxes or excess-profits taxes, since the contracts themselves must be held to have been made in view of said laws, or else must be set aside as illegal. The obvious purpose of the law is that the Government should be empowered to appropriate a portion of the profits of the corporation—that the profits, having been determined only after all the elements of cost have been taken into consideration, are to be distributed between the corporation and the Government. It seems unquestionable, therefore, that income taxes and excess-profits taxes are not elements of cost but are assessments made against the profits of the corporations involved, such assessments representing a share of those profits to which the Government is entitled.

4. The nature of income taxes and excess-profits taxes is made clearer by contrasting them with real-estate taxes and personal-property taxes. Real-estate taxes and personal-property taxes bear no relation to the profits of the corporation; they are assessed even although there be no profits, and therefore they must be considered as expenses or as elements of cost. In the case of income tax, ther is no tax in case there is no profit; and in the case of the excess-profits tax, there is no tax even although there is a profit, unless that profit has exceeded a certain fixed or determinable amount.

5. It would not seem proper for the Compensation Board to hold that any portion of such income taxes or excess-profits taxes can be made to revert to the corporation through an interpretation of a contract such as would have the effect not only of defeating the purpose of the law to the extent of the taxes

but also to the further extent of allowing the contractors to build up additional profits based thereon.

6. In order that the full effect of such procedure may be clearly seen, consideration should be given to the consequences of allowing income taxes and excess-profits taxes as elements of cost. In this case, the contractors would not only profit to the extent of having the taxes refunded to them but also to the extent of an additional 10 percent thereon. If this increment of 10-percent profit were subject to income taxes and excess-profits taxes, the Government would recover a part thereof. This part might be allowed, in turn, as an additional profit on Government contracts, and so on ad infinitum. In other words, such procedure would result in a reductio ad absurdum. Obviously the procedure is not proper.

7. Although in reference (*b*) it is specifically stated that the munitions tax shall be included as an element of cost, it would seem that the true interpretation should depend upon the meaning and purpose of the law levying the munitions tax, since the contract itself must be held to have been made in view of the law, or else must be set aside as illegal. The obvious purpose of the law is that the Government shall be entitled to a share of the profits of the corporations coming under the jurisdiction of the munitions-tax law. The munitions tax is considered, therefore, as an assessment made against the profits of the corporations involved, such assessment representing the share of those profits to which the Government is entitled. It would seem, therefore, that the munitions tax is not an element of cost and cannot, with propriety, be made the subject of reimbursement by the Government either with or without the addition of 10-percent profit. To consider it otherwise would be to nullify what seems to be the true purpose and intent of the munitions-tax law.

8. In view of the above, therefore, the Compensation Board is of the opinion that no part of income taxes, munitions taxes, excess-profits taxes, or similar taxes is allowable as part of the costs of naval vessels under construction at private shipyards. The decision of the Navy Department is requested.

David Potter,
For the Compensation Board.

Enclosure C

[Copy]

26529–80 : 2
S/W/Dr
Navy Department,
Washington, January 24, 1918.

From: The Secretary of the Navy.
To: Compensation Board.
Subject: Bonuses, income tax, excess-profits tax, and munition tax—whether they should be treated as elements of cost in cost-plus contracts.

The proceeds of manufacturing at a manufacturing plant are divisible into "cost" and "profits."

The bonuses contemplated in the case of the Fore River Shipbuilding Corporation are derived from and are a part of the profits; and in the Department's cost-plus-profit contracts the 10 percent of the cost payable to the contractor represents such profits.

The right of the officials of the corporation to such a bonus from profits is, therefore, limited to a share of said 10 percent.

It is plain, therefore, that these bonuses cannot be considered as a part of the costs.

The mandate of the statute is that the income, corporation, and excess-profits taxes shall be levied, assessed, collected, and paid; and that certain manufacturers shall pay the munitions tax.

To construe the contract clauses submitted by the Compensation Board as including the payment of these taxes as a part of the cost in the cost-plus-profit contracts would ascribe to the Secretary the intention to remit taxes which the statute commands the contractor to pay.

As a contract must, if possible, be construed to effect a lawful purpose, these contracts are not to be construed to exempt contractors from the payment of these taxes by including them as a part of the costs to be paid by the Department.

F. D. Roosevelt, *Acting.*

Enclosure D

[Copy]

Washington, D. C., *March 14, 1918.*

Hon. Josephus Daniels,
Secretary of the Navy, Navy Department, Washington, D. C.

Dear Sir: The following shipbuilding companies were represented in a conference with the Secretary of Navy on the morning of Thursday, March 14, 1918, and discussed with the Secretary the allowance of income and excess-profit taxes as part of cost in connection with cost and percentage contracts:

New York Shipbuilding Co., Camden, N. J.
William Cramp Ship & Engine Building Co., Philadelphia, Pa.
The Todd Shipbuilding Co., New York, N. Y.
The Bath Iron Works Corporation, Bath, Maine.
The Newport News Shipbuilding & Dry Dock Co., Newport News.
The Bethlehem Shipbuilding Corporation, Ltd., Bethlehem, Pa.

Each of the above companies is forwarding the solicitor a list showing the cost and percentage contracts under discussion at this conference.

In March and April 1917 certain cost and percentage contracts were negotiated between the Department and shipbuilders. In these contracts the various elements of cost are defined, one of which is as follows:

"(*d*) A proper proportion of taxes of all kinds accrued during the taxable year with respect to the business or property."

Similar contracts were executed for various groups of vessels throughout the spring and summer of 1917. In the case of certain submarine contracts the definition of cost was amplified by the addition of certain words as follows:

"A proper proportion of taxes of all kinds, including munition taxes, accrued during the taxable year with respect to the business or property."

All of these contracts provide for a profit of 10 percent on the cost, including the proper proportion of taxes as above defined.

At a later date a variation in the form of contract for vessels subsequently contracted for was made by which, for the cost and percentage contracts, there was substituted a cost-plus-fixed-fee contract.

In this form of contract, which is not in question, the definition of cost was changed to read as follows:

"A proper proportion of taxes of all kinds accrued during the taxable year with respect to the business or property, but such taxes shall not be held to include Federal income or excess-profit taxes."

From the first payment made by the Navy Department on the cost and percentage contracts the shipbuilders claimed a proportion of income and excess-profit taxes. These were allowed in some instances (but have since been disallowed), while in other cases the claim was held for further consideration. Finally, reference was made to the Department which, in its letter, 26,529–80:2, dated January 24, 1918, decides that "these contracts are not to be construed to exempt contractors from the payment of these taxes by including them as part of the cost to be paid by the Department."

It is the belief of all the contracting companies joining in this memorandum that it was the intention of both parties to these contracts at the time of their execution that a net 10-percent profit was to be allowed for the construction of these vessels. Because of the uncertainty that existed as to the extent and amount of income and excess-profit taxes, it is the understanding of these companies that the Department agreed to accept as part of cost a proper proportion of these taxes levied against these companies insofar as these particular contracts were concerned.

That this is a fact is borne out by the definite inclusion in the submarine contracts of the munition tax which was actually on the statute books as referring to profits on the construction of submarines as part of the cost of these vessels.

in order that the interpretation of this clause of the cost-plus contracts may be speedily and definitely settled, the companies represented by this memorandum request the Secretary to authorize the Navy Department to join them in a friendly suit before the Court of Claims with a view of legally determining at an early date the intention and meaning of this item of the cost-plus contracts.

Very respectfully,

Bethlehem Shipbuilding Corporation, Ltd.,
J. W. Powell, *Vice President.*

JWP/c

ENCLOSURE E

[Copy]

407

COMPENSATION BOARD,
April 13, 1918.

To: Secretary of the Navy.
Via: Office of the Solicitor.
Bureau of Construction and Repair.
Bureau of Steam Engineering.

Subject: Request of shipbuilding companies for reconsideration of Department's decision in relation to "Federal income and excess-profit taxes", and their inclusion as an element of cost in naval vessels.

Reference: (*a*) Letter of March 14, 1918, from Bethlehem Shipbuilding Corporation.
(*b*) Department's previous decision contained in letter to Compensation Board dated January 24, 1918.
(*c*) Compensation Board's letter of September 26, 1917, in relation to exclusion of "Income and excess-profit taxes" as elements of cost.

1. As directed orally by the Secretary of the Navy, the Compensation Board has given careful consideration to the accompanying communication from the Bethlehem Shipbuilding Corporation, reference (*a*), and has also reviewed the evidence and communications upon which the Department's decision of January 24, 1918, reference (*b*) was based, and submits the following:

2. At the time of the execution by the Navy Department of the "cost-plus" contracts made during the year 1917 and prior to October 3, of that year the conditions governing the application of the Federal income tax were set forth in the act of September 8, 1916.

3. Section 11, part 2, of title I of the above-noted act of September 8, 1916, made specific statement of the income which would be exempt from the provisions of the income-tax law, and section 12 of the same act, paragraph (a), fourth heading, made the following specific statement of tax deductions which would be allowed:

"Fourth. Taxes paid within the year imposed by the authority of the United States, or its Territories, or possessions, or any foreign country, or under the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, not including those assessed against local benefits."

4. Under title III, section 302, of this same act of September 8, 1916, provision was also made for items which could be deducted in computing the "net profits" which would be made the basis of assessment of the "munitions manufacturers' tax." The essential features of this section relating to the computation of "net profits" were embodied in the "cost-plus" contracts of the Navy, so far as applicable thereto, for the guidance of all concerned in determining the actual cost of such vessels.

5. In this connection and with special reference to the "munitions tax" alluded to by the shipbuilders in their letter of March 14, 1918 (reference (*a*)), attention is invited to section 301 of title III of the act of September 8, 1916. In the list of articles therein enumerated as subject to a "munitions manufacturers' tax" appears the following:

"(*e*) electric motor boats, submarines or submersible vessels or boats: or (*f*) any part of any of the articles mentioned in (*b*), (*c*), (*d*), or (*e*)."

It is obvious that it was on account of this specific inclusion of submarine boats in the list of items subject to a "munitions tax" under the terms of the act of September 8, 1916, that the contracts for submarine boats executed during the year 1917 and prior to the act of October 3, 1917, included the "munitions tax" among the taxes which might be considered as a part of the cost of vessels. This inclusion of the term "munition taxes" in those contracts manifestly has the effect of placing the computation of the cost of submarine vessels on substantially the same basis as that employed in computing the cost of other naval vessels which are not subject to a "munitions manufacturers' tax."

6. A few months after the execution of the above-noted contracts for naval vessels legislation was enacted by the Congress which made radical changes in the rate of income taxes imposed upon corporations, the method of their com-

putation, and the period during which the tax should be paid. This act made provision specifically excluding "income and excess-profit taxes" from the authorized deductions in determining net income. This modification of the act of September 8, 1916, made by the act of October 3, 1917, appears in section 1207 of the last-named act, and is as follows:

"Fourth. Taxes paid within the year imposed by the authority of the United States (except income and excess-profits taxes), or of its Territories, or possessions, or any foreign country, or by the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, not including those assessed against local benefits."

Moreover, section 200 of title II of the act of October 3, 1917, defines the term "taxable year" for the purposes of that act, as follows:

"The term 'taxable year' means the twelve months ending December thirty-first, excepting in the case of a corporation or partnership which has fixed its own fiscal year, in which case it means such fiscal year. The first taxable year shall be the year ending December thirty-first, nineteen hundred and seventeen, except that in the case of a corporation or partnership which has fixed its own fiscal year it shall be the fiscal year ending during the calendar year nineteen hundred and seventeen."

7. The two sections of the act of October 3, 1917, quoted in the preceding paragraph would appear definitely to dispose of the proper treatment of United States income and excess-profit taxes so far as relates to their inclusion in the cost of naval vessels.

8. In this general connection attention is also invited to section 201 of the act of October 3, 1917, specifying the character and extent of the "war excess-profit tax", and to section 203 and following sections relating to deductions which can be made in computing that tax.

Attention is also invited to section 214 of this act, which contains the following amendment of the "munitions-tax" section of the act of September 8, 1916:

"Subdivision (1) of section three hundred and one of such Act of September eighth, nineteen hundred and sixteen, is hereby amended so that the rate of tax for the taxable year nineteen hundred and seventeen shall be ten per centum instead of twelve and one-half per centum, as therein provided."

The same section of the act of October 3, 1917, also contains the following provision—

"Subdivision (2) of such section is hereby amended to read as follows: '(2) This section shall cease to be of effect on and after January first, nineteen hundred and eighteen.'"

which abolishes the "munition-manufacturers' tax" after January 1, 1918. The provisions of the act of October 3, 1917, just quoted, would therefore appear definitely to dispose of any question as to the bearing of the "munition-tax" item of the income-tax law so far as concerns its relation to submarine or other naval vessels.

9. In view, therefore, of the conditions herein set forth, especially the amendments of the act of September 8, 1916, contained in the act of October 3, 1917, relating to income and excess-profit taxes and the specific definitions of the term "taxable year" it would appear that the Department's previous decision of January 24, 1918, reference (*b*) was just, proper, and in strict conformity with the law.

10. It is, therefore, recommended that the Department's previous decision contained in its letter of January 24, 1918, be adhered to and the shipbuilder's plea that the Navy Department join them in a friendly suit before the Court of Claims be denied.

W. L. CAPPS,
Chief Constructor, United States Navy,
Senior Member.

ENCLOSURE F

[Copy]

26529 : 80
S/N/Ep

NAVY DEPARTMENT,
Washington, May 8, 1918.

Same letter to New York Shipbuilding Corporation, the Bath Iron Works, Newport News, the Todd Shipbuilding Co., Bethlehem Shipbuilding Corporation.

The WILLIAM CRAMP & SONS SHIP & ENGINE BUILDING CO.,
Philadelphia, Pa.

GENTLEMEN: Referring to the conference at the Department on the 14th of March last on the question as to the allowance of income and excess-profit taxes as part of cost in connection with cost-plus percentage contracts, at which conference and in the letter of said date to the Department in behalf of the New York Shipbuilding Corporation, the William Cramp & Sons Ship & Engine Building Co., the Todd Shipbuilding Co., the Bath Iron Works Corporation, the Newport News Shipbuilding & Dry Dock Co., and the Bethlehem Shipbuilding Corporation the suggestion that the question as to the allowance of such income and excess-profit taxes be submitted to the Court of Claims by the contractors and the Department in a friendly suit for interpretation of the cost-plus contracts was discussed, I transmit herewith for your information a copy of a communication[1] to the Department by Admiral Capps, senior member of the Compensation Board, setting forth the provisions of law relating to Federal income and excess-profit taxes.

From said communication it appears that the interpretation heretofore placed on said contracts, in which the contractors do not concur, that the taxes referred to cannot be included as part of the cost is the only admissible one, and I am therefore constrained to deny the request that the Department join in a friendly suit for judicial determination of the matter.

Very respectfully,

FRANKLIN D. ROOSEVELT,
Acting Secretary.

(Enclosure.)

ENCLOSURE G

[Copy]

[Handed to C. B. by Mr. Bickford, representing Newport News Co.]

NEWPORT NEWS SHIPBUILDING & DRY DOCK CO.,
Newport News, Va., July 9, 1918.

SECRETARY OF THE NAVY,
Navy Department, Washington, D.C.

SIR: On January 31, 1918, the Compensation Board transmitted to the Newport News Shipbuilding & Dry Dock Co. four copies of a letter of the Secretary of the Navy to the Compensation Board, marked "26329–80:2SWDR." In this letter the Acting Secretary of the Navy instructed the Compensation Board, in part, as follows:

"The mandate of the statute is that the income, corporation, and excess-profits taxes shall be levied, assessed, collected, and paid; and that certain manufacturers shall pay the munitions tax.

"To construe the contract clauses submitted by the Compensation Board as including the payment of these taxes as a part of the cost in the cost-plus-profit contracts would ascribe to the Secretary an intention to remit taxes which the statute commands the contractor to pay.

"As a contract must, if possible, be construed to effect a lawful purpose, these contracts are not to be construed to exempt contractors from the payment of these taxes by including them as a part of the costs to be paid by the Department."

Upon receipt of the copies of the above letter, the undersigned company, by its letter of February 7, 1918, to the naval cost inspector stationed at these works, stated as follows:

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[1] See enclosure E.

"We think that the decision of the Department as to taxes is in error, and we wish to express our dissent from the conclusions contained in the above-mentioned letter, reserving for later discussion in detail our grounds for this dissent."

In answer to the last-quoted letter, this company received a letter from Philip Bradley, assistant paymaster, stationed at the Newport News office of the cost inspector, Navy Department, dated February 12, 1918, in part as follows:

"At such time as you care to state definitely reasons against the decision referred to in your letter, they will be given due consideration by the Compensation Board."

It being apparent to this company and to other shipbuilding companies similarly situated that the instruction issued by the Secretary of the Navy to the Compensation Board under date of January 24, 1918, involved a pure question of law of great moment to shipbuilders, a request was made to the Secretary of the Navy to refer the question of law to the Court of Claims.

Some consideration was given to this request by the Acting Secretary of the Navy, who on May 8, 1918, informed this company that he refused to refer the matter to the Court of Claims as requested, basing his refusal upon a communication from Admiral Capps to the Secretary of the Navy dated April 13, 1918, which communication set forth certain provisions of the revenue laws relating to Federal income and excess-profits taxes and amendations thereof after the making of the contract, and sought to show that such amendatory laws supported the Secretary's instruction to the Compensation Board of January 24, 1918, above referred to.

It is and always has been the understanding of this company that a just proportion of *all taxes* should be paid as a part of cost and it feels warranted in stating that the Navy Department held the same intent. This company is convinced that the view of the Secretary, that the contract would be illegal if construed to bear its plain meaning, is due to a misconception of the law governing the contract orders.

It is the purpose of this paper to bring to the notice of the Secretary the considerations which, this company believes, will sustain the claim of the shipbuilders, that they are legally entitled to the allowance for which the contract so plainly provides. The paper is lengthy, but it is hoped that the necessity of clearly and fully stating this very important subject will justify its extent.

1. Prior to the order contracts, to which this subject relates, there had been a constantly growing demand for new private construction since the beginning of 1915. Contracts for this construction were closed by American shipbuilders for constantly increasing prices up to and including the early spring of 1917. Notwithstanding the fact that the contractor's margin of estimated profit had been steadily increased in the contracts taken within the period above mentioned, the constantly increasing cost of labor and material had reduced the shipbuilder's profit to a minimum, and in many instances had eliminated it altogether. Prudent shipbuilders were finally convinced that the only kind of construction in which they could engage with any safety was upon a basis of cost plus a profit.

2. In the winter and early spring of 1917 there was a very large amount of ship construction offered the shipbuilders of the United States, much of which was for foreign account. Any reputable shipbuilder in the United States could have contracted to its capacity, especially for foreign work, on a cost-plus percentage basis, or at a flat-price basis that would have assured or promised extraordinary profit to the shipbuilder. This fact was generally known throughout the country and it was peculiarly within the knowledge of the Navy Department.

3. It was at this juncture that the act of March 4, 1917, was passed, which act, in view of the Nation's proximity to war, vested in the President of the United States the extraordinary power of placing with the shipbuilders of the country orders for construction and to fix a reasonable price therefor, which the shipbuilders of the country were compelled to accept on pain of seizure of their respective plants.

4. It was not the intention of Congress that these emergency powers should be harshly exercised so as to cause loss to shipbuilders and disorganization to shipbuilding, but it was the intention of Congress to secure immediate ship construction. It was also the purpose of Congress that the President should

arrive at some means of fixing a reasonable price for a ship *at the time of the placing of the order, for the President was only authorized by subsection (b) of the act to seize the plant of the shipbuilder when the builder had refused to accept an order given at the reasonable price fixed by the President.*

5. It became apparent to the President and the Navy Department that in order to prevent the disruption of the shipbuilding industry or delay in the acceptance of the Presidential orders it would be necessary to devise some immediate plan by which a reasonable price might be determined at the time of the placing of the order.

6. So far as this company is aware, the only method which had been worked out up to the time of the placing of the Presidential order by which it was possible to determine a reasonable price at the contract date in an emergency of unknown extent was the cost plus a profit, or a fixed-sum method. Such contracts had been in general private use in the United States. Experience under the cost-plus forms of contract had demonstrated the necessity of clearly defining the elements of cost, with a secondary definition of profit by an application of a given percentage or by the addition of a fixed sum thereto.

7. The Secretary of the Navy, acting for the President, decided to fix the reasonable price for which the act of March 4, 1917, provides by adopting the cost plus a percentage basis. This basis was clearly recognized as an allowable basis by the authority given to the Secretary of the Navy by the Naval Appropriation Act of August 29, 1916, in the part thereof relating to cost-plus contracts for battle cruisers.

8. This company, previous to the act of March 4, 1917, had proposed to the Secretary of the Navy for the battle cruisers an outline of a cost-plus contract in which the overhead cost for the execution of the proposed contracts should be estimated at a given percentage of direct cost.

9. The Secretary of the Navy was unwilling to adopt the proposed estimate of an overhead cost, and in lieu thereof, proposed to the builder the present form of order contract, which referred to section 302 of the Revenue Act of September 8, 1916, relating to *munitions excess-profit taxes*, and generally defined the contract cost as consisting of the items therein mentioned. The "munitions manufacturers' tax", to which section 302 related, was an excise-tax law. *This company has never been subject to that law*, but the deductions allowed in the section referred to when applied to the subject matter of the contract resulted in a satisfactory cost basis. It will be noted that the section referred to bases the *excise* tax upon an amount derived by deducting all taxes "with respect to the business." All taxes on the builder's business were therefore included as cost.

10. Three tax laws were in effect at the time these contracts were executed: (*a*) The income-tax law of September 8, 1916, which was a tax on or "with respect to" business; (*b*) the munitions tax law of September 8, 1916, which was an excise tax; and (*c*) the excess-profits tax law of March 3, 1917, which was a tax on or "with respect to" business. These taxes not only imposed burdens more onerous than those imposed by any other tax law, but it was apparent that in the event of greater war needs these subjects of taxation would probably be the preferred subjects of a further and more burdensome tax. This was matter of wide-spread publicity and common knowledge several months before the date of the contract.

11. The war income tax of September 8, 1916, and the excess-profits tax approved March 3, 1917, were laid against the *net income* of the business. This income was defined by section 12 of the act of September 8, 1916, in which, as above indicated, *all taxes of whatever kind* were deducted in order to arrive at this net income.

12. *Net income* and *net profits*, as used in the several revenue laws applicable to this company in force at the time of the contracts, so far as concerns the deductions therein authorized, carry the same meaning. Both mean the same thing that "profit" is declared to mean in *Rubber Company* v. *Goodyear* (9 Wallace, 804)—

"Profit is the gain made upon any business or investment when the receipts and payments are taken into account."

The contracts under discussion clearly express the same intent.

13. The theory of the income-tax law of September 8, 1916, and the excess-profits tax law of March 3, 1917, as well as income-tax laws of previous years, was that the amount of income on the business subject to tax was to be determined for a given fiscal year by the *net income* of that year, arrived

at by deducting *all tax payments during the year*, including payments made on account of such income and excess-profits taxes. Taxes are assessed for a given fiscal year. They are actually paid after the end of that year. The year in which taxes are actually paid may be one in which less actual income accrues than in the year for which such taxes are assessed. They were, therefore, regarded as deductible payments in the business of the year in which they were actually paid, so as that the income tax for the later year may be correspondingly reduced by the fact that the later year actually bears the tax burden of the previous year. Taxes of all kinds are expressly recognized as "costs" under the revenue laws of September 8, 1916, and March 3, 1917, and the income-tax laws of previous years, and are accordingly deductible in arriving at the "net profit" upon which the tax is laid.

14. The Department understood the intent of the tax statutes, and when it became necessary to define "cost" when cost-plus contracts were adopted, it felt justified in using the same measure to ascertain cost that Congress had written into the tax statutes. If, as the parties understood, and the contract clearly provides, the Department was to pay the "cost" of construction of a ship, this necessarily involved a reimbursement to the shipbuilder of a just proportion of all taxes on the business. The most onerous of these were and are income and excess-profits taxes. Accordingly the Navy Department has actually paid income taxes to this company and, it is believed, to several other companies similarly situated. Pursuant to the same policy it has in later forms of contracts specifically provided that *munitions taxes* should be repaid to munitions boat builders—an undertaking inconsistent with any other intent than that herein attributed to the Department.

15. The Department continued in the same view as to the legal and actual meaning of the contract for more than 6 months after the adoption of cost-plus contracts and until the revenue laws relating to *income* taxes of the act of September 8, 1916, and war excess-profits taxes of March 3, 1917, were changed by the act of October 3, 1917, so as that thereafter moneys paid as income and excess-profits taxes were no longer allowed the status of deductible items in making up *the tax basis* for the year in which such payments were made. But it is proper to remark that section 302 of the act of September 8, 1916, which was specifically referred to in the contract *still remains unchanged on the statute books* and, so far as concerns the contracts, means what it always has meant. By the amendments referred to Congress has changed its measure of "cost" for the purpose of assessing taxes, and *for that purpose* the act relates back, but the amendatory statutes neither affect nor purport to affect *contract cost*, nor any contract previously made.

16. Even if section 302 had been amended after the contract, the contract would have been in no wise affected thereby. Such an amendment would only serve to accentuate the meaning of the prior law as referred to in the contract. The law of the contract is the ruling law. If the statutory amendments, upon which Admiral Capps relies, could affect a prior contract by eliminating a part of the contractor's cost, *it follows that the repeal of section 302 would result in excusing all contract payments.* We will show later that these amendments have no affect upon the contract.

17. It seems clear that in arriving at the contracts now under discussion the President, acting by the Secretary of the Navy, laid down in the order contract a perfectly reasonable rule in entire accord with the law as it then existed, from which the "reasonable price" contemplated by the act of March 4, 1917, may be easily computed. The President applied a legal measure to the ascertainment of a basis of obligation and promised the shipbuilders that they would receive the "reasonable price" so resulting.

18. In determining a 10-percent profit, the Secretary of the Navy fixed the *lowest percentage* which according to the cases is consistent with a reasonable price. In the case of *Monroe* v. *United States*, 35 Court of Claims 207, the court said:

"It is a matter of judgment what a reasonable profit is, and there have been numerous cases before the court showing that from 10 percent to 25 percent is regarded, prospectively, as the range of profits which contractors hope or expect to make."

It was not the intent of either party that the agreed profit should be diminished by charging thereto any part of the amounts covered in the agreed elements of cost.

19. The Secretary of the Navy admits that all taxes *except national income and excess-profits taxes* imposed by the authority of the Government of the

United States, or by any State, or in general are to be regarded as cost so far as the builder is concerned, but insist that income and excess-profits tax allowances cannot be made, because, if made, it would be tantamount to a remission of taxes imposed.

20. This company dissents from this reasoning and its consequences. It is clear that if allowances on account of income and excess-profits taxes constitute a remission of taxes, then on the same principle allowances on other national and State taxes likewise constitute a remission. The fact that this result follows demonstrates that there must be a flaw in the premise assumed by the Secretary.

21. The instructions to the Compensation Board, the communications of the Secretary and Admiral Capps hereinbefore referred to indicate that the considerations which influenced the Secretary to arrive at his instructions to the Compensation Board were essentially as follows:

(*a*) That the Government having imposed taxes on income and excess profits, it was not competent for the Government in the person of the Navy Department to agree to allow as cost these tax payments made by the builder, because thereby the excessive income or profit which was taxed by the Government would be made good by the funds of the Government—that such an agreement was essentially illegal from the beginning irrespective of the actual intent of the parties.

(*b*) That whatever the intent of the parties at the time of making the contract and whatever the condition of law which existed at that time, the contract became illegal, if construed to allow such payments, by reason of the amendations to sections of the revenue law which were not referred to in the contract-order, which were subsequently made by Congress. Admiral Capps holds this latter opinion.

22. We have pointed out in this paper that if the allowance of income and excess-profit taxes constitute a remission of such taxes, that an allowance of all other taxes would, in the same reasoning, amount to an equal remission of such other taxes. It must be equally clear that if the Navy Department applies the funds of the United States to cover the general taxes imposed by the United States, that it has for the same reason the right to apply the funds of the United States to cover these special taxes. The agreed compensation to the builder is not made until this is done. But, as we shall point out the *entire* compensation, when made, is the subject of all the income and excess-profit tax.

23. If a reasonable flat-price contract had been practicable such a contract would necessarily have included an estimation of existing and expected tax burdens and the purchase price would have been fixed accordingly. Such burdens have always been considered as a part of cost and were so understood by the Navy Department and by other owners.

24. To the extent of the Government work in the various shipbuilding companies in the United States, Government funds have always contributed to all taxes, because all were a part of cost,. In this way the Government has paid income taxes assessed against shipbuilders since the first Federal income-tax law went into operation. This is the case not only in flat-price contracts but in the element of overhead cost for execution of changes.

25. When the Navy Department specifically agreed to pay a proper proportion of all taxes, it did nothing more than to agree to do what, as a matter of fact, it always had done, namely, to pay as a part of the price of a ship the reasonable share of that ship in all the burdens imposed upon the builder by law or by the conditions of construction. It is immaterial whether the allowance is made in the aspect of cost or profit.

26. The " just proportion " moneys advanced by the Department to the builder to cover taxes, are not the actual taxes which are paid by the builder; they are moneys advanced on an estimation of taxes. When paid by the United States to the builder, they are paid as a part of the *builder's cost*, so far as the the builder is concerned, and as a part of the " *reasonable price* " so far as concerns the Navy Department. Such receipts are a part of the *gross income of the builder which after the statutory deductions result in the taxable net income.*

27. The order contracts for each ship must be considered separately. *The concern of the Secretary of the Navy is not to depress the general income of the builder.* It is to fix upon a reasonable price for each of the several orders placed with such builder. If the income of the builder from *all sources* results in an amount above the point which Congress considers normal, it is the function of the revenue department of the Government to apply the law to the total of the excess income.

28. It is apparent that an unprecedented volume of work made up of income from many contracts, each reasonable in itself, not only may but should result in an income exceeding the ordinary relation of income to investment.

29. The existence of an excess income or excess profit on the part of shipbuilders is not to be regarded as an untoward result, and neither the law nor the contract so regard it. The statute which taxes excess profits necessarily recognizes the legality and propriety of *earning the excess. The order-contracts not only expressly recognize that excess profits will probably result from the expected volume of business* but the contract goes further; it recognized the propriety of such profits and agrees to cover the taxes payable thereon, for all income taxes and all excess-profits taxes, with the possible exception of excise taxes on the business. The contract wisely recognizes that it is the particular business of the Treasury Department to apply the taxes. *The revenue laws do not take away the entire excess profits which the energies of the builder have accumulated.* They leave in the builder's hands a *part* of the increased profit that it has earned. It is manifest that when a reimbursement sum is paid, the amount remaining in the hands of the builder cannot, in any event, be less than the difference between the percentage of tax imposed by law and 100 percent.

30. There is no impropriety or illegality in any agreement by an individual owner of a prospective thing to reimburse the builder for all taxes incurred in the execution of the work. The courts have repeatedly recognized the validity of such agreements. *If this is the rule between man and man*, it follows that this is the rule between *the Navy Department and the builder.*

31. The assumed premise of the Secretary involves the notion that the Government, in making naval contracts, is a sovereign in the same sense that the Government imposing laws is sovereign. This conception leads to confusion. The courts have repeatedly drawn the distinction between the United States as a contractor and the United States as a sovereign. The leading case on this subject is *Jones* v. *United States*, First Court of Claims (pp. 383, 384, 385).

Judge Nott, who delivered the opinion of the court, declared:

"This position cannot be sustained. The two characters which the Government possesses as a contractor and as a sovereign cannot be thus fused; nor can the United States while sued in one character be made liable in damages for their acts done in the other. Whatever acts the Government may do, be they legislative or executive, so long as they be public and general, cannot be deemed specially to alter, modify, obstruct, or violate the particular contracts into which it enters with private persons. The laws of taxes and imposts affect preexistent executory contracts between individuals and affect those made with the Government, but only to the same extent and in the same way. In this court the United States appear simply as contractors; and they are to be held liable only within the same limits that any other defendant would be in any other court. Though their sovereign acts performed for the general good may work injury to some private contractors, such parties gain nothing by having the United States as their defendants. Wherever the public and private acts of the Government seem to commingle, a citizen or corporate body must by supposition be substituted in its place, and then the question be determined whether the action will lie against the supposed defendant. If the enactment of a law imposing duties will enable the claimant to increase the stipulated price of the goods he has sold to a citizen, then it will when the United States are defendants, but not otherwise. If the removal of troops from a district liable to invasion will give the claimant damages for unforeseen expenses, when the other party is a corporate body, then it will when the United States form the other party, but not otherwise. This distinction between the public acts and private contracts of the Government—not always strictly insisted on in the earlier days of this court, frequently misapprehended in public bodies, and constantly lost sight of by suitors who come before us—we now desire to make so broad and distinct that hereafter the two cannot be confounded; and we repeat, as a principle applicable to all cases, that the United States, as a contractor, cannot be held liable directly or indirectly for the public acts of the United States as a sovereign." (See also *Wilson* v. *United States*, 11 Court of Claims, p. 513.)

32. The quoted authority disposes of both premises of the Secretary. The case decides that the Government as contractor is bound to the same extent as between man and man. *It further decides that a preexisting contract is affected by subsequent tax laws, only as contracts between man and man are affected thereby.* It further decides that a public and general tax law of the

United States *cannot be deemed specially to alter, modify, obstruct, or violate the contract into which it enters with private persons.*

33. In the result: The builder is compelled to bear any burden that the general revenue laws impose on all citizens, whether such laws were in force at the date of the contract, or enacted at any time thereafter, and whether or not such laws result in destroying all profit, *but it has the right to receive all moneys stipulated in its contract notwithstanding any subsequent general law, whether the contract is with the Government or with an individual.* Revenue laws are not intended to prevent incomes but to tax them after they have been received.

34. The attention of the Secretary is directed to the fact that there is no real dispute between the builder and the Department as to the " meaning of anything in the contract." The contract meaning is clear. The only question between the parties is whether the contract contravenes public policy or has been modified by later law. The only question is as to the existence of any such public policy or the *meaning* of any such later law.

35. This company in good faith accepted these order-contracts on the Department's own terms. Relying upon the promise of the contract, it undertook considerable and costly plant extensions, which were not justified by any other needs but those of war. It must look to the funds arising from the construction of these ships to pay a large part of the cost of these extensions. It feels that it has the right to expect the Department to pay what the Department, acting for the President, solemnly promised to pay.

36. The obligations of the contract should not be repudiated by a department of the Government on any debatable ground. If the Navy Department regards the payment of the tax cost as contrary to public policy, it no less follows that a failure to make the payment *on the ground taken* may involve the most serious and far-reaching consequences and thus contravene a public policy of equal dignity.

37. If the contract in this cause was based upon an illegal consideration, then the contract falls, and with it all agreements under the contract, and the whole subject of the particular construction becomes chaotic. If the contract became illegal at some subsequent time, there is a change under the contract which should be treated as any other change.

This conpany contends that there was no illegality in the original contract and that no subsequent statute has changed its sense or legal effect. It believes that the matters set up in the foregoing paper clearly justifiy its conviction that the Secretary of the Navy will perceive the propriety of its position and will withdraw his previous instructions to the Compensation Board.

If in the course of the consideration of this paper, the Secretary of the Navy, or his advisors, question the accuracy of any statement of fact or position of law herein taken, this company respectfully requests that it may be made acquainted therewith, to the end that it may modify or justify the statements made herein.

Respectfully,

By H. L. Ferguson, *President.*

Dic.

Enclosure H

[First endorsement]

N–407
407

September 7, 1918.

From: Compensation Board.
To: Secretary of the Navy.
Via: Office of the Solicitor.
Bureau of Construction and Repair.
Bureau of Steam Engineering.
Subject: Newport News Shipbuilding & Dry Dock Co. objects to the decision of the Navy Department declining to accept as costs Federal taxes, etc.
Reference (*a*) Newport News Shipbuilding & Dry Dock Co.'s letter to the Secretary of the Navy, July 9, 1918 (copy herewith).
(*b*) C. B.'s letter to Navy Department, April 13, 1918, 407, with Department's endorsement.

1. The Compensation Board has given careful consideration to the arguments set forth in the accompanying letter from the Newport News Shipbuilding &

Dry Dock Co. in relation to the Navy Department's decision concerning exclusion of income and excess-profits taxes from the costs of certain naval vessels.

2. The Board is of the opinion that the Department's previous decision in respect to this matter is correct and in strict conformity with the law. It is, therefore, recommended that the Department adhere to its decision previously rendered.

W. L. CAPPS,
Chief Constructor, United States Navy,
Senior Member.

ENCLOSURE I

[Copy]

NEW YORK SHIPBUILDING CORPORATION,
MAIN OFFICE AND WORKS,
Camden, N. J., August 15, 1918.

Rear Admiral CAPPS,
Compensation Board, Navy Department, Washington, D. C.

DEAR SIR: Referring to our previous communication to the Department on the subject of the allowance of income and excess-profits taxes as a part of costs in contracts providing therefor.

We wish to join in the letter of the Newport News Shipbuilding & Dry Dock Co. addressed to the Secretary of the Navy, dated July 9, 1918, relative to this subject.

This letter, in our opinion, properly presents to the Department considerations which justify a belief upon the part of this corporation that the allowance provided for in the several contracts affected thereby should be made.

We have addressed a letter of the same tenor as the above to the Secretary of the Navy.

Yours very truly,

M. A. NEELAND, *President.*

ENCLOSURE J

[Copy]

FEBRUARY 12, 1921.

Mr. H. L. FERGUSON,
President and General Manager,
Newport News Shipbuilding & Dry Dock Co., Newport News, Va.

Subject: War-profits and excess-profits taxes for the taxable year 1919 and thereafter, and their exclusion from any part of the cost of naval vessels building upon a cost-plus profit basis.

References: (*a*) Your letter, no. 3204, January 4, 1921 (*Maryland* and *West Virginia*).
(*b*) Your letter, no. 3204 (A), January 4, 1921 (*Constellation* and *Ranger*).
(*c*) Your letter, no. 3204 (B), January 4, 1921, (destroyers nos. 119–124).
(*d*) Your letter, no. 3204 (C), January 4, 1921 (destroyers nos. 181–185).
(*e*) Your letter, no. 3204 (D), January 4, 1921 (destroyers nos. 186–199).
(*f*) Your letter, no. 3204 (E), January 4, 1921 (tankers nos. 1654–1661).

Enclosure: Copy of Department's first endorsement to Compensation Board, February 12, 1921.

DEAR SIR: Referring to your several letters of January 4, 1921, to which reference is made above, the Department encloses for your information a copy of its endorsement addressed to the Compensation Board in relation to the subject of excluding from the cost of naval vessels being built on the cost-plus basis all charges for Federal income, war-profits, and excess-profits taxes.

If, under the provisions of the contract, you desire to submit an appeal to the President, it is suggested that this appeal be submitted as promptly as possible.

Respectfully,

JOSEPHUS DANIELS.

The following statement was submitted to the committee by Admiral Land in connection with his testimony (see text, p. 4716):

NAVY DEPARTMENT,
BUREAU OF CONSTRUCTION AND REPAIR,
Washington, D. C., February 21, 1935.

MEMORANDUM FOR SENATOR NYE'S MUNITIONS INVESTIGATING COMMITTEE

In connection with the $238,000,000 appropriation from Public Works Administration for the shipbuilding program of 1933, the committee is informed that this estimate was prepared by the Bureau of Construction and Repair, and that I am directly responsible to naval authorities for this estimate. There is no one in the United States more interested than I am in procuring these ships for the Government in as close accord with these estimates as is possible under existing circumstances. It therefore follows that no one is more interested than I am in obtaining the lowest satisfactory bids from the shipbuilding industry of the United States.

I am proud of every act I committed in connection with this shipbuilding program. If I had it to do over again, I would do the same things. In every case of contract award, the award was made to the lowest reliable bidder, in accordance with statute law.

The following facts are pertinent:

The number of bidders in the Navy shipbuilding program in 1931 were 7.

The number of bidders in the Navy shipbuilding program in 1932 were four.

The number of bidders in the Navy shipbuilding program in 1933 were 12.

The number of bidders in the Navy shipbuilding program in 1934 were 14.

Your particular attention is invited to the increased competition as indicated above.

The number of private yards building naval vessels has been very materially increased in the past few years. All navy yards in the continental limits of the United States are building naval vessels practically up to the limits of their capacity insofar as intelligent policy will permit.

With reference to Mr. C. L. Bardo's letter of June 22, 1933, the statement in paragraph 5 of this letter is incorrect in its entirety so far as the Navy Department is concerned. This statement is quoted, as follows:

" There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else."

No official in authority in the Navy Department would make such a statement, and no such statement was made to Mr. Bardo by any official in authority in the Navy Department. From a Navy point of view the idea is so illogical as to be foolish. There are other inaccuracies in this letter. It appears that Mr. Bardo either misunderstood the ideas of the Navy Department or was misinformed relative thereto. Certainly his suspicion and opinion as expressed in the latter part of the letter are quite erroneous.

It is well known (and the committee is probably aware) that the old-time shipbuilders, those familiar with combatant-ship construction, do not have to come to the Navy Department to find out what to bid on. It is equally well known that shipbuilders unfamiliar with the construction of combatant ships do come to the Navy Department, and when they do they are given the best advice that those in authority can give.

It is a reasonably well-known fact throughout the naval service that the Bath Iron Works does not need any representative or pseudo representative to work in Washington in their behalf in connection with combatant-ship construction, particularly destroyers. The reputation of this firm for excellently constructed destroyers is well known throughout the service. Personally, I am pleased when the Bath Iron Works submits a bid. However, that is a personal opinion, and my official action is based entirely on the bids submitted by this firm.

As a pertinent point in connection with this investigation and in connection with bidders in general, the committee is informed that I personally criticized the president of the Bath Iron Works for not submitting a bid, accompanied by a bid bond, on destroyers in the 1934 program. No award was made to the Bath Iron Works in 1934.

With reference to the Gulf Industries' bid in 1933 and 1934, the committee has been furnished with copies of the letters of recommendation relative to this firm. These letters are self-explanatory and amply justify the rejection of the bids.

The National Industrial Recovery Act in its declaration of policy, section 1, states: "To promote the fullest possible utilization of the *present production capacity* of industries." Particular attention is invited to the words "present production capacity of industries."

Public works are defined in Public, No. 2, Seventy-third Congress, "credit bill", approved March 20, 1933, page 7, section 4, subparagraph 2, from which the following is quoted:

"'Public works' as used in this section shall comprise all projects falling in the general classes enumerated in Budget statement no. 9, pages A177 to A182, inclusive, of the Budget for the fiscal year 1934, and shall also include the procurement of new airplanes and the construction of vessels under appropriations for 'Increase of the Navy.' The interpretation by the Director of the Bureau of the Budget, or by the President in the cases of the War Department and the Navy Department, of 'public works' as defined and designated herein shall be conclusive."

The National Industrial Recovery Act, which became law on June 15, 1933, indicates what is included in public works. Ships and aircraft are included. Reference: National Industrial Recovery Act, section 202, page 8.

In my hearings before the House Naval Affairs Committee in January 1934, the following extracts are quoted, as they are pertinent to the 1933 shipbuilding program, which has been under consideration by this committee:

"The National Industrial Recovery Act was passed by Congress on June 15, 1933, and was signed by the President the next day. On the same day, June 16, 1933, the President signed the Executive Order No. 6174 allocating $238,000,000 for building new ships for the Navy. The list of the ships to be built and bidding data had been prepared in advance by the Navy Department, and proposals were issued at once for bids to be opened July 26 for those 21 ships to be built by contract in private shipyards (including 4 destroyers to be built under the regular "Increase of the Navy" appropriation). Contracts for the construction of these vessels were awarded to the various private shipyards on August 3, 1933, and at the same time orders were issued allocating the construction of 16 ships (including 1 light cruiser to be built under the regular "Increase of the Navy" appropriation) to the various United States navy yards (37 ships in all; 32 N.R.A., 5 increase Navy).

"In allocating the construction of these vessels to the various shipyards and navy yards it was essential to give consideration to the vessels already being constructed under the regular building program, 1 aircraft carrier, 6 heavy cruisers, 2 submarines, and 8 destroyers in course of construction in various stages, and distributed between private shipyards and navy yards. In allocating the construction of the 32 vessels under the National Industrial Recovery Act program and the 5 under the regular program between the private shipyards and the navy yards, the Department gave full consideration to the requirements of the various laws on the subject and particularly to the Dallinger amendment. In each case the award of a contract to a private shipyard for the construction of one of the new vessels was made to the lowest satisfactory bidder. Allocations of ships to particular navy yards were made on the basis of capacity and ability to construct, having in mind work already in hand and in prospect, and with a view to the distribution requisite to relieve unemployment so far as possible. These allocations were made only after the most serious consideration had been given by the Department to all of the questions involved and after consultation with the administration. Every effort was made to follow out the spirit and intent of National Industrial Recovery Act, the spirit and intent of Congress, and the spirit and intent of the administration. The distribution of the vessels involved was made on the basis of numbers, on the basis of cost, and on the basis of adequate distribution of the work.

"The CHAIRMAN. You were trying to carry out the spirit of the Dallinger amendment as far as you possibly could, were you not?

"Admiral LAND. We not only tried to carry it out, Mr. Chairman, but I think we carried it out fully. As I stated Monday, the result was that out of 54 ships under construction today there are 27 in navy yards and 27 in private yards.

"SHIPBUILDING FACILITIES IN THE UNITED STATES

"Let us start from scratch.

"A. In the spring of 1933 there was exactly one private ship contract in all the private shipbuilding yards in the United States.

"B. There were only six naval vessels building in these private plants, some of them well along toward completion.

"C. The private shipyards were fast approaching the starvation point.

"D. The east coast navy yards had 2 modernization jobs (completed in September 1933), 1 modernization job under way (*Idaho* at Norfolk), and 8 new ships under construction, many of them well under way toward completion. Due to the fact that the United States Fleet was in the Pacific, the general work load condition in the east-coast yards somewhat paralleled the general work load conditions of the private yards.

"E. We told those in authority concerned with the new Navy building program that the Department would endeavor to spend efficiently $46,000,000 of the $238,000,000 during the first year of the life of the contracts. We are using our utmost endeavors and expect to meet that promise.

"F. We have placed contracts with private yards to the amount of about $113,000,000.

"I assume that the Congress is quite as much interested in retaining those who are fit in employment as it is in reemployment, as nothing is gained, generally speaking, in employing a man on the one hand and firing a man on the other. That is the great asset of the Navy shipbuilding program. We not only have retained thousands of men in employment but we have added to this by employing other thousands out of employment.

"An analysis of the situation indicates that of the $35,000,000 to $45,000,000 of our purchase orders in the private yards and in the navy yards we have kept at work or put to work 30,000 men for 1 year. This represents material orders alone. New orders are going out every day. For example, the Newport News Co. expects to place orders for 4,000 tons of steel for the carriers next week. In addition to the foregoing is the employment of labor in the navy yards and the private yards actually constructing the vessels, fabricating the equipage, building the boilers and the turbines, and so forth.

"In some cases we have only made a small beginning—in others we are well under way.

"Personally I am not satisfied with the rapidity of progress made—in fact, I never expect to be satisfied as long as unemployment exists in this country, but we are all doing the best we know how to accomplish the results desired.

"I wish I could give you accurate figures relative to those in our private yards and those in our navy yards who have been retained in employment, who have been recalled from enforced furlough, have been reemployed, and/or who have been employed from out of the ranks of the unemployed. It cannot be done, but the number runs into the thousands.

"Our building program should not only do much to stimulate industry in general but will revive the shipbuilding interest which is so necessary to the maritime and general economic welfare of the country.

"In order that the committee may have a reasonable picture of the shipbuilding facilities of the United States, we have reviewed the situation from the best information available and find that, if required, existing facilities are such that we could start the entire Navy building program to bring us up to treaty strength on July 1, 1934. The Department is not recommending such action, but the shipbuilding facilities actually exist for 110 ships. Such a program would only be undertaken in great emergency and would require reconditioning of about 13 building ways and the addition of about 7 building ways in private plants where space and other facilities now exist. From the navy-yard point of view, such a program would require the utilization of three dry docks and rebuilding four sets of ways.

"Let us omit the utilization of docks, rebuilding ways and new ways. We still have available facilities for 81 ships (110—29=81).

"Breaking this down into concrete form, we have in navy yards a maximum of 22 building ways and a minimum of 13; in private yards a maximum of 88 and a minimum of 68 building ways, which gives us a total of 110 maximum and 81 minimum."

Prior to my hearings in 1934, extracts from which have just been quoted, Admiral Rock, the then Chief Constructor, reported at length on the condition of the shipbuilding industry in 1932 before the Committee on Naval Affairs, United States Senate. His hearings will be found on pages 18, and 91 to 94 of hearings on S. 51 dated January 7, 8, and 9, 1932, and entitled "Building up of the United States Navy to the Strength Permitted by the Washington and London Naval Treaties." This hearing is an excellent treatise on the shipbuilding industry of the United States; I respectfully recommend that this hearing before the Senate Naval Affairs Committee be incorporated in the record of this committee.

It is understood that the committee has available evidence given by me at hearings before the shipbuilders' code committee in the summer of 1933. I was directed by the Navy Department to appear at these code hearings and present certain evidence relative to the Navy Department's stand in this matter. I also answered questions asked by the chairman, and the committee has available this information. It is understood that my evidence before this code committee in 1933 has been criticized in evidence submitted to your committee. Specifically, it is purported to have been stated that I was ignorant and misrepresented facts. The question of ignorance is a relative one, and I stand on my record. Any statement that I misrepresented facts is false. In this connection attention is invited to my testimony before the House Naval Affairs Committee in January 1934 relative to the shipbuilding facilities of the United States. (Some pertinent parts of this hearing are quoted in preceding paragraphs.)

The following is quoted from Army and Navy Journal relative to the ships under construction as of this year:

[Army and Navy Journal, Feb. 9, 1935, p. 494]

"CURRENT AMERICAN SHIPBUILDING

"On January 1, 1935, American shipyards were building, or under contract to build, for private shipowners, 69 vessels, aggregating 49,623 gross tons, compared with 67 vessels, aggregating 49,403 gross tons, on December 1, 1934. The tonnage was distributed as follows:

"Steam and motor, steel, seagoing, 1,000 gross tons and over, 3 vessels totaling 19,600 tons; all coasts, 100 to 999 gross tons, 4 vessels totaling 2,225 tons.

"Unrigged, steel, all coasts, 100 gross tons and over, 57 vessels totaling 26,328 tons.

"Steam and motor, wood, all coasts, 100 gross tons and over, 5 vessels of 1,470 tons."

Particular attention is invited to the fact that the above ships under construction are practically all small craft and not ships in the accepted sense of the term.

In my hearings before the House Naval Affairs Committee, in January 1935, the following extracts are quoted. They are also pertinent to the 1933 program as well as the 1934 program:

"14. In connection with the estimated expenditures, it is felt that the following will be of interest, indicating results actually attained in comparison with estimates made:

"(*a*) The actual expenditures to October 1, 1934, on 32 vessels being constructed under the $238,000,000 N.I.R.A. allotment are:

Hulls and machinery	$28, 031, 071
Armor, armament, and ammunition	15, 188, 132
Total	[1] [2] 43, 219, 203

"(*b*) The actual expenditures for the five vessels under 'Increase of the Navy', to October 1, 1934, are:

Hulls and machinery	$3, 068, 145
Armor, armament, and ammunition	1, 148, 650
Total	4, 216, 795

---

[1] Estimated expenditure made in May 1933, $43,495,000.

[2] These expenditures are also exclusive of expenditures for aircraft.

"(*c*) The total actual expenditures to October 1, 1934, on the building program of 37 vessels during the first building year, therefore, are the sum of (*a*) and (*b*), or $47,435,998.

"15. Although the foregoing estimates and actual expenditures pertain to the first building year of the 1933 program, it is interesting to note that the indicated actual expenditures for the month of October 1934 are as follows:

"(*a*) For the 32 N.I.R.A. vessels:

Hulls and machinery	$5, 635, 284
Armor, armament, and ammunition	1, 620, 263
Total	7, 255, 547

"(*b*) For the five vessels under 'Increase of the Navy':

Hulls and machinery	$398, 350
Armor, armament, and ammunition	204, 660
Total	603, 010

"(*c*) The total expenditure indicated for the entire 37 vessels for October 1934, therefore, is $7,858,557, exclusive of vouchers amounting to $745,675.50, which passed through the bureaus but will not be paid until November 1934.

"16. It is felt that the Department's actual expenditures for the first year's construction of 37 vessels, amounting to a total of over $47,400,000, and the indicated expenditure of about $8,000,000 for the month of October 1934 may be pointed to with justifiable pride as concrete evidence of actual performance in furthering the administration's plans in the relief of unemployment and industrial recovery.

"The administration and representatives of this committee were informed that the Navy Department would efficiently expend on this building program during the first year of construction $46,000,000. The figures just quoted are concrete evidence of the results that obtained.

"There has been genuine unemployment relief not only at the navy yards and private yards but also at the subcontractors' plants directly or indirectly connected with the shipbuilding industry throughout the country.

"21. The awards and allocations for the 1934 program involved greater difficulties than were encountered in 1933, but these difficulties were surmounted by the Department. Bids were opened on August 15 and awards made on August 22.

"22. There were 14 bidders on this program. Bids were required on a fixed-price basis and permitted on an adjusted-price basis. In all cases on the fixed-price basis the bids were uniformly high. After careful consideration, awards were made on the adjusted-price basis. In this connection, attention is invited to the fact that, in 1933, 13 awards were made on fixed-price basis and 8 awards on adjusted-price basis.

"23. An analysis of the distribution of awards and allocations shows that 13 vessels went to navy yards and 11 to private yards.

"24. At the present time our navy yards are very close to capacity so far as new construction is concerned, unless facilities are materially increased and/or drydocks are used for building purposes.

"25. Figures available in the Department as to number of men employed in navy yards (including gun factory and torpedo station) on the shipbuilding program include:

Appropriations N.I.R.A., I.N.E.C., new I.N. and old I.N	22, 459
In private yards	11, 090
Total	33, 549

"26. On purchased materials and equipment away from the site of shipbuilding we have various estimates. My estimate is 15,000."

In regard to the awards themselves (1933 program), they were, in every case, made to the lowest responsible bidder. The recommendations for these awards were prepared jointly by Admiral Robinson, Chief of the Bureau of Engineering, and myself. The Secretary of the Navy, after assuring himself that the recommendations were in accordance with the law, approved them without any change whatever. These recommendations were then transmitted to the President and again were approved without any change whatever.

I have had no meetings with shipbuilders or their representatives or with subcontractors or their representatives to discuss allocation of ships or method of preparing bids.

From time to time, particularly after the call for bids was issued and up to the time they were opened, shipbuilders or their representatives were in my office to discuss technical matters in connection with these bids; at no time was there any discussion of allocation of the ships, except allocation of ships to navy yards which was contemplated in accordance with law in the case of cruisers and in accordance with Navy Department policy in the case of other types.

After the bids were opened, analyzed, and evaluated so that the lowest satisfactory bidders in each class could be preliminarily determined and after preliminary discussions had taken place with the Secretary, certain technical points in connection with these bids were discussed with the shipbuilders directly concerned. The question of the method of preparation of plans so as to insure duplication of design of destroyers was discussed with the United Shipbuilding & Dry Dock Co., Federal Shipbuilding Co., and the Bath Iron Works, which three firms were to build the same type of destroyer. These discussions required several conferences before proposals and agreements satisfactory to the Navy Department were concluded.

The conferences and discussions in connection with the 1,500-ton destroyers were necessary and essential in order that the Department might be definitely assured that a proper technical and design staff would be available to prepare plans for those contractors who were to build six destroyers in accordance with these plans. There were also involved in this question the plans for 10 destroyers to be constructed at navy yards and in accordance with the terms of the contract the plans prepared by the private contractors were to be made available to the various navy yards building similar vessels.

Conferences were held with representatives of the Bethlehem Shipbuilding Co. and the New York Shipbuilding Co. in regard to similar matters covering the destroyer leaders. These conferences were necessary and essential as the Department had decided that these eight vessels should be built from New York Shipbuilding Co. plans.

In conclusion I wish to repeat that at no time have I had any agreements or understandings with any of the shipbuilders or their representatives or subcontractors or representatives of subcontractors in regard to the allocation of ships, nor have I at any time suggested or advised the shipbuilders or their representatives that they should agree among themselves as to a distribution of shipbuilding contracts.

E. S. Land,
Rear Admiral (C.C.), United States Navy,
Chief Constructor.

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MUNITIONS INDUSTRY

HEARINGS

BEFORE THE

SPECIAL COMMITTEE INVESTIGATING THE MUNITIONS INDUSTRY UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS

FIRST SESSION

PURSUANT TO

S. Res. 206

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS
CONCERNING THE MANUFACTURE AND SALE
OF ARMS AND OTHER WAR MUNITIONS

PART 19

FEBRUARY 1, 4, 5, 6, 7, AND 11, 1935

NAVAL SHIPBUILDING

NEW YORK SHIPBUILDING CORPORATION (CONCLUDED)

Printed for the use of the
Special Committee Investigating the Munitions Industry

UNITED STATES
GOVERNMENT PRINTING OFFICE
83376 WASHINGTON : 1935

MUNITIONS INDUSTRY

U. S. Congress. Senate.

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ALGER HISS, *Legal Assistant*

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INVESTIGATION OF MUNITIONS INDUSTRY

FRIDAY, FEBRUARY 1, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D.C.

The hearing was resumed at 10 a.m., in room 357, Senate Office Building, pursuant to recess, Senator Gerald P. Nye presiding. presiding.

Present: Senators Nye (chairman), Clark, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee; and F. W. La Rouche, investigator.

At this point the committee concluded that part of the testimony which is incorporated in Part XVIII of these hearings, "Naval Shipbuilding—New York Shipbuilding Corporation."

The Chairman. The committee will come to order.

Senator Vandenberg. First this morning, as a supplement to the testimony yesterday regarding Mr. A. P. Homer, I want to read into the record certain letters written by Mr. Homer and signed in his capacity as chairman of the marine committee of the finance division of the Democratic National Campaign Committee, Biltmore Hotel, New York City.

The first letter I read is dated October 17, 1932, and addressed to Mr. Charles M. Schwab, and is as follows:

> My Dear Mr. Schwab: As a result of the events of the last 3 weeks, we believe that if the shipbuilders of the United States are to get a square deal it will be necessary to make a change on November 8. I hope that you are in accord with this idea. If so, we ask that you help us with a contribution to the campaign fund of Governor Roosevelt, who, as you know, is marine-minded and hasn't the opinion that international affairs can be settled with a blueprint navy. Checks should be made to F. C. Walker, treasurer (personal checks, of course), and mailed to him in the enclosed envelop. The writer will personally acknowledge your contribution and see that the news of it reaches the Governor's ears.
>
> Thanking you for your cooperation in this matter, I am,
>
> Yours very sincerely,
>
> A. P. Homer.

I also read a letter dated October 17, 1932, addressed to Mr. Grace [reading]:

> After what the present incumbent of the White House did to the private shipyards on the destroyer matter, I am sure that you are of the opinion that a change is necessary if the shipbuilders are to get a square deal. As an old

member of the shipbuilding fraternity, I am writing to ask for a contribution to the campaign fund of Governor Roosevelt. Checks should be made to F. C. Walker, treasurer (personal checks, of course), and mailed in the enclosed envelope promptly. The writer will acknowledge this personally and see that the knowledge reaches the Governor.

Thanking you for your cooperation, I am,

Very sincerely yours,

A. P. Homer.

Another form letter which was addressed to a large number of shipbuilders contained the following:

> It is apparent that if we are to have a treaty-strength Navy we must have someone other than a pacifist in the White House, and as a treaty-strength Navy is of vital importance to you shipbuilders, we believe that the best interests of the industry will be served by the election of Governor Roosevelt, who has full knowledge of the Navy's problems, having been intimately acquainted with the troubles which came from unpreparedness in the World War.
>
> In order that we may be able to carry on the campaign successfully, funds are of vital importance, and I hope you will see your way clear to sending a contribution to us.
>
> Checks should be made to F. C. Walker, treasurer (these must be personal checks), and promptly returned in the enclosed envelop.

This letter was also signed by Mr. Homer in his capacity as chairman of the marine committee of the finance division of the Democratic National Campaign Committee, Biltmore Hotel, New York City.

Shipbuilders to whom this or a similar letter was sent include Homer L. Ferguson, president Newport News Shipbuilding & Drydock Co., Newport News, Va.; C. H. Bardo, president New York Shipbuilding Co., Camden, N. J.; S. W. Wakeman, vice president Bethlehem Shipbuilding Corporation, Quincy, Mass.; W. S. Newell, president Bath Iron Works, Bath, Me.; C. Stewart Lee, vice president Pusey & Jones Corporation, Wilmington, Del.; J. C. Pew, president Sun Shipbuilding & Drydock Co., Chester, Pa.; W. W. Smith, chief engineer Federal Shipbuilding & Drydock Co., Carney, N. J.; Charles C. West, president Manitowoc Shipbuilding Corporation, Manitowoc, Wis.; L. Y. Spear, vice president Electric Boat Co., Groton, Conn.; Joseph W. Powell, president United Dry Dock, Inc., New York City; J. Herbert Todd, vice president Todd Shipyards Corporation, New York City; and D. W. Nevins, General Electric Co., Schenectady, N. Y.

Whom do you want on the stand, Mr. Raushenbush?

Mr. Raushenbush. Mr. Charles Langell.

Senator Vandenberg. Mr. Langell, take the stand, please.

TESTIMONY OF CHARLES J. LANGELL—Resumed

"BIG THREE" ESTIMATES INCOMPLETE ON SHIPS NOT WANTED

(The witness was previously sworn by the chairman.)

Senator Vandenberg. You may proceed, Mr. Raushenbush.

Mr. Raushenbush. Mr. Langell, there are a few questions about the estimating that we would like to clear up. The other day when you were on the stand you were describing the functions of an estimator for a ship company, and I wonder if you would repeat certain portions of that testimony. When you were told to prepare an estimate on one of these naval vessels, could you tell the committee once more how you go about that?

Mr. LANGELL. When the plans and specifications come from the Government they are distributed to the hull scientific department, to the engine scientific department, and to the electrical department. They go over the specifications very carefully and take from the drawings the quantities necessary for a complete ship. They prepare—what shall I say?—get inquiries which are sent out through the purchasing department to the various people interested in supplying material for the ship.

Those inquiries come to me and are inserted in my estimate.

In the meantime the quantities that have been figured out, say for steel and all kinds of miscellaneous material, and the machinery for the ship which is built at the plant, we estimate the labor to complete same up to date of delivery.

Mr. LAROUCHE. May I interrupt just at that point?

Mr. LANGELL. Yes.

Mr. LAROUCHE. Will you tell what the purpose of the inquiries is? What purpose or purposes are served?

Mr. LANGELL. For instance, we will take the item "boilers." We write complete specifications for the boilers required for the ship, and we submit that to the B. & W. people and sometimes to the Foster-Wheeler people. They in turn submit their proposition to us.

Mr. LAROUCHE. Prices?

Mr. LANGELL. Prices and weights. That last word is very vital, "weights." In lots of cases we ask other people for the same kind of apparatus, and we generally use the one that has the lightest weight, not necessarily the cheapest price, because weight is of great importance.

Mr. RAUSHENBUSH. Then the prices quoted to you in those replies to your inquiries cover you in the event that you may get the award, and you are then in position where you can order at those prices?

Mr. LANGELL. Right.

Mr. LAROUCHE. No first-class estimator—and you are a first-class estimator, I believe——

Mr. LANGELL. I do not know.

Mr. LAROUCHE. No real good estimator would ever prepare a bid on a ship without getting coverage. And no estimator would prepare a bid on a ship without coverage?

Mr. LANGELL. I cannot quite answer "yes" to that, because sometimes we are in such a hurry that we make a jump estimate.

Mr. LAROUCHE. And you take a chance?

Mr. LANGELL. And we take a chance.

Mr. LAROUCHE. When that is the case, you shut your eyes and pray you do not get the job? Is that the idea?

Mr. LANGELL. I do not know that. It is a chance, of course.

Mr. LAROUCHE. You do take a chance, a big chance, when you make a bid without getting at least 75 percent of complete coverage. Is not that right?

Mr. LANGELL. No; I doubt if we ever get over 75 percent coverage at any stage of the game.

Mr. LAROUCHE. Roughly, then?

Mr. LANGELL. Around that.

Mr. RAUSHENBUSH. Mr. Langell, on a cruiser on which about $4,000,000 or $4,500,000 worth of material is involved, you certainly do not make it a practice to make up estimates for the company to put in bids unless they know what they are going to pay for that material?

Mr. LANGELL. True.

Mr. RAUSHENBUSH. It would be an exceptional case where they were willing to make up an estimate or put in a bid without that? Would not that be true?

Mr. LANGELL. True.

Mr. RAUSHENBUSH. Very exceptional?

Mr. LANGELL. Absolutely.

Mr. LAROUCHE. Then there are really three major purposes to be served by those inquiries: The knowledge of weight, because that means money to the shipyard——

Mr. LANGELL. Yes, sir.

Mr. LAROUCHE. If a supplier goes over weight a few hundred pounds, it may mean a good deal of loss to the shipbuilder?

Mr. LANGELL. As far as the penalties are concerned.

Mr. LAROUCHE. And possible bonuses?

Mr. LANGELL. And possible bonuses.

Mr. LAROUCHE. First of all, you send out inquiries for the purpose of knowing the weights of the materials that are going into the ship. That is one?

Mr. LANGELL. Weight and price.

Mr. LAROUCHE. Weight is one, and price is two, and coverage protection is the third?

Mr. LANGELL. Right.

Mr. LAROUCHE. Is that right?

Mr. LANGELL. That is right.

Mr. RAUSHENBUSH. I want to ask again a question I asked before: When you get your instructions from the head of the company to prepare an estimate, you prepare it and at that time turn it over to him, as I understand it, and have no more to do with the bidding?

Mr. LANGELL. Not a thing in the world.

Mr. RAUSHENBUSH. You are just a technical man on the cost, and so forth?

Mr. LANGELL. I am done.

Mr. LAROUCHE. In 1933, with the big naval program that was let, and at that time bids were requested from the New York Ship for a certain number of cruisers, aircraft carriers, and destroyers of two types. That is right, is it?

Mr. LANGELL. Yes, I think that is right.

Mr. LAROUCHE. That is July 1933?

Mr. LANGELL. Yes.

Mr. LAROUCHE. Or perhaps June; probably June.

Mr. LANGELL. June approximately.

Mr. LAROUCHE. The awards were made in August and in July—

Mr. LANGELL. Bids were opened in July.

Mr. LAROUCHE. Bids were opened the 26th of July and the contract bears the date of August 3?

Mr. LANGELL. Right.

Mr. LAROUCHE. On some of that you prepared a little more data than on some others?

Mr. LANGELL. It was on instructions from the management.

Mr. LAROUCHE. You were instructed by the management as to which ships you would gather the most data for. Is that correct?

Mr. LANGELL. I was told to concentrate on the 1,850-ton destroyers and the light cruisers.

Mr. LAROUCHE. You were told to concentrate your efforts on the 1,850-ton destroyers and the light cruisers?

Mr. LANGELL. Right.

Mr. LAROUCHE. So that you did not give much attention to the aircraft carriers, of which two were advertised?

Mr. LANGELL. Yes, sir.

Mr. LAROUCHE. Or the 1,500-ton destroyers? Is that right?

Mr. LANGELL. Right.

Mr. LAROUCHE. I think we went over pretty carefully the material on the two light cruisers, and I think you told me that this was the data, substantially, on which you based your estimates for the two light cruisers [exhibiting file of papers].

Mr. LANGELL. Right; yes, sir.

Mr. LAROUCHE. And that this is the data for the 1,850-ton destroyers [exhibiting file of papers]? That is it right here?

Mr. LANGELL. Yes, sir.

Mr. LAROUCHE. All right. And this for the two light cruisers [exhibiting file of papers]?

Mr. LANGELL. Yes, sir.

Mr. LAROUCHE. And that these two little packages contain all the data, the comparable data, for the 1,500-ton destroyers [exhibiting two packages of papers]. Is that right?

Mr. LANGELL. To the best of my knowledge.

Mr. LAROUCHE. To the best of your knowledge?

Mr. LANGELL. Yes, sir.

Mr. LAROUCHE. And this [exhibiting file of papers] contains all the data, the comparable data, for the two aircraft carriers?

Mr. LANGELL. Right.

Mr. RAUSHENBUSH. Will you describe those, Mr. LaRouche? What is it you hold in your hand?

Mr. LAROUCHE. These consist of estimate summaries—this is the estimate and the summary.

Mr. RAUSHENBUSH. That is the folder which you now hold in your hand?

Mr. LAROUCHE. The little one, the thin one, and this, which is a little thicker [exhibiting second file of papers] consists of the inquires sent out by New York Ship in connection with the aircraft carriers nos. 5 and 6, in 1933, aircraft carriers which later were given names.

In other words, the aircraft carriers were the biggest jobs of all.

Mr. RAUSHENBUSH. How much did they amount to in money?

Mr. LAROUCHE. The contract was $19,000,000 apiece plus. That means that they on an adjusted price may run about $23,000,000 apiece.

Mr. RAUSHENBUSH. Is that about right, Mr. Langell, that the two aircraft carriers run about $38,000,000 plus?

Mr. LANGEL. I have not the figures before me.

Mr. LAROUCHE. That was it. In other words, that was the biggest job of all?

Mr. LANGELL. Yes.

Mr. LAROUCHE. And this is the thinnest folder of all?

Mr. LANGELL. Yes. sir.

Mr. LAROUCHE. For the record, the material sent out by the New York Ship for light cruisers nos. 42 and 43, is this big package [exhibiting package]. It should be explained that these are the jobs the New York Ship got.

Mr. LANGELL. Right.

Mr. LAROUCHE. And this other big package on the 1,850-ton destroyers is another job that your company got?

Mr. LANGELL. Yes.

Mr. LAROUCHE. And this little folder contains material on a job you did not get?

Mr. LANGELL. Right.

Mr. LAROUCHE. Is that right?

Mr. LANGELL. That is right.

Mr. LAROUCHE. And this other little folder is a heavy cruiser in 1933?

Mr. LANGELL. Right.

Mr. LAROUCHE. Which you did not get?

Mr. LANGELL. Right.

Mr. RAUSHENBUSH. Is that 1933?

Mr. LAROUCHE. That is right.

Mr. RAUSHENBUSH. One cruiser, is that?

Mr. LAROUCHE. Heavy cruiser no. 40, which later became no. 44, and is now named the *Vincennes*.

Mr. LANGELL. Right.

Mr. LAROUCHE. And this is the cruiser upon which you did not even make an estimate. Is that right?

Mr. LANGELL. Let me see that. What is the number of that estimate [examining paper]? No; it was based on another estimate.

Mr. LAROUCHE. But you made no estimate on heavy cruiser no. 40 at any time?

Mr. LANGELL. No.

Mr. LAROUCHE. That was the one you told me that the management made itself?

Mr. LANGELL. That is right.

Mr. LAROUCHE. You had nothing to do with that?

Mr. LANGELL. Not a thing in the world.

Mr. LAROUCHE. Was not that a little unusual?

Mr. LANGELL. Well, that is up to the management and not up to me.

Mr. RAUSHENBUSH. Was it not more than unusual at a time when prices were supposedly jumping?

Mr. LANGELL. Supposedly doing what?

Mr. RAUSHENBUSH. Jumping, in the summer of 1933.

Mr. LANGELL. I just followed instructions; that is all.

Mr. RAUSHENBUSH. I know you did. You are one of the technical men and you take your orders from the management. There is no question about that. I am just raising the question whether, with all the very careful estimates that were made on some of the other jobs in 1933, the idea of shoving a bid in for a heavy cruiser, at a time prices were raising to the extent they were in 1933, was not a very dangerous proposition for the company in case they really expected to get that cruiser.

Mr. LANGELL. I do not recollect the price that the firm put in for that heavy cruiser. I do not think it is on that sheet, is it? But my recollection is that they would have been perfectly satisfied to have had the heavy cruiser at the price they quoted.

Mr. RAUSHENBUSH. $12,100,000.

Mr. LANGELL. How much was it?

Mr. RAUSHENBUSH. $12,100,000, fixed.

Mr. LANGELL. Yes; I think they would have been perfectly safe at that figure.

Mr. RAUSHENBUSH. Or they would have been safe at $15,000,000 or would have been safe at $16,000,000?

Mr. LANGELL. Of course, that would have been a ridiculous bid.

Mr. RAUSHENBUSH. In 1933.

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. Those were the bids made in 1934?

Mr. LANGELL. I beg your pardon.

Mr. RAUSHENBUSH. The company did make those bids in 1934, did it not?

Mr. LANGELL. Not the $15,000,000, to my recollection.

Mr. RAUSHENBUSH. Up in that margin, somewhere?

Mr. LANGELL. Wait a minute. I have got the bids somewhere.

Mr. RAUSHENBUSH. The fixed price bid in 1934.

Mr. LANGELL. There is a fixed price of $16,000,000 there?

Mr. RAUSHENBUSH. Yes.

Mr. LANGELL. I do not know anything about that.

Mr. RAUSHENBUSH. The point I was making, Mr. Langell, was not that the company would have been pleased to have gottten a cruiser at a high price, but that at a time when prices were jumping, and if there was open free length, free arm competitive bidding, the company was out to get the prices down rather than the prices up to a safety margin.

Mr. LANGELL. Are you talking about 1933?

Mr. RAUSHENBUSH. Still talking about 1933, and the heavy cruiser.

Mr. LANGELL. When the price was made in 1933 I do not think the code had been signed at that time, and I do not think that the management had the slightest idea in the world what was going to happen in the very near future.

Mr. RAUSHENBUSH. And yet, a lot of those 1933 bids were put in on sliding prices, adjusted prices?

Mr. LANGELL. Yes; I think we put in both sliding and fixed. But, as I said before, I was told to concentrate on the 1,850's and the light cruisers, with the distinct understanding that that was what the firm would like to have.

Senator BARBOUR. You say you were told to concentrate; who told you?

Mr. LANGELL. The management, Mr. Bardo or Mr. Cornbrooks—— I have forgotten which.

Senator BARBOUR. That is all right. It was your own management?

Mr. LANGELL. Yes, sir.

Mr. LaRouche. We just want to complete this measure of the volume here. Will you roughly estimate, either of you, the probable weight of that?

Mr. Langell. The weight of which one are you talking about?

Mr. LaRouche. Not the cruiser, but the packages.

Mr. Langell. Now, look, I had already figured on the *Quincy* about a year before, I think, and this *Vincennes* was a duplicate of the *Quincy*, although I had *Quincy* all figured out for me.

Mr. LaRouche. You had the weights figured out for you, but I think you told me that the coverage was equally important, if not more important. This was 9 months later, 9 months after the *Quincy*.

Mr. Langell. The machinery for that heavy cruiser was practically identical with the machinery for the light cruiser, and we were thoroughly covered on the light cruiser, the machinery end of it.

Mr. Raushenbush. Nine months before?

Mr. Langell. No; I am talking about on the light cruiser, we were covered.

Mr. Raushenbush. At the same time?

Mr. Langell. And the heavy cruiser machinery was almost identical to that of the light. I figured at that time, and I think I told Mr. Bardo, that I could not see much difference, and why I should change the estimate for the *Vincennes* from that that I made on the *Quincy*.

Mr. LaRouche. Except this was kind of a left-handed estimate on the *Vincennes*, was it not?

Mr. Langell. I did not make any.

Mr. LaRouche. You did not make any?

Mr. Langell. I made none at all.

Mr. LaRouche. In other words, on a heavy cruiser involving roughly something like $12,000,000, you made no estimate at all?

Mr. Langell. None at all.

Mr. LaRouche. At that time?

Mr. Langell. At that time.

Mr. LaRouche. You told me, I think, at one time that on the 1,500-ton destroyers, you paid very little attention to your inquiries in your estimate on that.

Mr. Langell. Right.

Mr. LaRouche. You did not expect the company was going to get those?

Mr. Langell. I did not even expect that they were going to bid on them.

Mr. LaRouche. That is the 1,500-ton destroyers?

Mr. Langell. Yes, sir.

Mr. LaRouche. Which, Mr. Raushenbush, they did not get.

Mr. Raushenbush. Will you finish up the weight matter?

Mr. LaRouche. Here is the aircraft carrier on which you also made a sort of left-handed estimate, did you not?

Mr. Langell. Right.

Mr. LaRouche. In other words, you just took a long running leap at the estimate on the aircraft carriers nos. 5 and 6, which you did not think the company would get?

Mr. LANGELL. That is perfectly right.

Mr. LAROUCHE. And did not want?

Mr. LANGELL. I understood they did not want that.

Mr. LAROUCHE. But they made a bid?

Mr. LANGELL. I did not.

Mr. LAROUCHE. The company?

Mr. LANGELL. Yes.

Mr. LAROUCHE. They did not want them, did not want the aircraft carriers, but they made a bid. On the 1,500-ton destroyers they did not want them?

Mr. LANGELL. I do not think they did.

Mr. LAROUCHE. And they made a bid?

Mr. LANGELL. They made a bid.

Mr. LAROUCHE. And on the heavy cruiser *Vincennes* you made no estimate at all?

Mr. LANGELL. None.

Mr. LAROUCHE. And you did not get it?

Mr. LANGELL. Certainly not.

Mr. LAROUCHE. On all the other jobs which the company did get——

Mr. LANGELL. And wanted.

Mr. LAROUCHE (continuing). And wanted, you made very elaborate preparation?

Mr. LANGELL. I did.

Mr. LAROUCHE. That is all.

Senator VANDENBERG. I think the record should be very plain that these files tell their own story to a very eloquent degree.

Mr. LAROUCHE. Yes, sir.

Senator VANDENBERG. The files indicating preparation for the ships they did not get are mere casual folders.

Mr. LAROUCHE. Exactly.

Senator VANDENBERG. As compared with the very voluminous files, indicating very careful and voluminous preparation on the ships they did get.

Mr. LAROUCHE. Yes, sir.

DIFFERENCE BETWEEN ESTIMATES PREPARED AND BIDS SUBMITTED

Mr. RAUSHENBUSH. Mr. Langell, a little while ago the company, upon request, furnished us a monthly yard average labor cost per hour, which I would like to offer as an exhibit, and I ask you to identify it, if you can [handing paper to witness].

Mr. LANGELL. As far as I know, it looks all right to me. I could not swear to it at all, but from my recollection it looks perfectly all O. K.

Mr. RAUSHENBUSH. The company attached a letter signed by Mr. Parker.

Mr. LANGELL. I think you will find that is correct.

Mr. RAUSHENBUSH. I would like to offer the two as one exhibit.

(The letter and statement referred to were marked "Exhibit No. 1485" and are included in the appendix on p. 5191.)

Mr. RAUSHENBUSH. This statement, "Exhibit No. 1485" shows monthly yard average labor costs per hour from 1927 through 1934, and can we roughly summarize the situation as showing that during

1927 the average hourly rate was about 62 cents. Would that be fair? Noting the difficulty that it is impossible to weigh those figures, because we do not know the number of men employed in any one month, it would appear on the face of it that the plain arithmetical average would be about 62 cents in 1927?

Mr. LANGELL. That is right.

Mr. RAUSHENBUSH. And about 64 cents, do you think, in 1928?

Mr. LANGELL. It would be around that anyhow.

Mr. RAUSHENBUSH. Around that?

Mr. LANGELL. About 62½ cents in 1929.

Mr. RAUSHENBUSH. About 62½ cents in 1929?

Mr. LANGELL. And about the same in 1930.

Mr. RAUSHENBUSH. And 62 cents in 1930, and 61½ cents in 1931?

Mr. LANGELL. That is about right.

Mr. RAUSHENBUSH. And 58.26 cents in 1932?

Mr. LANGELL. Right.

Mr. RAUSHENBUSH. First half of 1933, 55 cents; and the second half of 1933, 66 cents, and during 1934, rising from May on; making an arithmetical average for the year of 73.1 cents?

Mr. LANGELL. And right now it is about 79 point something.

Mr. RAUSHENBUSH. In February 1935 it is about 79 cents.

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. Now, may I ask you to identify a sheet prepared by yourself in connection with bids submitted on naval vessels to the United States Government, giving the date of the bid opening, the estimate for material and labor. Did you prepare this [handing paper to witness]?

Mr. LANGELL. I did; yes, sir.

Mr. RAUSHENBUSH. Is that correct?

Mr. LANGELL. Absolutely, to the best of my knowledge it is absolutely correct.

Mr. RAUSHENBUSH. That includes all bids submitted and contracts awarded to the New York Shipbuilding Corporation?

Mr. LANGELL. Right.

Mr. RAUSHENBUSH. With the bid prices?

Mr. LANGELL. Right.

Mr. RAUSHENBUSH. It also has some estimates and some supplementary data?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. May I offer that for the record as "Exhibit No. 1486"?

(The document referred to was marked "Exhibit No. 1486" and is included in the appendix on p. 5191.)

Mr. RAUSHENBUSH. You have a copy in front of you, Mr. Langell?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. The reason I want to ask about this is to explain, if we can, the great jump in the bids on the crusiers from 1927 to 1929, and 1931 on to 1933 and 1934. The jump was very considerable, and while you have testified several times, Mr. Langell, that the final bids were none of your business, and you did not determine them, I would like to ask such questions as can legitimately be asked of you in your field, about the changes in the cost and estimates as to labor and material in 1927, let us say, and in 1934. If you will look at the sheet in front of you, showing the estimates for material on the series Nos. 26 to 31, scout cruisers in 1927, the material estimate shows $4,170,065.

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. Is that right?

Mr. LANGELL. Right.

Mr. RAUSHENBUSH. Now, will you turn to the estimate in 1934, in the middle of our price rises, when the bid was $15,000,000, or just about twice what the bid was in 1927, and give me the figure for material as you estimated it on these cruisers Nos. 46 to 48?

Mr. LANGELL. That would be the light cruiser. That is $4,748,225.

Mr. RAUSHENBUSH. Here we have this situation, do we not, Mr. Langell: That in 1927 your company was bidding $10,000,000, and your estimate was not quite $8,000,000. We tried to get some explanation the other day from Mr. Bardo, as to the difference there, and did not succeed in getting it. But here you were bidding $10,815,000 on the 1927 scout cruisers, with material at $4,170,000.

Now we come to 1934, on the light cruisers Nos. 46 to 48, and your material has only jumped six hundred and fifty-odd thousand dollars, not millions, but six hundred and fifty-odd thousand dollars, and yet the company's bid is something less than fifteen million.

Mr. LANGELL. Hold on.

Mr. RAUSHENBUSH. Is not that right? That is the difference we are trying to get explained.

Mr. LANGELL. We got $11,677,000 for that last cruiser, and not $15,000,000.

Mr. RAUSHENBUSH. That was on an adjusted price basis, was it not, Mr. Langell, in which case the Government did the gambling. You put in a price and let the Government gamble that it would pay back to you any further increase.

Mr. LANGELL. I think you are right. I think that it was a fixed price.

Mr. RAUSHENBUSH. Which is a fixed price?

Mr. LANGELL. That $11,677,000.

Mr. RAUSHENBUSH. That is on Nos. 46 to 48?

Mr. LANGELL. It would be No. 46.

Mr. RAUSHENBUSH. What was the fixed price bid there? You have on this sheet only the sliding bid. What was the fixed price bid?

Mr. LANGELL. I guess you are right. I think that is an adjusted price.

Mr. RAUSHENBUSH. For the benefit of the committee, the adjusted price basis was started in 1933, was it not?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. I mean the companies arranged with the Government to be able to put in two kinds of bids, one of the usual kind, when they said, "Sure, we will build the ship for this much, and if we run over, it is our bad luck."

The other one was that if they did run over, they put in a figure and said, "Well, this is our guess for what we can do it, and if we do run over, the Government will pay us the difference."

That is the sort of proposition which was involved in those sliding-scale bids, was it not?

Mr. LANGELL. I do not think you are altogether right there.

Mr. RAUSHENBUSH. I would like to be corrected there, if you can.

Mr. LANGELL. As far as the contract for *No. 46* is concerned, which we got, and to the best of my recollection, the contract calls for a sliding scale based on a quota for every 3-month period during the life of the contract for these vessels. That quota is settled by the Government. Now, for instance, the first 3 months we are supposed to buy—these are just rough figures out of my head—something like $500,000 worth of material. Now, there is a period involved there, and if the material all over the country in the steel industry—I think it is confined to that, to the metal industry—goes down, that percentage that it has gone down in those 3 months is applied against that, say $500,000, and our contract price is reduced to that amount. By the same token, if the metal industry prices go up, the price of material goes up, why we are reimbursed just that percentage. Now, the next 3 months, my recollection is, we had to buy about $1,000,000 worth of material, but it does not make a particule of difference if we did not buy but $100,000 worth, that quota is established by the Navy Department and the same thing applies to labor.

So that it is a gamble. We are liable to make or lose.

Mr. RAUSHENBUSH. Only here for the first time you have a case where the Government does the gambling, does it not, on the adjusted-price basis. If you run above what you put in as an adjusted-price bid, for either labor cost or material cost, the Government pays the difference, does it not?

Mr. LANGELL. I do not quite see that myself.

Mr. RAUSHENBUSH. If you run below, the Government is the gainer to that extent. If it runs above, why, the Government pays the difference.

Mr. LANGELL. That is, if the price of material goes up and the price of labor goes up, the Government pays.

Mr. RAUSHENBUSH. Or either one goes up.

Mr. LANGELL. Or either one goes up.

Mr. RAUSHENBUSH. And fixed above the estimate on the adjusted-price basis.

Mr. LANGELL. By the same token, if it goes down, the company loses.

Mr. LAROUCHE. There is another point there, I think. It does not make any difference what you pay, if the general level goes up and your prices go down, you still get the benefit of the increase. Is that correct?

Mr. LANGELL. I am not very familiar with that end of the game. I do not know an awful lot about it, to tell you the truth.

Mr. LAROUCHE. Do you know who was responsible for getting this adjustment price clause incorporated in the contract?

Mr. LANGELL. I have not the slightest information in the world.

Mr. LAROUCHE. It was not the Government.

Mr. LANGELL. I do not know anything about it.

Mr. RAUSHENBUSH. I want to take up the statement you made a while ago, that if the cost of labor or material goes down, the company loses. Do you not want to correct that?

Mr. LANGELL. No; that is my understanding of the matter. That is taken off the contract price at the end. That is my understanding. I may be dead wrong, but that is my understanding.

Senator VANDENBERG. The company does not lose?

Mr. LANGELL. If we contract for $11,677,000, and there is an adjustment made downwards of $500,000, we do not get $11,677,000 but we get $11,177,000.

Senator VANDENBERG. No; but if you make your contract on the basis of 50 cents an hour for labor, and labor goes down to 40 cents an hour, and you return the 10 cents to the Government, you have not lost anything, have you?

Mr. LANGELL. Of course that is an impossible condition just at present.

Senator VANDENBERG. But that is precisely the theory of the contract about which Mr. Raushenbush is talking, is it not?

Mr. LANGELL. I tell you frankly, I would much prefer he ask Mr. Parker those questions because I do not know much about it.

Mr. RAUSHENBUSH. All right. I think that is fair. Then, coming back to the original question which we were discussing on the scout cruisers of 1927 and the light cruisers of 1934, we find that material had gone up roughly $650,000 and the question was raised how that justified an increase in bid from $10,815,000 up to $15,000,000. That is a jump of $4,200,000, and a material increase of only $650,000.

Let us go into the labor estimates which you have made there. If you will turn to your labor estimate for the scout series Nos. 26 to 31, that is the *Augusta* and *Houston* series, is it not?

Mr. LANGELL. That includes the *Chester*.

Mr. RAUSHENBUSH. That would be the *Chester?*

Mr. LAROUCHE. The *Augusta* and *Houston* are in the series, but they did not build them.

Mr. RAUSHENBUSH. You estimated for labor $3,563,100. Is that right?

Mr. LANGELL. $3,780,115.

Mr. RAUSHENBUSH. That is labor on the *Chester?*

Mr. LANGELL. $3,780,115.

Mr. RAUSHENBUSH. You estimated for labor on the *Chester* $3,780,115, and your estimate for labor on the cruisers nos. 46 to 48 in 1934 was how much?

Mr. LANGELL. $3,908,775.

Mr. RAUSHENBUSH. The difference between the two estimates, Mr. Langell, is about $128,000. Is that right?

Mr. LANGELL. About that.

Mr. RAUSHENBUSH. So that labor increased, according to your estimates, $128,000 and material increased, according to your estimates, about $650,000?

Mr. LANGELL. I can explain the material very readily.

Mr. RAUSHENBUSH. I am just trying to add those up for the minute. That is an increase, according to your estimates, of less than $900,000, is it not?

Mr. LANGELL. Around that.

Mr. RAUSHENBUSH. Now, in view of that small increase in labor and materials, again, can you throw any light in this question of why the company's bid jumped from $10,800,000 plus in 1927 to $15,000,000 in 1934? That is just what we are trying to get at.

Senator VANDENBERG. Do I understand that there is a jump of some $4,000,000 in the bid and a jump of only $900,000 in the cost of labor and materials, as estimated?

Mr. RAUSHENBUSH. As estimated by the company's figures; yes, sir.

Senator VANDENBERG. And you are asking the witness what possible explanation can bridge the gap?

Mr. RAUSHENBUSH. Yes, sir.

Mr. LANGELL. Now, look, you keep saying 15 or 16 million dollars. We really got $11,975,000 for the ship.

Mr. RAUSHENBUSH. You did put in a fixed-price bid for $15,000,000, and you put in $16,000,000 on another one. I am talking about the $15,000,000.

Mr. LANGELL. Look here: I have not that data in front of me. I have got the heavy.

Mr. RAUSHENBUSH. While we are waiting for the official figures on that to be brought in, will you explain the estimate on cruiser no. 45 where the company put in a fixed-price bid of $16,000,000, according to our information?

Mr. LANGELL. I made no estimate.

Mr. RAUSHENBUSH. That is one where you made no estimate?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. I am sorry.

Senator VANDENBERG. I would like to ask Mr. Langell a question: Returning to this relative amount of labor in the preparation of these estimates, did the New York Ship get the contracts for which the voluminous preparation was made?

Mr. LANGELL. Yes, sir.

Senator VANDENBERG. Did the New York Ship get any of the contracts for which no serious preparation was made?

Mr. LANGELL. No.

Senator VANDENBERG. Did it ever occur to you in any way remarkable that the New York Ship was such a good guesser?

Mr. LANGELL. Well, as I said before, Senator, I have nothing whatever to do with the bids.

Senator VANDENBERG. What are you waiting for, Mr. Raushenbush?

Mr. RAUSHENBUSH. I was waiting for some official Navy figures to show that the New York Ship did put in a fixed price bid at $15,000,000 on light cruisers nos. 46 to 48, and a $16,000,000 fixed price bid on cruiser no. 45. I understand that is coming immediately.

But, in the meantime, I asked Mr. Langell to explain, if he could, the other bid, and we were reminded that the estimate on that had not been made.

Did the management, of the company, Mr. Bardo, take up with you, Mr. Langell, at any time, the bid they were going to put in on that cruiser no. 45 of $16,000,000?

Mr. LANGELL. Never.

Mr. RAUSHENBUSH. So, according to that, did the management have any idea of what the probable cost on that cruiser would be?

Mr. LANGELL. I think that is a fair question to ask Mr. Bardo or somebody else; not me, because I do not know.

Mr. RAUSHENBUSH. We are not asking Mr. Bardo questions about 1933 and 1934, so that we have to seek for other sources of information.

You identified earlier, I believe, or Mr. Parker did, the steel prices, on steel plates, showing that they were a good deal higher in 1927 than they were in 1934, at the time of the bidding, this high bidding; is that correct?

Mr. LANGELL. My recollection is that the price of steel was pretty near the same from 1927 to 1932. I do not think there was any great range for that.

Mr. RAUSHENBUSH. Here are the prices on steel plates, and Mr. Parker checked them through exactly with your figures.

Mr. LANGELL. I will take his word for it, but I do not recall it.

Mr. RAUSHENBUSH. The labor curve, at the same time, would show a swing, a little differently, would it not? We figured, taking 1927 as 62, it would swing down quite a bit until it was 55, the first part of 1933, and then up to 56, and up to 73 for the 1934 average. That is about right?

Mr. LANGELL. Right.

Mr. RAUSHENBUSH. So that you do have an increase in labor which seems to be higher than the figure it was at in 1927. Is that right, sir?

Mr. LANGELL. Yes, sir.

Mr. RAUSHENBUSH. And lower during the very low 55-cent average, and steel has not, however, swung up, according to these figures, to the price of 1927 or 1929. You do have a labor increase, and we found out on the cruisers there, in the first comparison, we were getting a material and labor increase together that would be under $900,000.

Mr. LANGELL. Do you want a reply? I did not get exactly what you are after.

Mr. RAUSHENBUSH. I want your assent to that. That is a correct statement, is it not?

Mr. LANGELL. Yes. You said the material was a good deal more in 1934 than what it was in 1927.

Mr. RAUSHENBUSH. $650,000, roughly.

Mr. LANGELL. That paper will explain it. [Handing paper to secretary.]

Mr. RAUSHENBUSH. You mean the character of the material was different; is that it?

Mr. LANGELL. The alterations on the ships from 1927 to 1934, probably one and a quarter million dollars more expensive.

Mr. RAUSHENBUSH. You mean you needed a better class of generators, and so forth? Is that it?

Mr. LANGELL. Improvements made on the ships.

Mr. RAUSHENBUSH. Material on the 1934 ships, if you had had to put that into the 1927 ships, would have cost more?

Mr. LANGELL. Absolutely.

Mr. RAUSHENBUSH. So that it was not due at all to an increase in price of material, but it was due to the change in the character of the material?

Mr. LANGELL. A good deal of it.

Mr. RAUSHENBUSH. A good deal of it?

Mr. LANGELL. A great deal of it; yes, sir.

Mr. RAUSHENBUSH. So that if we are really getting on a comparable basis, then a good deal of that increase of $650,000 in material would be wiped out, would it not?

Mr. LANGELL. Absolutely.

Mr. **Raushenbush.** So that it was not really on a comparable basis in that respect?

Mr. **Langell.** There is no comparison between a cruiser of 1927 and a cruiser of 1934.

Mr. **LaRouche.** Mr. Langell, is it not also a fact that between 1927 and 1934 you experimented on all these other cruisers and you got pretty good? You told me on the *Salt Lake City* and on the *Pensacola* in 1927, which you took over from Cramp, you were entirely in the dark and knew nothing about cruiser building.

Mr. **Langell.** Not a thing.

Mr. **LaRouche.** From that time until the present you did a lot of experimentation, at the cost of the Government, and which offset the difference in quality. I mean also there is a difference in quality, you also improved in skill, in performance and production. Is not that true?

Mr. **Langell.** Of course the more cruisers we build the more familiar we get with that type of work.

Mr. **LaRouche.** That is the point.

Mr. **Raushenbush.** While we are getting those figures, Mr. Langell, we have here some hotel records and things. Can you tell the committee when you were in the city of Washington, D. C., in the summer of 1933?

Mr. **Langell.** I forgot the date; I think it was the 24th of July, I think it was.

Mr. **Raushenbush.** What was the purpose of your being down here at the time, Mr. Langell?

Mr. **Langell.** I was requested to come by the management.

Mr. **Raushenbush.** We understand your position very well, Mr. Langell. You are a subordinate under the management.

Mr. **Langell.** Absolutely.

Mr. **Raushenbush.** And you have to do whatever the management wants. That is quite clear. But where did you stay when you were here?

Mr. **Langell.** At the Mayflower.

Mr. **Raushenbush.** Were there any of the others of the shipbuilding profession staying there at the time?

Mr. **Langell.** Yes. Of my company, do you mean?

Mr. **Raushenbush.** Of your company. How about any other company?

Mr. **Langell.** I do not know about any other company. I know that our company was represented there.

Mr. **Raushenbush.** Did you meet any of the members of the other companies?

Mr. **Langell.** I met Mr. Wakeman in the lobby, to shake hands with him, and I met Mr. Spiegenhalter, of Pusey & Jones, just to shake hands with him. That is all.

Mr. **LaRouche.** What day was that that you met Mr. Wakeman?

Mr. **Langell.** I think it was on a Tuesday. That would be the next day after we came there?

Mr. **LaRouche.** You came on Monday?

Mr. **Langell.** We came on Monday; yes.

Mr. **LaRouche.** Had the others been there before?

Mr. LANGELL. I could not answer that. I do not know.

Mr. RAUSHENBUSH. Do you know whether any meetings were taking place between any of your superiors at the time and the superiors of other companies?

Mr. LANGELL. I have not the slightest knowledge of it.

Mr. RAUSHENBUSH. Never heard anything about it?

Mr. LANGELL. Not the slightest knowledge of it at all.

Mr. RAUSHENBUSH. You were never in any of those meetings?

Mr. LANGELL. Never.

Mr. RAUSHENBUSH. How long did you stay in town?

Mr. LANGELL. I left I think on the 4 o'clock train, on Wednesday, for home.

Mr. RAUSHENBUSH. Was that the day the bids were opened?

Mr. LANGELL. That was the day the bids were opened.

Mr. RAUSHENBUSH. They were opened at noon?

Mr. LANGELL. Yes.

Mr. RAUSHENBUSH. Will you tell us, what was the point of coming down here just before the bids were opened, just the day before?

Mr. LANGELL. Well, I do not know. It was just customary, I guess; I was never there before or since.

Mr. RAUSHENBUSH. Was it a social custom, which would miss you?

Mr. LANGELL. Well, prohibition times.

Mr. RAUSHENBUSH. And you live in Camden?

Mr. LANGELL. No, sir; thank heaven I do not live in Camden.

Mr. RAUSHENBUSH. You said it was customary; what do you mean by that?

Mr. LANGELL. They always present the bids in person, and they have to be here to do it.

Senator VANDENBERG. But you were here, and you said you had never been here before or since. How did you happen to be here on that particular occasion?

Mr. LANGELL. Because Mr. Bardo told me to come down to Washington. That is all.

Mr. RAUSHENBUSH. What did he want you down here for? What did he consult you about?

Mr. LANGELL. To make up the sheet.

Mr. LAROUCHE. What sheets?

Mr. LANGELL. I am pretty good, fairly good at figures, and the thing was all upset, as you know, at the time, and nobody knew which way the cat was going to jump as regards prices on labor and material either.

Mr. LAROUCHE. You knew what the company wanted pretty definitely, though, and they knew?

Mr. LANGELL. I beg your pardon?

Mr. LAROUCHE. I say, they knew and you know what the company wanted in the way of business at that time. You were interested in the 1,850-ton destroyers?

Mr. LANGELL. Yes.

Mr. LAROUCHE. You were interested in the light cruisers Nos. 42 and 43 on the list. Nothing else?

Mr. LANGELL. That is all I know.

Mr. LaRouche. It was all you wanted. That is what the company wanted, and that is what the company got?

Mr. Langell. That is right.

Mr. LaRouche. I think, Mr. Raushenbush and the committee would like to know exactly why you were here. I do not mean you, but what the rest of them were here for.

Mr. Langell. I do not know why they were here. They always do come down, ever since I have been in the shipbuilding business.

Mr. LaRouche. You mean ahead of time?

Mr. Langell. A day ahead of time, as a rule.

Mr. LaRouche. All of the big shipbuilders?

Mr. Langell. I do not know. I am talking about my own.

Mr. Raushenbush. You testified a minute ago that everything was in a turmoil and nobody knew which way the cat was going to jump. What sort of thing did Mr. Bardo consult you about at the time before these bids were put in and opened?

Mr. Langell. One of the major things was how high were the wages going to go during the life of the contract. How was the material market going to go during the life of the contract. There was some discussion amongst ourselves about the code. The code, as I said before, had not been signed, and there was great difficulty at that time in getting firm prices from people that would extend over 30 to 60 days from the time of that code.

Senator Vandenberg. Was your bid changed in any way as a result of this conference?

Mr. Langell. No; I had nothing to do with the bid.

Senator Vandenberg. Do you know whether the bid was changed as a result of this conference which you had with Mr. Bardo?

Mr. Langell. No; I have no recollection of any change being made in this bid at all, because I never knew until the bids were opened what the bids were going to be.

Mr. LaRouche. Did you know whether or not any officials of New York Ship came down at that time besides the ones you have mentioned?

Mr. Langell. Mr. Miller was with me, and Mr. Parker was there, and Mr. Cornbrooks was there, Mr. Ernest Cornbrooks.

Mr. LaRouche. When did Ernest Cornbrooks come down. When did he come to Washington from Camden?

Mr. Langell. I think it was on the same day; Monday.

Mr. LaRouche. With you?

Mr. Langell. No; Mr. Miller and I came down together.

Mr. LaRouche. Was it planned that Mr. Cornbrooks would come?

Mr. Langell. I beg your pardon. I recollect now. They all came down with us on the train.

Mr. LaRouche. Mr. Cornbrooks came down?

Mr. Langell. Yes; that is right.

Mr. LaRouche. Then, as far as any meeting is concerned, or any session between officers of your company and the other big shipbuilders, you do not know at all?

Mr. Langell. Not the slightest knowledge.

Mr. LaRouche. But you do not know that there was not any such meeting?

Mr. Langell. I do not know anything about it.

Mr. Raushenbush. Coming back a minute to the question I was asking you before, I show you the official report of the Bureau of Construction and Repair of the Navy and of Engineering, dated August 20, 1934, showing the proposals received, corrected for evaluated differences in guarantees for fuel consumption, which are as follows—showing New York Ship had a fixed price of $15,000,000 and an adjusted price of $12,550,000 on light cruisers nos. 46 to 48. Is that correct?

Mr. Langell. I do not recollect that I ever saw this sheet before in my life.

Mr. Raushenbush. Does that refresh your memory about a fixed price going in by New York Ship for $15,000,000? That seems to be the thing we were arguing about a minute ago.

Mr. Langell. It must be right. And the adjusted price was $12,550,000.

Mr. Raushenbush. The adjusted price was $12,550,000. I offer this for the record as an exhibit, to be inserted at this point.

(The document referred to was marked "Exhibit No. 1487.")

(Pursuant to the above instructions "Exhibit No. 1487" is given in full as follows:)

CL46 to 48/L4 (C N/C
Br

CL46–48/L4 (8–18–D
August 20, 1934.

JOINT LETTER

To: The Secretary of the Navy (Judge Advocate General).

Subject: Light cruisers nos. 46 to 48 class—Recommendation of award of contracts.

References: (a) J.A.G.'s. let. of August 15, 1394, No. CL46/L4–2 (34815) P.

Enclosures (herewith):

(A) Bid of the Newport News Shipbuilding & Dry Dock Co.
(B) Bid of the Bethlehem Shipbuilding Corporation, Ltd.
(C) Bid of the Federal Shipbuilding & Dry Dock Co.
(D) Bid of United Shipbuilding & Dry Dock Corporation in duplicate.
(E) Bid of the Gulf Industries, Inc.
(F) Bid of New York Shipbuilding Corporation.

1. After examination and analysis of the proposals for the construction of light cruisers of the nos. 46, 47, 48 class, forwarded with reference (a), the Bureaus recommend award of contracts for the construction of two vessels as follows:

"One light cruiser to the lowest satisfactory bidder, the Newport News Shipbuilding & Dry Dock Co., at the bid price of $11,900,000, subject to adjustments for changes in costs of labor and materials, less $250,000 on account of obtaining plans from the contractor for light cruisers nos. 42 and 43, as provided in the bid; net contract price $11,650,000.

"One light cruiser to the next low satisfactory bidder, the New York Shipbuilding Corporation, at the agreed price of $11,975,000, subject to adjustments for changes in costs of labor and materials. Since this company is also the contractor for light cruisers nos. 42 and 43, and already has available the plans for these vessels, no deduction for plans is applicable."

2. In view of the considerable advance in price quoted by these two bidders for bids on a fixed-price basis, it is considered to be to the Government's advantage to make award upon the basis of adjustments for changes in labor and material costs.

3. The proposals received, corrected for evaluated differences in guarantees for fuel consumption, are as follows:

Bidder	Basis	Price	Plan deduction	Fuel consumption evaluation	Net evaluated bid
Newport News Shipbuilding & Dry Dock Co.	Fixed	$13,700,000	$250,000	+$238,425	$13,688,425
Do	Adjusted	11,900,000	250,000	238,425	11,888,425
New York Shipbuilding Corporation	Fixed	15,000,000		+88,600	15,088,600
Do	Adjusted	12,550,000		88,600	12,638,600
United Shipbuilding & Dry Dock Corporation.	Fixed	16,800,000	700,000	+46,400	16,146,400
Do	Adjusted	13.440,000	700,000	46,400	12,786,400
Federal Shipbuilding & Dry Dock Co	Fixed	13,997,000	600,000	+413,025	13,810,025
Do	Adjusted	13,043,000	600,000	413,025	12,856,025
Bethlehem Shipbuilding Corporation, Ltd	Fixed	16,600,000	500,000	+294,375	16,394,375
Do	Adjusted	13,244,000	500,000	294,375	13,038,375
Gulf Industries, Inc	Fixed	12,600,000	550,000		12,050,000
Do	Adjusted	12,250,000	550,000		11,700,000

4. The bids of Gulf Industries, Inc., of $12,600,000 fixed price and $12,250,000 subject to adjustments for changes in labor and material costs, are recommended for rejection for reasons which are being submitted in separate correspondence covering all bids submitted by this company.

S. M. Robinson, *Chief of Bureau.*
E. S. Land, *Chief of Bureau.*

Mr. Raushenbush. Having established there was that fixed bid on light cruisers of $15,000,000, may we come back to the question: With material rises largely because the material was more complicated and the average price rising only $650,000, according to your estimate, and labor rising only $120.000, making a total rise of only $900,000, how can you possibly explain and help us in arriving at this question of why there was a jump from $10,800,000 in the bid to $15,000,000, practically $4,200,000 jump in a price rise that was under $1.000,000?

Mr. Langell. Mr. Raushenbush, I do not see how I can explain it to you, because, as I said before and have said time and time again, I had nothing whatever to do with it. All I could do was turn in what I thought was the proper labor and proper material cost.

Mr. LaRouche. You have been estimating for a great many years, have you not?

Mr. Langell. Yes, sir.

Mr. LaRouche. And during that time prices have fluctuated up and down a great deal in 35 years?

Mr. Langell. I will say they have.

Mr. LaRouche. Thirty-six years, is it not, since you began?

Mr. Langell. Thirty-eight years.

Mr. LaRouche. Thirty-eight. You have had some pretty wild fluctuations in price, both for labor and material, in those 38 years?

Mr. Langell. Right.

Mr. LaRouche. And you have a reputation of never guessing wrong on estimates?

Mr. Langell. I could not prove that on a bet.

Mr. LaRouche. But the fact is that it is common knowledge amongst the shipbuilders that you are the no. 1 estimator, or one of the leading estimators in the business, and you would not be if you guessed wrong very often, would you?

Mr. Langell. I have guessed wrong often enough.

Mr. LaRouche. Now here, after 38 years of experience, or 37 years at the time, you were confronted with the problem of estimating the amount of labor, the cost of the labor, for all these jobs, and you knew that it might go up, and so you probably took cognizance of that in your estimate, as you always had in the past. Is not that true?

Mr. Langell. Cannot I go into that a little more?

Mr. LaRouche. Yes.

Mr. Langell. When I made the estimate for the *Salt Lake City* in the latter part of 1925, and the first part of 1926, we had never built a vessel of that description in the world, in our plant. To be perfectly frank, I was a little afraid of it. I made up an estimate, and we did not get the contract. The following year, Cramp defaulted. Cramp secured the contract and defaulted the following year, and all the papers were turned over to us, as we took the contract over. Amongst the papers was Cramp's original estimate on the ship. They had already built five cruisers, somewhat smaller, but of a good deal the same design. And when I compared my estimate with Cramp's estimate, I thought I was pretty good.

Mr. LaRouche. You were pretty good?

Mr. Langell. No; I was not. At that time we were figuring on the *Chester*, and I though, on account of Cramp's estimate being so near mine, that my estimate must have been fairly correct, and I based the estimate of the *Chester* on that of the *Salt Lake City*.

When we came to figure on the *Indianapolis*, we had proceeded so far with the *Salt Lake City* and the *Chester* that we found that we were building them cheaper than what I had estimated.

Mr. LaRouche. You found that you were building them cheaper than you had planned?

Mr. Langell. Than my judgment; yes, sir.

Mr. LaRouche. I think the committee ought to get that clearly. It is a very interesting point. You estimated the *Salt Lake City* high, and when you came to the *Chester* you found that you could build it for less money than you had thought?

Mr. Langell. No; the *Indianapolis*.

Mr. LaRouche. The *Indianapolis* you found you could build for less than you had thought?

Mr. Langell. Less than I had thought for the *Chester*.

Mr. LaRouche. On the *Chester* the bid was $10,815,000?

Mr. Langell. Righto.

Mr. LaRouche. That was a great deal more than you got for the *Salt Lake City?*

Mr. Langell. I do not remember. I do not know what we got for the *Salt Lake City*, to tell you the truth, because that was adjusted and I do not know anything about it.

Mr. LaRouche. It was very much adjusted, was it not?

Mr. Langell. I do not know anything about it. You will have to excuse me on that.

Mr. LaRouche. It was negotiated, was it not?

Mr. Langell. Yes, sir.

Mr. LaRouche. I think the committee is interested in that.

Mr. Langell. You would have to ask Mr. Parker that. I know nothing whatever about it.

Mr. LaRouche. But the fact is that on the *Chester* your experience on the *Salt Lake City* saved you a good deal, and the company? Is not that true?

Mr. Langell. Not as regards the *Chester*, because we built them both together.

Mr. LaRouche. That is right. But on the *Indianapolis?*

Mr. Langell. Yes, sir.

Mr. LaRouche. You saved not only by reason of your knowledge and experience, but when labor dropped, I think you told me that the company saved, or made an extra profit, a little short of a present, of $700,000 roughly?

Mr. Langell. On what ship, now?

Mr. LaRouche. On the *Indianapolis*, cruiser no. 35.

Mr. Langell. I do not recall telling you that.

Mr. LaRouche. Are you sure of that?

Mr. Langell. It might have been so.

Mr. LaRouche. That they did not actually make that much, but they made something like that, in addition to what they had planned. That was the fruit of falling labor.

Mr. Langell. I do not think I told you that. I might have, but I do not recollect it.

Mr. LaRouche. I took it down at the time. I was rather startled by it myself.

Mr. Raushenbush. Right on that point, Mr. Langell, you were saying a minute ago, if I understood you, that you found that you could do the *Chester* more cheaply than you had thought. Is that right?

Mr. Langell. I found, as the work progressed on the *Chester* and the *Salt Lake City*, that we could build them a good deal cheaper on labor than what I had expected.

Mr. Raushenbush. So that when you came around to 1929 and bid on the *Indianapolis* you were able to lower your estimate by over $700,000?

Mr. Langell. Let us see what we did.

Mr. Raushenbush. I call your attention to an estimate on the *Chester* in 1927 of $7,950,000, and an estimate on the Indianapolis in 1929, totaling $7,173,000.

Mr. Langell. That is right.

Mr. Raushenbush. You were over $700,000 ahead of the game there. With $700,000 down in your estimate, knowing that you could produce that kind of ship lower than you thought, how did it happen, and can you give us any explanation of why the company, instead of lowering $700,000, went up $100,000 over its 1927 bid, shown by this red line? They jumped $100,000 there, and your estimate there dropped $700,000.

Mr. Langell. That is about $88,000 higher.

Mr. Raushenbush. Yes, sir; $88,000.

Mr. Langell. Yes, sir.

Mr. Raushenbush. So that you had a spread in 1927 of $2,854,820, and in 1929 that spread was roughly $1,800,000 larger, $3,730,200.

Mr. Langell. That is right.

Mr. Raushenbush. Can you explain that at all?

Mr. LANGELL. Not the slightest in the world. That is the management.

Mr. LAROUCHE. In other words, when you make the estimate, you are done?

Mr. LANGELL. I am done.

Mr. LAROUCHE. Whatever playing that is done with it is out of your hands?

Mr. LANGELL. They can do as they please.

Mr. LAROUCHE. And they do.

On the *Indianapolis*, then, not trusting my memory any more, I took it down. You said to me on September 25 in your office—and I think you and Mr. Miller were both there—that on the *Indianapolis* the price of materials went down sharply after the contract was awarded.

Mr. LANGELL. Right.

Mr. LAROUCHE. "Way down. We quoted rather high prices, relatively high." That, as I remember it, was in 1929. That was the year before the year of the big jump-off.

Mr. LANGELL. Yes.

Mr. LAROUCHE. The point I want to make on the *Indianapolis* is just this: That I have your exact words here, and you only made a guess at that time. I do not mean that you attempted to give me the exact figures, but you said, "We made at least $700,000 above our original expectations because of the drop in prices."

Mr. LANGELL. I think that is about right.

Mr. LAROUCHE. The company, so far as you know, did not turn any of that back to the Government?

Mr. LANGELL. No.

Mr. LAROUCHE. That would be ridiculous?

Mr. LANGELL. That would be crazy.

Mr. LAROUCHE. The point I wanted to make is, that when prices are going up, the shipbuilders agree to be protected by the Government, and when prices go down, the shipbuilders take the difference. In other words, they get it both ways.

Mr. LANGELL. No; I do not agree to that. We took a ship at a definite price.

Mr. LAROUCHE. Yes.

Mr. LANGELL. And if the material goes up and labor goes up, the shipyard is stung; that is all.

Mr. LAROUCHE. Not on an adjusted price?

Mr. LANGELL. No; not on an adjusted price.

Mr. LAROUCHE. That is what I am getting at.

Mr. LANGELL. We only had one adjusted.

Mr. LAROUCHE. That is right.

Mr. RAUSHENBUSH. One more question, Mr. Langell. Have you ever heard from the management what percent of your estimate on labor they add to make up the overhead figure? Have you ever heard that discussed? Do they take 50 percent, 15 percent, or some definite percentage to estimate overhead on?

Mr. LANGELL. No; I cannot say as to percentage, but I think—and this is just my recollection—I think in 1933 that they added something like $3,000,000 per ship on a cruiser for overhead. That would be her share of the overhead for 3 years. That is my impression.

Mr. RAUSHENBUSH. That is almost 100 percent of your labor, is it not—80 percent?

Mr. LANGELL. Yes; about that.

Mr. RAUSHENBUSH. Was that the figure usually used?

Mr. LANGELL. I do not know. That is the only time I ever saw it.

Mr. RAUSHENBUSH. So far as you know, was there a great jump in overhead after the codes? Overhead is bond interest?

Mr. LANGELL. Yes.

Mr. RAUSHENBUSH. That did not jump, did it?

Mr. LANGELL. No.

Mr. RAUSHENBUSH. Taxes?

Mr. LANGELL. They would jump all right.

Mr. RAUSHENBUSH. Did property taxes? Did they jump?

Mr. LANGELL. It does in Camden.

Mr. RAUSHENBUSH. Very considerably?

Mr. LANGELL. Mr. Parker would tell you the exact figures. I do not know them.

Mr. RAUSHENBUSH. Did you gentlemen there have your wages or salaries raised very considerably?

Mr. LANGELL. I do not recall anything of the kind.

Mr. RAUSHENBUSH. You would remember that?

Mr. LANGELL. I would.

Mr. RAUSHENBUSH. What I am trying to get at is—what elements in overhead would justify such a terrific jump? And if it is not bond interest, and it is not taxes—beyond a certain amount—and if it is not salaries, the only thing left is profit, is it not?

Mr. LANGELL. You see, that is entirely out of my jurisdiction—that end of it. I have nothing whatever to do with the accounting. I do not know anything about it.

Mr. RAUSHENBUSH. All right; I have no further questions.

Senator VANDENBERG. Do you ever compare estimates with other estimators?

Mr. LANGELL. Never.

Senator VANDENBERG. Did you ever do it in connection with merchant-ship bidding?

Mr. LANGELL. Me? No, sir; never in the world.

Senator VANDENBERG. You did not do it in connection with the *Malola?*

Mr. LANGELL. We did not build her, thank Heaven.

Senator VANDENBERG. Did you discuss it with other estimators?

Mr. LANGELL. I beg your pardon?

Senator VANDENBERG. Did you discuss it with other estimators?

Mr. LANGELL. After the bids were opened, if we ever got together we would talk about it, naturally.

Senator VANDENBERG. Not before?

Mr. LANGELL. Not before; never.

Senator VANDENBERG. I think that is all for the time being, Mr. Langell.

Mr. LANGELL. Thank you.

STATEMENT OF THOMAS M. CORNBROOKS

MEETING OF SHIPBUILDERS IN WASHINGTON, JULY 1933

(The witness was duly sworn by the chairman.)

The CHAIRMAN. You may be seated there at the end of the table, Mr. Cornbrooks. Have you given the reporter your full name and address?

Mr. CORNBROOKS. I have given him my name—how to spell it. My address is 1110 Stokes Avenue, Collingswood, N. J.

The CHAIRMAN. Go ahead, Mr. LaRouche.

Mr. LAROUCHE. You are and have been a shipbuilder, Mr. Cornbrooks?

Mr. CORNBROOKS. Yes.

Mr. LAROUCHE. And you are a brother, I believe, of Ernest Cornbrooks?

Mr. CORNBROOKS. Yes.

Mr. LAROUCHE. Who was with New York Ship?

Mr. CORNBROOKS. Yes.

Mr. LAROUCHE. We are interested to know a little about your connections with Gulf Industries. You are not with them any more?

Mr. CORNBROOKS. No.

Mr. LAROUCHE. How long were you associated with that organization?

Mr. CORNBROOKS. Why, about a year.

Mr. LAROUCHE. At that time you were particularly interested in the 1933 bids?

Mr. CORNBROOKS. Yes.

Mr. LAROUCHE. And you were associated with that company when those bids were opened?

Mr. CORNBROOKS. Yes.

Mr. LAROUCHE. And when the contracts were let?

Mr. CORNBROOKS. Yes.

Mr. LAROUCHE. We should like to know something about what happened in the period between July 20, we will say, and August 3. We are particularly interested to know what existed in the way of general understanding, in which you shared, as to the possible outcome of that letting—knowledge that you may have had, or anyone may have had—before the official awards were made.

Mr. CORNBROOKS. I had no knowledge.

Mr. LAROUCHE. Not any?

Mr. CORNBROOKS. No.

Mr. LAROUCHE. Had you any hearsay information?

Mr. CORNBROOKS. Oh, there was talk around among different people, outside of the shipyards, as to who might possibly be the low bidder.

Mr. LAROUCHE. Do you remember the talk?

Mr. CORNBROOKS. No; there was all kinds of talk.

Mr. LAROUCHE. Did you have any knowledge, or were you in any way interested, in a loan application made by Gulf Industries?

Mr. CORNBROOKS. Not at that time. I afterward took part in a loan application for the Municipal Port Development Corporation, with the P. W. A.

Mr. LaRouche. Did you get it?

Mr. Cornbrooks. No.

Mr. LaRouche. Are you associated with any shipbuilder now?

Mr. Cornbrooks. No.

Mr. LaRouche. Or any prospective shipbuilder?

Mr. Cornbrooks. No.

Mr. LaRouche. Do you have any knowledge, direct or otherwise, of any meeting of shipbuilders at the Mayflower Hotel in 1933?

Mr. Cornbrooks. No; I have not.

Mr. LaRouche. You do not know of any such meeting?

Mr. Cornbrooks. No.

Mr. LaRouche. I think that is all.

Senator Clark. Did you ever have a conversation with Mr. Wilder in which you told him substantially who would get the awards for these ships?

Mr. Cornbrooks. No; I do not remember any.

Senator Clark. You have not discussed the matter with him?

Mr. Cornbrooks. Yes.

Senator Clark. What was the nature of that discussion?

Mr. Cornbrooks. As to the general talk among the suppliers.

Senator Clark. Did you hear Mr. Wilder's testimony here yesterday?

Mr. Cornbrooks. No, sir; I did not.

Senator Clark. Or his testimony the day before?

Mr. Cornbrooks. No; I did not.

Senator Clark. Mr. Wilder testified that he was able to make a list of the concerns, the shipbuilding companies which would get the awards on each class of ships, and put it in a sealed envelop and handed it to Mr. Frey, some days before the bids were opened, on information supplied by you. Is that statement true?

Mr. Cornbrooks. Not to my knowledge.

Senator Clark. How many conversations did you have with Wilder on the subject?

Mr. Cornbrooks. I do not remember having any until the day before the opening of the bids, as I was in New York preparing an estimate from the 6th of July up to the day before the bids were opened.

Senator Clark. Did you have any information which came to subcontractors and others as to inquiries made by the several shipbuilding companies?

Mr. Cornbrooks. No, sir.

Senator Clark. If we told you that Mr. Wilder made such a statement as that, would you say it was correct or incorrect?

Mr. Cornbrooks. That I made a statement like that?

Senator Clark. If you were told that Mr. Wilder said that the information upon which he was able to make up this list and seal it in an envelop some days before the opening of the bids came from you, what is your reply as to that?

Mr. Cornbrooks. I would say he was mistaken.

Senator Vandenberg. Have you a brother in the shipbuilding business?

Mr. Cornbrooks. I have.

Senator VANDENBERG. Who is he?

Mr. CORNBROOKS. Ernest I. Cornbrooks.

Senator VANDENBERG. What is his connection?

Mr. CORNBROOKS. He is retired now.

Senator VANDENBERG. What was his connection?

Mr. CORNBROOKS. He was with the New York Shipbuilding Corporation.

Senator VANDENBERG. Was he here at the time of this meeting in Washington?

Mr. CORNBROOKS. You mean my meeting with Mr. Wilder?

Senator VANDENBERG. No; I mean this meeting of shipbuilders in July at the Mayflower Hotel.

Mr. CORNBROOKS. I do not know of any meeting. I do not know when he was here. I did not see him.

Senator VANDENBERG. You did not know that your brother came to Washington at that time?

Mr. CORNBROOKS. No, sir; I did not.

Senator VANDENBERG. You have never talked to your brother about that meeting?

Mr. CORNBROOKS. No, sir.

Senator VANDENBERG. He never gave you any information on that subject?

Mr. CORNBROOKS. No, sir.

Senator VANDENBERG. You are quite clear on that?

Mr. CORNBROOKS. Absolutely.

Mr. LAROUCHE. I would like to offer for the record at this time a communication from the Hotel Mayflower, containing the names of certain shipbuilders who were present and registered there at the period under discussion.

The CHAIRMAN. Let the letter be read for the information of the committee.

Mr. LAROUCHE. It is a letter received by one of our investigators from the credit manager, as a result of a visit that one of our men made to the hotel.

The CHAIRMAN. And requested, incidentally, this statement?

Mr. LAROUCHE. This statement, with the supporting records from their official register. The letter reads as follows:

> GENTLEMEN: In compliance with your order we have listed below a copy from our records of the rooms, rates, etc., occupied by the gentlemen shown at the times designated, taken from the registration cards of the Mayflower.
>
> July 25–29, 1933; Korndorff, L. H. Suite 333–4; $15 per day.
> July 17–21, 1933; Korndorff, L. H. Room 509; $5 per day.
> July 1 to August 9; Bardo, C. L. Apartment 465; $200 per month.
> July 17–26, 1933; Smith, H. G.—

The bids were opened on the 26th of July, as you will remember [continuing reading]:

> Room 678–A; $7 per day.

Mr. Smith, as the committee perhaps knows, is president of the National Council of American Shipbuilders [reading]:

> July 6–8, 1933; Smith, H. G. Room 378–A; $7 per day.
> July 9–10, 1933; Smith, H. G. Room 378–A; $7 per day.
> July 23–24, 1933; Ferguson, H. L. Room 389; $6 per day.
> July 25–26, 1933; Gatewood, W.—

Mr. Gatewood is works manager of the Newport News Shipbuilding & Dry Dock Co. and Mr. Ferguson is president of Newport News Shipbuilding & Dry Dock Co.

To continue [reading]:

Room 389; $6 per day.
July 24–26, 1933; Cornbrooks, E. F.—

That is incorrect; it should be E. I.—

Room 316; $7 (special).
July 24–26, 1933; Wakeman, S. W. Suite 860; $22 per day.
July 29, 1933; Wakeman, S. W. Room 617; $5 per day.
August 14–15, 1933; Wakeman, S. W. Suite 451–2–3; $18 per day.
(Attached hereto are duplicates of room charges on certain of these rooms.)

It is signed by the credit manager.

(The letter referred to was marked "Exhibit No. 1488", and is included in the appendix on p. 5194.)

Senator Vandenberg. Mr. Cornbrooks, were you in Washington in July 1933?

Mr. Cornbrooks. I was here the day before the opening of the bids and the day of the opening of the bids.

Senator Vandenberg. Then you were here on July 25 and 26?

Mr. Cornbrooks. If those were the dates of the opening of the bids.

Senator Vandenberg. The bids were opened on the 26th.

Mr. Cornbrooks. Yes; then I was here on the 25th and 26th.

Senator Vandenberg. Do I understand you to say that you did not know that your brother was here at the same time?

Mr. Cornbrooks. No, I did not.

Senator Vandenberg. How long has your brother been in ill health?

Mr. Cornbrooks. I could not tell you that.

Senator Vandenberg. He is in ill health, is he not?

Mr. Cornbrooks. He has been. He just had an operation and his tonsils removed.

Senator Vandenberg. You never heard about his being ill in Washington on July 25 or 26, 1933?

Mr. Cornbrooks. His wife did tell me he had ptomaine poisoning while he was down here at that time. She told me afterwards.

Senator Vandenberg. Did she tell you the circumstances?

Mr. Cornbrooks. No; that is all I heard about it; that he had ptomaine poisoning.

Senator Vandenberg. Did you ever hear that he had to be taken out of a conference at 4 o'clock in the morning?

Mr. Cornbrooks. No, sir.

Senator Vandenberg. Do you mean to say that you have never talked to him since about any phase of this matter?

Mr. Cornbrooks. No, sir.

Senator Vandenberg. You smiled when I asked you about his being taken out of the conference. Evidently you had heard that story.

Mr. Cornbrooks. I read it in the paper this morning.

Senator Vandenberg. Is that the first time you ever heard of it?

Mr. Cornbrooks. Yes, sir.

Senator VANDENBERG. And your brother was here for 2 days and you never knew anything about it?

Mr. CORNBROOKS. No; I did not.

Senator VANDENBERG. You were both in the same business at the time?

Mr. CORNBROOKS. Yes.

Senator VANDENBERG. Working for the same company?

Mr. CORNBROOKS. No.

Senator VANDENBERG. What company were you working for?

Mr. CORNBROOKS. Gulf Industries.

Senator VANDENBERG. And he was working for whom?

Mr. CORNBROOKS. New York Shipbuilding Co.

Senator CLARK. What hotel did you stop at on those days, Mr. Cornbrooks?

Mr. CORNBROOKS. The Washington.

Senator VANDENBERG. Were there other officers of your company at the Washington?

Mr. CORNBROOKS. Yes.

Senator VANDENBERG. What were they here for?

Mr. CORNBROOKS. They had their office there. That was the office of Gulf Industries.

Senator VANDENBERG. Were there any more than the ordinary number of officers here at that time?

Mr. CORNBROOKS. No.

Senator VANDENBERG. You never talked with Mr. Wilder about this either?

Mr. CORNBROOKS. About which?

Senator VANDENBERG. About this contract letting?

Mr. CORNBROOKS. Contract letting?

Senator VANDENBERG. You never talked with Mr. Wilder about the probable outcome of the bidding?

Mr. CORNBROOKS. Oh, I may have discussed what my guess was as to who would be the lowest bidders, based on their experience.

Senator VANDENBERG. Now, do you think that you perhaps did talk with Mr. Wilder in a speculative sort of way about it?

Mr. CORNBROOKS. I do not remember it. I may have.

Senator VANDENBERG. Did you have some pretty fixed ideas about who was going to get the bids?

Mr. CORNBROOKS. No; only a guess. I think I made three guesses, if I am not mistaken.

Senator CLARK. You guessed right in each of those, did you not?

Mr. CORNBROOKS. No; I did not.

Senator CLARK. Where were you wrong in your guess?

Mr. CORNBROOKS. It is pretty hard to remember just what the guesses were, but, as I remember it, I guessed that Federal would get the 1,850-ton destroyers. That is my recollection of one of the guesses I made.

Senator VANDENBERG. When did you next see your brother after July 1933?

Mr. CORNBROOKS. I did not see him until the end of September. I went to California.

Senator VANDENBERG. You saw him in September 1933?

Mr. CORNBROOKS. I saw him in September 1933; yes, sir.

Senator VANDENBERG. Did you talk to him at that time about this group of cruisers and the contracts?

Mr. CORNBROOKS. No.

Senator VANDENBERG. Did not talk to him at all about it?

Mr. CORNBROOKS. We never discussed matters of business of the companies for which we were working. We made it a rule of our life.

Senator VANDENBERG. You were both in the shipbuilding business and never discussed it together?

Mr. CORNBROOKS. We discussed the question of technical or practical ship-building questions, but never questions as to prices.

Senator VANDENBERG. Would there not be a practical question there as to whether there was a group which divided up the field and allotted the contracts in advance? That would be fairly practical.

Mr. CORNBROOKS. Not to my knowledge, it is not.

Senator VANDENBERG. You never heard anything about a matter of that nature?

Mr. CORNBROOKS. I heard Mr. Wilder make a claim that there was. That is the only place I ever heard it.

Senator VANDENBERG. At that time you mean Mr. Wilder suggested it?

Mr. CORNBROOKS. At some time later.

Senator VANDENBERG. Mr. Wilder never said anything to you at the time about the possibility of collusion?

Mr. CORNBROOKS. I do not remember it. I said at the time—I cannot tell you what time—but he made a remark of that sort, but I do not remember just when it was.

Senator CLARK. How much later was it that you and Wilder discussed the matter and he then made a claim of collusion?

Mr. CORNBROOKS. I could not tell you that, sir.

Senator CLARK. About how long?

Mr. CORNBROOKS. I could not say how long.

Senator CLARK. Was it a month or a week?

Mr. CORNBROOKS. It might have been a week or it might have been a month. I was busy working on another estimate.

Senator CLARK. What did Wilder say at that time?

Mr. CORNBROOKS. He said it looked as though there might be collusive bidding on the basis of the bids.

Senator CLARK. Is that all he said?

Mr. CORNBROOKS. That is all I remember.

Senator CLARK. Did you inquire as to what he was basing that remark on?

Mr. CORNBROOKS. I beg your pardon?

Senator CLARK. Did you make any inquiry as to the basis of that remark?

Mr. CORNBROOKS. No; I did not pay any attention to it.

Senator CLARK. You were interested in the question of whether there had been collusive bidding, were you not?

Mr. CORNBROOKS. No; because we had been barred out and were not in it any longer.

Senator CLARK. It was Wilder's contention that you were barred out because of collusive bidding. That interested you as an official of the company, did it not?

Mr. CORNBROOKS. I made a visit to the Navy Department and asked why we were barred out.

Senator CLARK. What did they tell you?

Mr. CORNBROOKS. Because we could not qualify as a responsible bidder.

Senator CLARK. Did you agree with that?

Mr. CORNBROOKS. I did.

Senator CLARK. Were you present at a conference some time later in the Navy Department when Admiral Land made a statement, in the presence of Mr. Wilder, that this company was capable of building any kind of ships?

Mr. CORNBROOKS. Admiral Land made the statement that our personnel was competent to build any class of ships. That is the statement he made.

Senator CLARK. Did you ever see a report made by the Navy Department, by the commandant of the Pensacola station?

Mr. CORNBROOKS. No; I never saw it.

Senator CLARK. To the effect that with the expenditure of some $400,000 the yard was suitable for building cruisers?

Mr. CORNBROOKS. I heard there was such a report but I never saw it.

Senator CLARK. Did you ever hear about it at that time?

Mr. CORNBROOKS. I heard about it at that time, yes, I think.

Senator CLARK. When did you go to the Navy Department to find out why you had been locked out?

Mr. CORNBROOKS. A day or two after the awards.

Senator CLARK. With whom did you talk?

Mr. CORNBROOKS. Admiral Land.

Senator CLARK. What did he say?

Mr. CORNBROOKS. He said we were locked out because we did not own a plant and we had no working capital.

Senator CLARK. Did you report that to Wilder?

Mr. CORNBROOKS. I did.

Senator CLARK. What did he say at that time?

Mr. CORNBROOKS. He said he could get it.

Senator CLARK. Did you pursue the matter any further with the Navy Department?

Mr. CORNBROOKS. No; because that was up to Mr. Wilder. I was engaged in making estimates and that class of work, and he was handling the business of the company.

Senator CLARK. You were vice president of the company, were you not?

Mr. CORNBROOKS. Operating vice president; yes, sir.

The CHAIRMAN. What was the direct occasion of your being here on the 25th and 26th?

Mr. CORNBROOKS. Because I had been making an estimate in New York, preparing to bid on these destroyers, and I came down the day before to make my final figures. You see, the figures were gotten ready and everything in shape to put in the bid before noon on the day of the bidding. I think I arrived in the afternoon, if I am not mistaken, the day before. I am pretty sure I did.

The CHAIRMAN. With whom did you confer on that work?

Mr. CORNBROOKS. The board of directors.

The Chairman. Yes, sir.

Mr. Cornbrooks. With Mr. Wilder.

The Chairman. Alone?

Mr. Cornbrooks. I think there were two directors there—two or three—Mr. Corbett, Mr. Hoyt, and Mr. Newcomb.

The Chairman. Did you go over to the Navy Department at that time?

Mr. Cornbrooks. No; I did not.

The Chairman. Your calculations were exclusively carried out within the hotel, then?

Mr. Cornbrooks. Yes, sir; I did not even go to the opening of the bids. I worked all night to finish up my estimate, and finished about a quarter to twelve on the day of bid, and the final papers were signed, and I went to bed.

The Chairman. Did you encounter during those 2 days any representatives of any of the other shipbuilding yards?

Mr. Cornbrooks. No; I was not out of the hotel. I was busy.

The Chairman. Did any of the representatives of the other yards come to the hotel?

Mr. Cornbrooks. No, sir.

The Chairman. That will be all for the time being.

Senator Vandenberg. We may want Mr. Cornbrooks back.

The Chairman. Do not leave, please.

Mr. Raushenbush. Mr. Kaltwasser.

TESTIMONY OF C. M. KALTWASSER

VICE PRESIDENT'S DENIAL OF KNOWLEDGE OF 1934 BIDS

(The witness was duly sworn by the chairman.)

The Chairman. Give the committee your full name.

Mr. Kaltwasser. C. M. Kaltwasser.

The Chairman. What is your official capacity, Mr. Kaltwasser?

Mr. Kaltwasser. Vice president, New York Ship.

The Chairman. At the present time?

Mr. Kaltwasser. Yes, sir.

The Chairman. How long have you been such?

Mr. Kaltwasser. Since October.

The Chairman. How long have you been connected with the New York Shipbuilding Corporation?

Mr. Kaltwasser. March 1933.

Mr. Raushenbush. Had you been connected with the Cord Corporation before then, Mr. Kaltwasser?

Mr. Kaltwasser. Yes, sir.

Mr. Raushenbush. For how long?

Mr. Kaltwasser. Since December 1932.

Mr. Raushenbush. And you made——

Mr. Kaltwasser. Wait a minute. I am wrong. March 1934 I came with the New York Ship as assistant to the president, but I had been there for the Cord Co. since the previous December 1933.

Mr. Raushenbush. Your testimony should be corrected, then, tha you did not join the New York Ship Co. until December 1933?

Mr. Kaltwasser. 1933.

Mr. Raushenbush. And worked there and you were appointed vice president?

Mr. Kaltwasser. Assistant to the president.

Mr. Raushenbush. Assistant to the president in March 1934?

Mr. Kaltwasser. That is right.

Mr. Raushenbush. Before that you had been identified with the Cord Corporation?

Mr. Kaltwasser. Yes, sir.

Mr. Raushenbush. We have been trying to get some information here, apparently from the wrong officials, Mr. Kaltwasser, on the large jump between the estimates as prepared by the estimators and the bids put into the Navy Department by the officers of the company. Have you any knowledge or understanding of that for the year 1934?

Mr. Kaltwasser. No.

Mr. Raushenbush. And yet you were with the company from March 1934, was it?

Mr. Kaltwasser. Yes, sir.

Mr. Raushenbush. And the bids were only put in in July or August. July, was it not, 1934?

Mr. Kaltwasser. Yes, sir.

Mr. Raushenbush. July 1934 for the 1934 program?

Mr. Kaltwasser. Yes, sir.

Mr. Raushenbush. You have no knowledge at all of how those bids were fixed?

Mr. Kaltwasser. None whatsoever.

Mr. Raushenbush. Or what led the company to jump from a difference of around three million dollars between the estimate and the bid to a difference of $6,343,000 in 1934, on one cruiser, and $6,075,000 on another?

Mr. Kaltwasser. None whatsoever.

Mr. Raushenbush. Would it not be one of the things that a vice president of the company would normally know, Mr. Kaltwasser?

Mr. Kaltwasser. I was not vice president at that time. I was not vice president until October of 1934.

Mr. Raushenbush. Well, you were Cord's representative in the company at the time, were you not?

Mr. Kaltwasser. I was assistant to the president at that time, and my duties did not touch anything with reference to the bids, and I had nothing to do with it.

Mr. Raushenbush. You were assistant to Mr. Bardo?

Mr. Kaltwasser. Yes, sir.

Mr. Raushenbush. And while all this bidding went on on a program which involved some scores of millions of dollars, two bids in 1934 totaling $31,000,000, on a fixed-price basis, you did not know at all how he arrived at this jump of $6,000,000 over the estimates?

Mr. Kaltwasser. No, sir.

Mr. Raushenbush. Was it something Mr. Bardo kept very confidentially to himself?

Mr. Kaltwasser. No, but my duties were such that they did not reach into that end of it at all at that time.

Senator Vandenberg. What was the nature of your duties?

Mr. Kaltwasser. The matter of checking on the duties of the various functions that operated the yard.

Senator VANDENBERG. You were particularly charged with the control of finance, were you not?

Mr. KALTWASSER. No, sir.

The CHAIRMAN. Who was?

Mr. KALTWASSER. Mr. Parker, the treasurer.

Senator VANDENBERG. As Mr. Cord's representative, were you not responsible in a general way to Mr. Cord for what was going on?

Mr. KALTWASSER. No, I was responsible to Mr. Bardo, as assistant to the president.

Senator VANDENBERG. Give us an example of the type of thing for which you were responsible.

Mr. KALTWASSER. I had no direct responsibilities in the capacity as assistant to the president.

Senator VANDENBERG. Why were you there? What were you doing?

Senator CLARK. As a matter of fact, you were sent there by Mr. Cord to be his representative and to be the power behind the throne. were you not?

Mr. KALTWASSER. No, sir.

Senator CLARK. Did you not make that statement to Mr. LaRouche, one of our investigators?

Mr. KALTWASSER. I did not.

Mr. LAROUCHE. When we were in the office of New York Ship on the day that Mr. Bardo left the firm's employ, I think you said to me that it was very difficult to be the power behind the throne without having the ostensible authority. That is as near as I can remember it.

Mr. KALTWASSER. Your memory is not very good, because I never would have made that statement.

Senator VANDENBERG. Let us see if we can have an answer to the question which I asked you, which you were lingering on, Mr. Kaltwasser. Will you repeat the question, Mr. Reporter?

(The pending question, as above recorded, was read by the reporter as follows:)

> Senator VANDENBERG. Why were you there? What were you doing?

Mr. KALTWASSER. New York Ship had not developed, for instance its incentive work.

Senator CLARK. Its what?

Mr. KALTWASSER. Its incentive work to a point that we felt it should be——

Senator CLARK. What is "incentive work"? It seems like $6,000,000 velvet on one cruiser was a pretty fair incentive.

Mr. KALTWASSER. You ask that question, what is incentive?

Senator CLARK. Yes, what did you mean by "incentive work"?

Mr. KALTWASSER. The workmen in the yard are either paid on a straight hourly basis or they are paid on a basis of an incentive or bonus that will give them more of an income per hour than they have on the straight hourly rate.

Senator VANDENBERG. Were you attending to that problem?

Mr. KALTWASSER. I was attending to that problem.

Senator VANDENBERG. What else were you doing?

Mr. KALTWASSER. I was setting up a control of overhead expenses budgeting overhead expenses.

Senator VANDENBERG. Exactly. That was your principal job, was it not? Were you not primarily concerned with the financial or net result of the operation?

Mr. KALTWASSER. I had no jurisdiction over the finances of the company.

Senator VANDENBERG. I am not talking about jurisdiction. I am asking you whether the thing which you were there for was not to make a careful study of the financial situation in respect to the operations of the New York Ship Co.?

Mr. KALTWASSER. I rather answer that by saying that I was there to reduce the overhead costs of the company.

Senator VANDENBERG. All right. Do you mean to say that with the responsibility of reducing the overhead costs which would be one very important element in respect to the financial operation, that a tremendous cruiser-bidding program would be contemplated at that time without any discussion with you respecting the costs involved in it?

Mr. KALTWASSER. That is exactly what happened; yes, sir.

Senator VANDENBERG. You are around the plant in a rather indefinite supervisory capacity, more or less responsible for the general situation unofficially to Mr. Cord, but this most important of all things that is going on in the plant at the time, you are entirely ignorant of?

Mr. KALTWASSER. Right.

Senator VANDENBERG. That is the situation?

Mr. KALTWASSER. Correct.

Mr. RAUSHENBUSH. Have you been successful in reducing the overhead at all, Mr. Kaltwasser?

Mr. KALTWASSER. To a degree; yes.

Mr. RAUSHENBUSH. In what respects?

Mr. KALTWASSER. Simplifying methods of store accounting, revamping of various overhead functions, so that it takes less personnel to effectively cover them.

Mr. RAUSHENBUSH. Could you give us an estimate of how much saving your presence in the company there for Mr. Cord had made in the overhead item?

Mr. KALTWASSER. I could not.

Mr. RAUSHENBUSH. Could you come within $100,000 of it? Was it $100,000, would you say?

Mr. KALTWASSER. I cannot give you that with any degree of accuracy at all. I think Mr. Parker can give you that.

The CHAIRMAN. Can you tell us what your salary is?

Mr. KALTWASSER. $15,000.

The CHAIRMAN. Has that been the amount of your salary from the beginning of your employment?

Mr. KALTWASSER. No.

The CHAIRMAN. How long have you been drawing that?

Mr. KALTWASSER. Since October.

The CHAIRMAN. Did you have more or less prior to that?

Mr. KALTWASSER. Less.

The CHAIRMAN. The $15,000 salary, then, is the high mark which you have received?

Mr. KALTWASSER. Yes, sir.

Senator VANDENBERG. Is that one of the largest salaries, or is that just a nominal salary?

Mr. KALTWASSER. I do not quite get the question.

Senator VANDENBERG. I mean, is that one of the major salaries?

Mr. KALTWASSER. I think that is the highest salary next to the president's salary.

Senator VANDENBERG. That is the point. It is the highest salary next to the president's salary. Can you not understand my perplexity and wondering why the second highest paid man in the institution should know absolutely nothing about the most important single thing that is going on in the institution, namely, its effort to get this tremendous contract?

Mr. KALTWASSER. I cannot give you the reason for that. Mr. Bardo may be able to give you that reason.

Mr. RAUSHENBUSH. You understood, did you not, that Mr. Bardo was in direct contact with Mr. Cord on that matter?

Mr. KALTWASSER. I did not understand any such thing.

Mr. RAUSHENBUSH. You were not in contact. The company was owned by Mr. Cord. Does it not follow necessarily?

Mr. KALTWASSER. Not necessarily. Mr. Bardo was the president of the company, in full charge of that company.

Mr. RAUSHENBUSH. Coming back a minute, you said your two functions, as I got them in answer to Senator Vandenberg's question, were that you were arranging for an incentive rate in the yards and doing something to cut down the overheads. Did you have any success in the matter of the incentive rate? Were you able to cut down the labor rate per unit through that at all?

Mr. KALTWASSER. We have no means of determining that as yet.

Mr. RAUSHENBUSH. Has it been put in at all?

Mr. KALTWASSER. We are increasing the percent of the incentive work in the yard slowly but consistently; yes, sir.

Mr. RAUSHENBUSH. That is put in for the sake of cutting down the labor cost per unit, is it not?

Mr. KALTWASSER. And to expedite the work.

Mr. RAUSHENBUSH. And to expedite the work. And you do expect that when you get that in all the way through, the labor cost per unit will be cheaper than it was before?

Mr. KALTWASSER. It should be all the way down, due to it.

Mr. RAUSHENBUSH. It should be all the way down due to it, of course. How long after your going there did this strike happen, this 7 weeks' strike in March, April, and May 1934?

Mr. KALTWASSER. Approximately 3 months.

Mr. RAUSHENBUSH. You had been there about 3 months. As a result of that strike, how much of an increase did the men get at the time?

Mr. KALTWASSER. I would like to have that verified. My impression is about 14 percent.

Mr. RAUSHENBUSH. Subject to verification.

Mr. KALTWASSER. By Mr. Parker.

The CHAIRMAN. Was that the sole occasion for the strike, merely a question of pay?

Mr. KALTWASSER. It appeared to be; yes, sir.

Mr. RAUSHENBUSH. When did you first go there, Mr. Kaltwasser?

Mr. Kaltwasser. The first of December.

Mr. Raushenbush. December 1933?

Mr. Kaltwasser. Yes, sir.

Mr. Raushenbush. You knew that Mr. Cord had acquired the company before then, did you not?

Mr. Kaltwasser. Oh, yes.

Mr. Raushenbush. Did you know, and do you know now, who Mr. Cord's men on the board of directors are?

Mr. Kaltwasser. Do I know who the board of directors is?

Mr. Raushenbush. Who are Mr. Cord's personal representatives on the board of directors?

Mr. Kaltwasser. I can give you the names of the board of directors.

Mr. Raushenbush. That is not the question, unless you are answering it that all of them are Mr. Cord's appointees.

Mr. Kaltwasser. You speak of Mr. Manning, for instance, he is connected with the Cord Corporation. Mr. Pruitt is connected with the Cord Corporation. Mr. Beal is connected with the Cord Corporation.

Mr. Raushenbush. And are there others who hold nominal blocks of stock who were put on there by Mr. Cord?

Mr. Kaltwasser. I could not inform you as to that.

Mr. Raushenbush. You were there alone before Mr. Cord really took operating control of the outfit out of the hands of the old officers?

Mr. Kaltwasser. Yes, I was there.

Mr. Raushenbush. Did you make any report on this considerable property for Mr. Cord before he purchased it?

Mr. Kaltwasser. No.

Mr. Raushenbush. Did you ever see that report?

Mr. Kaltwasser. I saw a report made by Arthur Young & Co.[1]

Mr. Raushenbush. When?

Mr. Kaltwasser. After I came to the New York shipyard.

Mr. Raushenbush. When was that made?

Mr. Kaltwasser. I could not tell you the exact day. I really could not even guess at it.

Mr. Raushenbush. Roughly?

Mr. Kaltwasser. I do not know.

Mr. Raushenbush. That was made to Mr. Cord?

Mr. Kaltwasser. That I do not know.

Mr. Raushenbush. Was it way back in 1927 or sometime like that?

Mr. Kaltwasser. I should not think so, no.

Mr. Raushenbush. It was a fairly recent report?

Mr. Kaltwasser. Yes.

Mr. Raushenbush. How big a report was it, Mr. Kaltwasser?

Mr. Kaltwasser. Big in what respect?

Mr. Raushenbush. How bulky?

Mr. Kaltwasser. Probably one-half inch thick.

Mr. Raushenbush. I wonder if you could ask Mr. Parker to bring that down with him when he comes down next week, or if you come yourself, will you bring it down?

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[1] Entered later as "Committee Exhibit #7", see infra, p. 5113.

Mr. Kaltwasser. I think we can locate that report; yes, sir.

Mr. Raushenbush. All right. Mr. Chairman, I have nothing further at the moment.

The Chairman. Mr. Kaltwasser, what were your activities prior to your connection with the Cord Corporation?

Mr. Kaltwasser. How far back do you want me to go on that?

The Chairman. How long have you been connected with the Cord Corporation?

Mr. Kaltwasser. Since December 1933.

The Chairman. What were you doing prior thereto?

Mr. Kaltwasser. Receiver for a company in Jamestown, N. Y., Watson Manufacturing Co.

The Chairman. How long have you been in this country?

Mr. Kaltwasser. Ever since I was born.

The Chairman. You are a citizen of the country?

Mr. Kaltwasser. Yes, sir.

Senator Vandenberg. Mr. Kaltwasser, where is your office in relation to Mr. Bardo's office?

Mr. Kaltwasser. You mean the location of it?

Senator Vandenberg. Yes, sir.

Mr. Kaltwasser. At the moment, or when he was there?

Senator Vandenberg. When he was there.

Mr. Kaltwasser. I was on the first floor and he was on the upper floor.

Senator Vandenberg. Is a twelve million ship an important order for New York Ship?

Mr. Kaltwasser. Yes, sir.

Senator Vandenberg. Would the getting of a $12,000,000 order be a rather important event in the New York Ship's existence?

Mr. Kaltwasser. Yes, sir.

Senator Vandenberg. Yet when the New York Ship is bidding and getting a twelve million cruiser order in 1934, Mr. Bardo does not talk with you about it in any way whatever?

Mr. Kaltwasser. Absolutely not.

The Chairman. The witness then is excused.

Senator Vandenberg. Not permanently, of course.

The Chairman. The committee will be in recess until 10 o'clock Monday morning.

(Whereupon the hearing was recessed until 10 a. m. Monday, Feb. 4, 1935.)

INVESTIGATION OF MUNITIONS INDUSTRY

MONDAY, FEBRUARY 4, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m., in room 357, Senate Office Building, pursuant to recess, Senator Arthur H. Vandenberg presiding.

Present: Senators Vandenberg, Clark, Pope, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee; and F. W. LaRouche, investigator.

Senator Vandenberg. The hearing will come to order.

The first thing I want to do this morning is to present a letter from Mr. Charles H. Hyde. It will be recalled that in the conversations between Mr. Wilder and Mr. Gravem there were several witnesses present at both conversations.[1] The only witness not thus far heard from is Mr. Charles H. Hyde, who, at the time, was an attorney in Washington. The committee was unable to reach Mr. Hyde because he had moved from the city. Mr. Hyde sends the following voluntary letter to the committee, which I will read into the record. It is addressed to me, and dated February 1, 1935, from No. 3 Terrace Place, Port Washington, N. Y.

I read:

My Dear Senator: When I wrote you on December 16 last that I hoped you would go to the bottom of the munitions racket I had not the slightest idea that anything of which I had more than general knowledge would come before the committee.

But I see by the New York Times that proposals of one Gravem in respect of shipbuilding contracts are being aired.

In the summer of 1933 Mr. Wilder consulted me in reference to a project in Pensacola for which he wanted an R. F. C. loan, a drydock and shipbuilding plant.

At the time I understood he bid on some light cruisers or destroyers, and bids were low enough to warrant consideration, although that was not a matter concerning which he had consulted me.

While he was talking with me one day callers were announced and, I being about to leave, he asked me to remain.

One of the callers was A. B. Gravem, who stated that he was a lawyer associated with a Mr. La Prete with offices in the Tower Building. He was introduced by a gentleman whose name I do not remember but who I understood was a friend of Mr. Wilder.

Mr. Gravem stated that he had been with the R. F. C. and had a wide and intimate knowledge of departmental business and in position to secure contracts in the Navy Department.

He was very bold in his assertion that a man he represented was so influential that he took part in framing specifications and conditions for warship contracts. He said he was not an official but was on intimate terms with practically everybody of influence and called the President "Frank."

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[1] See testimony of A. B. Gravem and L. R. Wilder, Hearings, Part XVIII.

Personally I thought him one of those chiseling lawyers who swarm in Washington.

Wilder expressed interest and an appointment was made for another meeting, Wilder asking me to be present.

At the second meeting Gravem was even bolder. He glorified the importance of the man behind but would not identify him, although going into detail as to his personal influence with him through family connections. He said he was a high-price man and would want at least $250,000. He was quite sure that this man could have an award made under Wilder's bid, and further stated that other ships than those presently under consideration were soon to be advertised.

The exact day I do not remember, but only a few minutes before Mr. Gravem's second visit, Mr. Wilder had received a telephone message stating that the awards had been made, a fact that Mr. Gravem did not mention, if he knew.

I have been a practicing lawyer for over 40 years, a member of the bar of New York and Florida and of the Federal bar in several States, with some experience in politics, and I have never heard a proposition more brazenly made.

As I saw Mr. Wilder only once, a few days after that, I never knew what he discovered as to the identity of the influential citizen.

Very truly yours,

(Signed) CHAS. H. HYDE.

The present occupant of the chair will state that it is his own view that this situation is sufficiently serious to justify certification of the record to the United States district attorney, to determine whether perjury is involved. The committee will decide this matter later. But the desperate importance of getting at the truth with respect to these problems that are now presently before the committee makes it very necessary that nothing be left undone to get the truth.

Senator CLARK. So far as I am concerned, Mr. Chairman, I desire to state that I heartily concur in that conclusion.

Senator VANDENBERG. May we have Miss Kitchen on the stand for a few minutes?

TESTIMONY OF JULIA MARGARET KITCHEN—Resumed

MEETING OF SHIPBUILDERS IN WASHINGTON, JULY 1933

(The witness was previously sworn by the chairman.)

Senator VANDENBERG. Miss Kitchen, you are Mr. Wilder's secretary?

Miss KITCHEN. Yes.

Senator VANDENBERG. You were his secretary in the summer of 1924?

Miss KITCHEN. 1924?. No.

Senator VANDENBERG. 1934.

Miss KITCHEN. Yes.

Senator VANDENBERG. You were connected at that time with Gulf Industries?

Miss KITCHEN. Yes.

Senator VANDENBERG. That was Mr. Wilder's company?

Miss KITCHEN. Yes; it was.

Senator VANDENBERG. Was Mr. Thomas Cornbrooks connected with the Gulf Industries at that time?

Miss KITCHEN. Yes.

Senator VANDENBERG. What was his position?

Miss KITCHEN. Operating vice president.

Senator VANDENBERG. Do you recall an interview between Mr. Wilder and Mr. Thomas Cornbrooks in which the subject of the probable successful bidders upon the 1933 naval program was discussed?

Miss KITCHEN. Yes.

Senator VANDENBERG. This was before the bids were opened?

Miss KITCHEN. Yes; it was.

Senator VANDENBERG. Did you see Mr. Wilder prepare a memorandum purporting to state who would be successful bidders on the naval contracts soon to be let, in 1933?

Miss KITCHEN. Yes. It was a green slip of paper.

Senator VANDENBERG. It was prepared on a green slip of paper?

Miss KITCHEN. Yes.

Senator VANDENBERG. Was it prepared in the presence of Mr. Thomas Cornbrooks?

Miss KITCHEN. Yes.

Senator VANDENBERG. Was this the memorandum subsequently given by Mr. Wilder to Mr. Frey?

Miss KITCHEN. Yes. I believe he made his memorandum from hat slip. It was not that green slip.

Senator VANDENBERG. You know that Mr. Thomas Cornbrooks saw it?

Miss KITCHEN. Yes.

Senator VANDENBERG. Did Mr. Wilder and Mr. Thomas Cornbrooks discuss the matter together before Mr. Wilder wrote out his guess?

Miss KITCHEN. Yes; they did. I remember that Mr. Cornbrooks lid not want Mr. Wilder to divulge the source of the information ecause he (Mr. Cornbrooks) had gotten it from Mr. Ernest Cornrooks, who was at that time works manager of New York Ship.

Senator VANDENBERG. In other words, you heard Mr. Thomas Cornbrooks tell Mr. Wilder, or you heard him give Mr. Wilder the asic information upon which Mr. Wilder constructed his guess, nd Mr. Thomas Cornbrooks indicated that inasmuch as much of he information came from his brother, he preferred that the source f the information be not divulged, lest it embarrass his brother. s that correct?

Miss KITCHEN. Yes; that is true.

Senator VANDENBERG. Did you hear a second interview between Ir. Wilder and Mr. Thomas Cornbrooks, in which Mr. Cornbrooks gain alluded to his brother?

Miss KITCHEN. Yes; I did.

Senator VANDENBERG. Was this after the naval bids were opened?

Miss KITCHEN. Yes; that was afterward. The conversation to hich he referred had been before the bids were opened, but he lked to Mr. Wilder and to me afterward.

Senator VANDENBERG. Did it relate to a conference of shipbuilders the Mayflower Hotel prior to the letting of the bids?

Miss KITCHEN. Yes.

Senator VANDENBERG. Relate what you heard Mr. Thomas Cornooks say in that connection.

Miss Kitchen. He said that before the bids were opened there had been a conference at the Mayflower Hotel, at which the executives of New York Ship, Newport News, and Bethlehem Shipbuilding companies had been present, and that time they were deciding which ships the different companies were to have, who would have the aircraft carriers and the cruisers and the destroyers, and so forth. And at that meeting Mr. Bardo was present, and Mr. Langell was present. Mr. Bardo was not getting what he considered, or what Mr. Langell considered, was New York Ship's share, so that Mr. Langell went out of the office, the room, and talked to Ernest Cornbrooks at Camden, and said that he had better fly down there because Mr. Bardo was not getting New York Ship's share.

So that Mr. Ernest Cornbrooks did fly down, and the meeting became such a row that Mr. Cornbrooks was carried out of that room about 4 o'clock in the morning with a heart attack.

Senator Vandenberg. You are now relating what you heard Mr. Thomas Cornbrooks tell Mr. Wilder?

Miss Kitchen. Yes.

Senator Clark. When was that conversation, Miss Kitchen, please?

Miss Kitchen. It was after the bids were opened. I do not remember exactly the time.

Senator Vandenberg. You are very clear in your recollection about it?

Miss Kitchen. Yes; I am.

Senator Vandenberg. Mr. Thomas Cornbrooks is no longer connected with Mr. Wilder or Gulf Industries, is he?

Miss Kitchen. No; he is not.

Senator Vandenberg. That is one other matter, Miss Kitchen I think you inspected your files Saturday and found the copy of the original minutes of the N. R. A. code hearings in respect to the so-called "monopoly clause", did you not?

Miss Kitchen. Yes; I did. I have those here.

Senator Vandenberg. In order to simplify the process, I wish you would simply read into the record verbatim from the minutes of the N.R.A. code hearing such references as refer to the monopoly clause.

Miss Kitchen. Yes.

This is on page 79 of the transcript of proceedings, Shipbuilding Code Hearing, first day, July 19, 1933, afternoon session. This is a statement of Mr. C. L. Bardo, president New York Shipbuilding Co.:

> Mr. Bardo. My mandate from the shipbuilders and ship repairers this afternoon is to present to you their views urging the inclusion in the code of that paragraph which is now written into it, reading as follows:
>
> "The present capacity of active shipbuilding and ship-repairing companies of the United States as a whole, is in excess of present or any prospective needs. Therefore, it will be considered a violation of this code to make any material increase in the plant capacity of the industry."

Then, further on in Mr. Bardo's testimony, on page 89 of the same document, he says:

> There is now pending, and I think this is a correct statement, before the Administrator of the Public Works Section of the National Industrial Recovery

> Act, an application by Gulf Industries, Inc., for a very substantial loan to be used for the creation of shipbuilding and ship-repair facilities at Pensacola. The shipbuilders and ship repairers, signers of the code, submit herewith a report prepared by Admiral Frederick R. Harris (retired) in opposition to the proposal of Gulf Industries, Inc., as outlined in the brief of Fay, Spofford & Thorndike.

We have never been able to obtain a copy of Admiral Harris' report, but this document, this loan application which was filed with P. W. A., was, of course, a private document. Those applications are not public.

Then here, following the report of Admiral Harris, there is a statement of Rear Admiral Emory S. Land, Chief of the Bureau of Construction and Repair of the United States Navy:

> Admiral LAND. We want to build these ships on what I call the 4-E platform, namely, employment, expedition, economy, and efficiency.
>
> Deputy WHITESIDE. In what capacity do you speak?
>
> Admiral LAND. I am representing the Navy Department, Chief of the Bureau of Construction and Repair.

Deputy Whiteside was the man who conducted the hearing.

Then, further in his testimony Admiral Land says, on page 99:

> The Navy Department is of the opinion that some provision should be included in the code such that it will avoid establishment of new shipbuilding yards, reopening of those long since inoperative, or expansion of small yards and repair plants for shipbuilding purposes. This opinion is in direct accord with the declaration of policy of the National Industrial Recovery Act.

This is on page 102, being a statement of Capt. H. L. Wyman. He says:

> I have a very short memorandum which has been prepared which merely supplements to a small extent what the chief constructor has just said. The reason I am doing it is that Assistant Secretary Roosevelt is away at the present time and I happen to know that this has been passed upon already by him before his departure. So in placing this in the record I trust I am placing the Assistant Secretary's ideas in the record.

This is on page 106, and this is still Captain Wyman's testimony:

> Deputy WHITESIDE. Are you prepared to say anything regarding the expansion of plants?
>
> Captain WYMAN. No, sir; not other than to concur in what Admiral Land just said. That has been talked over considerably in the Assistant Secretary's office, and that is the feeling of the Department, just as expressed by Admiral Land a few moments ago.
>
> Deputy WHITESIDE. Which is that the present plant facilities are adequate?
>
> Captain WYMAN. Yes, sir; that the present plant facilities are adequate and that it would be undesirable to scatter into new plants the work and cause migrations of labor from centers where they are now living to build up plants in other areas.

I believe that is all.

Senator VANDENBERG. I wish you would leave those memoranda, please, Miss Kitchen, to be marked as an exhibit.

Miss KITCHEN. They are all marked with green slips of paper.

(The series of documents referred to were marked "Exhibit No. 1489" and are included in the appendix on p. 5194.)

Senator VANDENBERG. That is all, Miss Kitchen.

Mr. Ernest Cornbrooks.

TESTIMONY OF ERNEST I. CORNBROOKS

1933 BIDDING

(The witness was duly sworn by Senator Vandenberg.)

Senator VANDENBERG. Mr. Cornbrooks, will you state for the record your full name and address?

Mr. CORNBROOKS. Ernest I. Cornbrooks, 151 Fern Avenue, Collingswood, N. J.

Senator VANDENBERG. You are a brother of Mr. Thomas Cornbrooks?

Mr. CORNBROOKS. Yes, sir.

Senator VANDENBERG. What is your present position, Mr. Cornbrooks?

Mr. CORNBROOKS. I haven't any.

Senator VANDENBERG. What was your position in 1933?

Mr. CORNBROOKS. Operating vice president and general manager in charge of operations, New York Shipbuilding Co.

Senator VANDENBERG. In that capacity were you related to the bidding of the New York Ship in connection with the naval program of 1933?

Mr. CORNBROOKS. I had nothing to do with the bidding.

Senator VANDENBERG. What was your function?

Mr. CORNBROOKS. Operating of the yard, technical design, and building ships.

Senator VANDENBERG. Do I understand that the bidding and the contracting was not discussed with you at all by your associates in New York Ship?

Mr. CORNBROOKS. Not the actual bidding.

Senator VANDENBERG. A problem of this magnitude would inevitably involve some call upon your judgment, would it not, Mr. Cornbrooks?

Mr. CORNBROOKS. Oh, yes. We would discuss it up to the estimate and discuss what the future would hold, as far as operations are concerned, and that sort of thing; certainly.

Senator VANDENBERG. Did you attend a conference in the Mayflower Hotel which preceded the bidding?

Mr. CORNBROOKS. Yes.

Senator VANDENBERG. Do you recall the date of that conference?

Mr. CORNBROOKS. It was the night before the bidding, whatever time that was; the 25th, I think.

Senator VANDENBERG. How did you happen to come to Washington to attend that conference?

Mr. CORNBROOKS. Well, I got home from Europe, and we had to estimate on a lot of things in a short time, and we had 6 weeks, I think, in which to make the estimate, and everything was in a rush, and came down here to see if we could not have a quiet conference.

Senator VANDENBERG. Could not have what?

Mr. CORNBROOKS. A quiet conference, without everything going on, as it does in the yard.

Senator VANDENBERG. You mean a conference of whom? A conference of all these various shipbuilders?

Mr. CORNBROOKS. Oh, no.

Senator VANDENBERG. You mean just a conference of the New York Ship?

Mr. CORNBROOKS. Of the New York Shipbuilding Co.

Senator VANDENBERG. Yes, sir.

Mr. CORNBROOKS. And the code was not fixed at that time, and we wanted to discuss labor and what was likely to occur in the future, what the increase in labor was to be, and our prices were not firm, and we wanted to discuss how much we thought the material would cost, and we had a new design—both of them were practically new designs—and we wanted to discuss that.

We also wanted to discuss the estimates.

Senator VANDENBERG. That is not quite what I had in mind by my question. I was wondering if you were sent for to come to the conference, after the conference was under way.

Mr. CORNBROOKS. Oh, no. I came down with the rest of them.

Senator VANDENBERG. How long were you here?

Mr. CORNBROOKS. I think that we came the afternoon of the 24th—I am not sure—or the afternoon of the 25th.

Senator VANDENBERG. Several of the other New York Ship officers were here before that, were they not?

Mr. CORNBROOKS. That was at the same time. I came down on the train with Mr. Bardo, Mr. Metten, Mr. Parker, and Mr. Charlie Langell, and Carl Miller.

Senator VANDENBERG. Did you fly down?

Mr. CORNBROOKS. No. Do you mind if I use some aspirin gum? I do not like to chew gum, but my throat is bad.

Senator VANDENBERG. No, sir; make yourself quite comfortable.

Now, when you got here and proceeded into these conferences, did I understand you to say that your only conferences were with the officers of the New York Ship, and not with the officers of any of the other prospective bidders?

Mr. CORNBROOKS. My conference—I only attended the one conference. It was a sort of continuous proposition, and was with the New York Shipbuilding Co. officials, all in our own group.

Senator VANDENBERG. You attended no conferences with the officials of any other group?

Mr. CORNBROOKS. No.

Senator VANDENBERG. Is this conference which you are talking about the one that has been referred to as the "midnight" session?

Mr. CORNBROOKS. I do not know what has been referred to.

Senator VANDENBERG. Was it an all-night session?

Mr. CORNBROOKS. Yes.

Senator VANDENBERG. Were you taken ill in the course of the session?

Mr. CORNBROOKS. No, sir.

Senator VANDENBERG. You were not carried out of the Mayflower Hotel?

Mr. CORNBROOKS. No, sir. I heard that this morning; but I was not.

Senator VANDENBERG. Did you see your brother when you were here at that time?

Mr. CORNBROOKS. No, sir.

Senator VANDENBERG. Did you ever talk to your brother about the bidding?

Mr. CORNBROOKS. No, sir; I did not. I never discussed with him anything about shipbuilding, unless it was of a technical nature, designs.

Senator VANDENBERG. Then if your brother indicated to Mr. Wilder—I say "if", because your brother denies it——

Mr. CORNBROOKS. Yes.

Senator VANDENBERG (continuing). I want to be fair about that.

Mr. CORNBROOKS. Sure.

Senator VANDENBERG. If he did assert to Mr. Wilder, as testified by Mr. Wilder, and as testified by a witness who presumed to have heard the conversation, that you were sent for by a long-distance telephone call in a hurry, and that you came down in an airplane, and that you went into this conference, which was a conference of all the prospective bidders, where New York Ship was trying to maintain and continue the share of the prospective contracts that had been alloted to New York Ship by agreement between the various shipbuilders; if your brother stated to Mr. Wilder that you participated in such a conference, and the battle became so hot that you were taken ill and had to be carried out, that is not true?

Mr. CORNBROOKS. It is not true, no sir; certainly not.

Senator BARBOUR. Is it true in any particular at all?

Mr. CORNBROOKS. No, sir.

Mr. RAUSHENBUSH. Did you have ptomaine poisoning when you were down here, Mr. Cornbrooks?

Mr. CORNBROOKS. I had not here, but I had ptomaine poisoning, a slight attack of it, after I left the conference, about a week later, when the awards were made.

Senator BARBOUR. Were you carried out on that occasion?

Mr. CORNBROOKS. No, sir.

Senator BARBOUR. Because, if the inference is that that was the occasion, we want to clear it up.

Mr. CORNBROOKS. I was not carried out at all. I did not have it until I went home. I got a sandwich on the way home that gave it to me.

Senator VANDENBERG. Did Mr. Bardo talk to you at any time, or did Mr. Langell talk to you at any time, about the fact that New York Ship was not getting what it expected to get out of an agreement with the other shipbuilders?

Mr. CORNBROOKS. No, sir.

Senator VANDENBERG. You know nothing whatever about the conference of the so-called "Big Three" in Washington at that time?

Mr. CORNBROOKS. No, sir; I do not.

Senator VANDENBERG. And you had no participation, direct or indirect, in any such conference?

Mr. CORNBROOKS. No, sir.

Senator VANDENBERG. Did you furnish any information to anybody who did sit in a conference of that character?

Mr. CORNBROOKS. No, sir. I do not know that there was any conference. I certainly did not furnish any information except to our own people.

Senator VANDENBERG. Did you know, by any prearrangement or otherwise, what allotment of ships your company was going to get?

Mr. CORNBROOKS. No, sir. I asked the estimate to be made on what we could do.

Senator VANDENBERG. You knew that the only complete estimates that had been made were on the four 1,850-ton destroyers and the two light cruisers nos. *42* and *43?* You knew that those were the only bids upon which complete estimates had been made?

Mr. CORNBROOKS. Yes. I probably fixed that myself.

Senator VANDENBERG. That is what I am trying to get at. How did you happen to fix that?

Mr. CORNBROOKS. As far as the 1,500 tons are concerned, the way I reasoned it out on the 1,500 tons, I thought that we could not do light work in that yard, after doing the heavy work; see? And on the airplane carriers I did not want the experience, after going through the *Saratoga.* On the heavy cruiser I thought, if we had the estimate on that, we had enough information from past experience and past costs to estimate on that; but it was the last of the kind, or at least I thought it was the last of the kind, and I did not make much of an estimate on that.

But on the light cruisers and on the 1,850-ton destroyers, before that one of the yards beat us by pulling the machinery space together on a class 2 bid, and I thought that we ought to put a class 2 bid in. They asked for a class 2 bid. We had been working, so as to save space in the engine room, and we thought that the Navy would be interested in that thing, because the Bureau of Construction and Repair always wants more room. And we pulled our machinery together and saved 12 feet on that space; and, as the 1,850-ton destroyers were half of the horsepower of the light cruisers, we found by turning the machinery around end for end that we could also save space on the light cruisers. And I thought that was the thing to go after—the 1,850 and the light cruisers—because we would have duplicate machinery in the 1,850 and twice the units in the 6-inch cruisers.

Senator VANDENBERG. Was it your decision which resulted in the New York Ship actually seeking only the 2 cruisers and the 4 destroyers?

Mr. CORNBROOKS. I do not know whether—it was not exactly my decision, because I could not make those decisions entirely. It was a conference.

Senator VANDENBERG. It was your recommendation?

Mr. CORNBROOKS. It was my recommendation; yes, sir.

Senator VANDENBERG. And those, in fact, were the ships which you subsequently got when the bids were opened?

Mr. CORNBROOKS. Yes.

Senator VANDENBERG. In other words, the ships upon which you prepared complete estimates were the ships you got, and the ships upon which you did not prepare complete estimates were the ships you did not get?

Mr. CORNBROOKS. I think that is right, because I thought by what we were doing on our design we could bid cheaper.

Senator VANDENBERG. When you did not make complete estimate preparations for the other ships, you put in bids which you were pretty sure were entirely safe, if you should happen to get one of those contracts?

Mr. CORNBROOKS. I did not put in the bids.

Senator VANDENBERG. That is the practice, is it not?

Mr. CORNBROOKS. Yes, sir.

Senator VANDENBERG. That is what is called a "protective bid"?

Mr. CORNBROOKS. I do not know what they call a "protective bid." I never heard of that expression before.

Mr. LAROUCHE. It is a safe bid?

Mr. CORNBROOKS. It is a safe bid; yes, sir.

Senator BARBOUR. I think, Mr. Witness, that the chairman means that you made careful preparation, took care in the bid put in on the vessels in which you were interested, and then made a less-careful and a higher-price bid on vessels in which you were not interested.

Mr. CORNBROOKS. Naturally.

Senator VANDENBERG. That is not the question entirely. I would rather put it this way: You made very careful preparation for the bids on the contracts that you got. That is the question I am asking.

Mr. CORNBROOKS. Yes. I do not know what the inference is.

Senator VANDENBERG. I do not know, either; but I am just asking you if that is what happened.

Senator BARBOUR. What the committee is really interested in, is whether you knew you were going to get those ships.

Mr. CORNBROOKS. No.

Senator BARBOUR. And that is why you made careful, exhaustive bids in one case?

Mr. CORNBROOKS. No; we did not know what we were going to get, as far as business is concerned. We tried to get those.

Senator VANDENBERG. Mr. Cornbrooks, you knew, did you not, that Bethlehem wanted the heavy cruisers and Newport News wanted the aircraft carriers?

Mr. CORNBROOKS. No, sir; I did not. I had no means of knowing.

Senator VANDENBERG. You never talked with anybody who professed to have any information as to what Bethlehem and Newport News were inerested in with respect to any particular allocation of work?

Mr. CORNBROOKS. No, sir. I had enough to do to operate the yard without inquiring into those things.

Mr. LAROUCHE. You would not be surprised to learn that that was what they did want?

Mr. CORNBROOKS. It looks like it now. Hindsight is better than foresight always.

Senator VANDENBERG. Apparently your foresight was just as good as your hindsight.

Mr. CORNBROOKS. I am supposed to have good judgment. I do not know whether I have or not.

Senator VANDENBERG. I would say your judgment was excellent, if it was just a guess, Mr. Cornbrooks. You obviously, then, were in the preliminary conferences in which it was determined what the New York Ship should go after in connection with this particular naval letting?

Mr. CORNBROOKS. Yes; surely.

Senator VANDENBERG. And you knew precisely what it was that the New York Ship wanted to get?

Mr. CORNBROOKS. Yes. It was my recommendation.

Senator VANDENBERG. Now, it is asserted—and I submit this to you for your comment—it is asserted that when Mr. Bardo came to Washington, on the eve of the contract letting, he discovered that something had happened so that New York Ship was not going to get these 2 cruisers and these 4 destroyers, as had been previously planned; and that it was because of a failure, a prospective failure, to get this work which New York Ship had expected to get. that you were sent for to see if you could not help straighten it out and get the business back for New York Ship that New York Ship anticipated.

Is there no truth in that at all?

Mr. CORNBROOKS. No, sir; absolutely none.

Senator VANDENBERG. When you came to Washington, did you discuss with Bardo the fact that perhaps New York Ship was not going to get these 2 cruisers and these 4 destroyers?

Mr. CORNBROOKS. No.

Senator VANDENBERG. What was the nature of your discussion? What did you contribute to this conference?

Mr. CORNBROOKS. My contribution to this conference was that I thought that both labor and material would go up during the life of the contract, and that our estimate was too low. Of course, the estimators always make the estimates on the present prices, that is, on the time that they make their estimate.

Senator BARBOUR. You also recommended, I suppose—it would be quite natural for you to have recommended, I should think—that certain types would be preferable for your particular yard.

Mr. CORNBROOKS. Yes, sir.

Senator BARBOUR. And that was the starting point, so far as what you wanted was concerned?

Mr. CORNBROOKS. Yes, sir.

Senator BARBOUR. You did not know you were going to get that type of ship?

Mr. CORNBROOKS. We wanted to get duplicate machinery for one thing, because we had had an awful lot of trouble with cast steel.

Senator BARBOUR. Did you know or did you learn from that particular conference what particular type of ship you were going to get, or what the other yards were going to get?

Mr. CORNBROOKS. No; we did not know until the awards were made.

Senator VANDENBERG. Speaking generally and not technically, Mr. Cornbrooks, what is the difference between the two cruisers you got, and the heavy cruisers that Bethlehem got?

Mr. CORNBROOKS. There is a lot of difference in them. The first thing is, they are 6-inch cruisers and have lighter armor on them, and they have five turrets. They are just not the same at all.

Senator VANDENBERG. It is the same general type of construction, is it not?

Mr. CORNBROOKS. I do not know what you mean by "general type." All ships are general types. It is a lighter-constructed ship than the heavy cruisers.

Mr. LAROUCHE. How about the machinery, Mr. Cornbrooks? Is there any difference in that?

Mr. CORNBROOKS. Our design makes a difference in that.

Mr. LAROUCHE. Essentially, as to particular coat, and so forth?

Mr. CORNBROOKS. If I remember correctly, the armored cruisers were 110,000 horsepower, and the light cruisers 100,000 horsepower.

Mr. LaRouche. The actual distinction between light and heavy is a false distinction, is it not?

Mr. Cornbrooks. I would not say so.

Mr. LaRouche. Referring to the size of the guns, and not the size of the ships?

Mr. Cornbrooks. I do not remember the dimensions of the ships, but they are just a different cruiser, that is all, so far as construction is concerned. A great deal more welding is in the 6-inch cruisers than there is in the 8-inch cruisers.

Mr. LaRouche. There is nothing about the heavy cruisers that would make them difficult for you to build, is there?

Mr. Cornbrooks. No; we built heavy cruisers.

Mr. Raushenbush. Mr. Chairman, in that connection, may I call your attention to Mr. Langell's testimony,[1] beginning at page 7193 of the transcript, discussing these various bids between the light and heavy cruisers. [Reading:]

> Mr. Langell. Now, look, I had already figured on the *Quincy* about a year before, I think, and this *Vincennes* was a duplicate of the *Quincy*, although I had *Quincy* all figured out for me.
>
> Mr. LaRouche. You had the weights figured out for you, but I think you told me that the coverage was equally important, if not more important. This was 9 months later, 9 months after the *Quincy*.
>
> Mr. Langell. The machinery for that heavy cruiser was practically identical with the machinery for the light cruiser, and we were thoroughly covered on the light cruiser, the machinery end of it.
>
> Mr. Raushenbush. Nine months before?
>
> Mr. Langell. No, I am talking about on the light cruiser, we were covered.
>
> Mr. Raushenbush. At the same time?
>
> Mr. Langell. And the heavy-cruiser machinery was almost identical to that of the light. I figured at that time, and I think I told Mr. Bardo, that I could not see much difference, and why I should change the estimate for the *Vincennes* from that I made on the *Quincy*.
>
> Mr. LaRouche. Except this was kind of a left-handed estimate on the *Vincennes*, was it not?
>
> Mr. Langell. I did not make any.
>
> Mr. LaRouche. You did not make any?
>
> Mr. Langell. I made none at all.
>
> Mr. LaRouche. In other words, on a heavy cruiser involving, roughly, something like $12,000,000, you made no estimate at all?
>
> Mr. Langell. None at all.

Mr. Cornbrooks. You mean, then, could you use the estimate on machinery so much per pound? Yes, you could.

Senator Vandenberg. You could use the same yard, could you not, speaking generally, to build both types?

Mr. Cornbrooks. Oh, yes. We had built heavy cruisers in the yard.

Senator Vandenberg. Why was it that you decided that you only wanted to build the light cruisers?

Mr. Cornbrooks. Because we had duplicate machinery on the *1,850* and the light cruisers, absolutely duplicate machinery, except turned around and run the shaft to the gear on one side of the cruiser, because the cruiser pulled in closer and there was not room for the machinery and the gears there, and we put the gears forward of the machinery and run the shaft between the two turbines.

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[1] See text, p. 4970.

Senator VANDENBERG. What was the purpose of putting in any bid on the ones you did not want?

Mr. CORNBROOKS. We thought the President wanted us to put in bids on the whole thing. That was just our judgment of it. We thought we ought to—first, we did not make the estimate so complete, because we thought we could use other stuff that we had, and time was short. I came here from Europe and I found the things before me, and I did the best I could.

Mr. RAUSHENBUSH. Mr. Chairman, in that connection, may I direct the attention of the committee to Mr. Langell's testimony [1] on that point, still on the 1933 bids, appearing at page 7194 of the record. [Reading:]

> Mr. LAROUCHE. You told me, I think, at one time that on the 1,500-ton destroyers, you paid very little attention to your inquiries in your estimate on that.
>
> Mr. LANGELL. Right.
>
> Mr. LAROUCHE. You did not expect the company was going to get those?
>
> Mr. LANGELL. I did not even expect that they were going to bid on them.
>
> Mr. LAROUCHE. That is the 1,500-ton destroyers?
>
> Mr. LANGELL. Yes, sir.
>
> Mr. LAROUCHE. Which, Mr. Raushenbush, they did not get. * * * Here is the aircraft carrier on which you also made a sort of left-handed estimate, did you not?
>
> Mr. LANGELL. Right.
>
> Mr. LAROUCHE. In other words, you just took a long running leap at the estimate on the aircraft carriers *Nos. 5* and *6*, which you did not think the company would get?
>
> Mr. LANGELL. That is perfectly right.
>
> Mr. LAROUCHE. And did not want?
>
> Mr. LANGELL. I understood they did not want that.
>
> Mr. LAROUCHE. But they made a bid?
>
> Mr. LANGELL. I did not.
>
> Mr. LAROUCHE. The company?
>
> Mr. LANGELL. Yes.
>
> Mr. LAROUCHE. They did not want them, did not want the aircraft carriers, but they made a bid. On the 1,500-ton destroyers they did not want them?
>
> Mr. LANGELL. I do not think they did.
>
> Mr. LAROUCHE. And they made a bid?
>
> Mr. LANGELL. They made a bid.
>
> Mr. LAROUCHE. And on the heavy cruiser *Vincennes* you made no estimate at all?
>
> Mr. LANGELL. None.
>
> Mr. LAROUCHE. And you did not get it?
>
> Mr. LANGELL. Certainly not.
>
> Mr. LAROUCHE. On all the other jobs which the company did get——
>
> Mr. LANGELL. And wanted.
>
> Mr. LAROUCHE (continuing). And wanted, you made very elaborate preparation?
>
> Mr. LANGELL. I did.
>
> Mr. LAROUCHE. That is all.

Senator VANDENBERG. I think the record should be very plain that these files tell their own story to a very eloquent degree.

Does it not follow there pretty clearly that the company knew, and the estimator knew, long ahead of time, before they were told to make those estimates, even, Mr. Cornbrooks, that the company did want some and did not want others?

Mr. CORNBROOKS. We did not want the submarines, for instance. We did not put a bid in on them.

Mr. RAUSHENBUSH. No; you never do.

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[1] See p. 4970.

Mr. Cornbrooks. Yes, we did put in one bid on them.

Mr. Raushenbush. But you did put in bids on the light destroyers and the heavy cruisers which, according to that testimony, you did not want and did not expect to get?

Mr. Cornbrooks. Yes.

Mr. Raushenbush. Now, asking Senator Vandenberg's question again, after reading this testimony, what was the point in putting in a bid on ships you did not want and did not expect to get?

Mr. Cornbrooks. We wanted to be represented, as we do at all bidding.

Senator Vandenberg. You said a moment ago that you assumed that the President wanted you to bid on everything.

Mr. Cornbrooks. I won't say the President, but I mean the Government.

Senator Vandenberg. That is what I assumed.

Mr. Cornbrooks. Because it was an emergency proposition.

Senator Vandenberg. I was wondering what assistance you thought you were rendering the Government by putting in a so-called " safe " bid. What assistance is that to the Government?

Mr. Cornbrooks. It was only in our judgment that it was a safe bid. It might have been lowest, for all we knew.

Mr. LaRouche. Did the same thing follow in 1934 as to light destroyers, for instance?

Mr. Cornbrooks. I do not know whether we put in a bid; yes, we discussed that. We were not going to put in a bid, and then we did put in a bid.

Mr. LaRouche. According to your records, there, again, the estimating data was very meager on the 1,500-ton destroyer which you did not expect to get?

(Mr. Cornbrooks, the witness, nods assent.)

Mr. LaRouche. And did not get?

(Mr. Cornbrooks, the witness, nods assent.)

Mr. LaRouche. Was not that true of the heavy cruiser in 1934, as well? That was cruiser *No. 45*.

Mr. Cornbrooks. We wanted a light cruiser, if we could get one.

Mr. LaRouche. You wanted a light cruiser, if you could get one?

Mr. Cornbrooks. Yes; because we had a light cruiser in our yard and it would save drawings.

Mr. LaRouche. And you did get it?

Mr. Cornbrooks. Yes.

Mr. LaRouche. You did not want the heavy?

Mr. Cornbrooks. No.

Mr. LaRouche. And did not get it?

Mr. Cornbrooks. No.

Senator Barbour. I do not want to lead you into some answer, because it is not fair to you or to the committee, but, as I understand this thing, and I want to get at the practical side of it—there was very little time for all the estimating, taking it over the whole program submitted to you?

Mr. Cornbrooks. There was not enough, not nearly enough.

Senator Barbour. And it was quite natural that you went more exhaustively into the estimating of the ships that, from your own point of view, you felt were more acceptable to your yard?

Mr. Cornbrooks. Yes, sir.

Senator Barbour. And then did the best you could on the others?

Mr. Cornbrooks. Yes, sir.

Senator Barbour. And that made a very obvious contrast between certain estimates that were made?

Mr. Cornbrooks. Yes, sir.

Senator Barbour. I do not think there is anything very material about that.

Mr. Cornbrooks. No; it was the practice. I have done it all my life, on what we wanted.

Senator Vandenberg. Mr. Cornbrooks, on the time element, was it not a fact that the shipbuilding industry as a whole had very general information about this prospective naval program long ahead of the time you are speaking about?

Mr. Cornbrooks. Very general information; yes.

Senator Vandenberg. Were not the subcontractors, even, sufficiently informed prospectively about the thing that was ahead so that they were discussing with you the question of jobs?

Mr. Cornbrooks. We knew that they wanted to save space in the machinery, clear from the *Dewey*.

Senator Vandenberg. You knew long before this last 6 weeks' pinch period you are talking about what you were going to get ready to bid on, did you not?

Mr. Cornbrooks. No; I did not. I was in Europe and got back in June.

Senator Vandenberg. When did you go to Europe?

Mr. Cornbrooks. May 10.

Senator Vandenberg. Did you not know all about it before May 10?

Mr. Cornbrooks. Not all about it. We knew in general that we were going to have a program of ships, and in general what the types were going to be.

Senator Vandenberg. Were all of Mr. Langell's estimates made during those last 6 weeks?

Mr. Cornbrooks. Yes. About 6 weeks. I won't say it was exactly 6 weeks, but about 6 weeks.

Senator Barbour. Could you have made any estimates at all on any general information which you may have had?

Mr. Cornbrooks. Absolutely not. It was just like building a ship, it changed right along.

Mr. Raushenbush. Mr. Cornbrooks, is it not the usual practice for the estimators not to have their estimates in much before 10 days or a week before the bids are opened?

Mr. Cornbrooks. Yes. In this case they were closer than that.

Mr. Raushenbush. This was not anything very unusual. They always managed to finish the estimates at something like the last moment?

Mr. Cornbrooks. We have had them done 10 days to 2 weeks before the bids go in, but this was too close. We could not get it.

Senator Vandenberg. Did you talk to your brother, Mr. Cornbrooks, subsequent to July 1933 about these contracts and the New York Ship's relation to them?

Mr. Cornbrooks. No, sir.

Senator Vandenberg. Did you ever talk to your brother about them?

Mr. CORNBROOKS. No, sir.

Senator VANDENBERG. Have you ever talked to your brother about this story of how you flew down here, and so forth?

Mr. CORNBROOKS. No, sir.

Senator VANDENBERG. Never talked to him about that at all?

Mr. CORNBROOKS. No, sir.

Senator VANDENBERG. Did you ever talk with your brother about Mr. Wilder's amazingly good judgment in being able to announce ahead of time who the low bidders were going to be?

Mr. CORNBROOKS. I never heard of that.

Mr. LAROUCHE. There is just one thing for the record, and that is as to the plans and the like on these cruiser and destroyer programs. Is it true that Babcock & Wilcox, Westinghouse, and General Electric helped prepare the specifications on all these ships, and that they were consulted as to the machinery by the Navy well in advance of the 6-week period about which you speak?

Mr. CORNBROOKS. I do not know, sir. I do not know whether they were or were not.

Mr. LAROUCHE. The only point in asking was this: That if they were, and we will establish that, then these subcontractors, to whom you must turn for your machinery and boilers, and other equipment, would be fully equipped and prepared to give you, on a moment's notice, information as to the prices, weights, coverage, and all the other things, almost overnight. Is not that true?

Mr. CORNBROOKS. I do not know whether they were prepared or not, but we had an awful time getting it. We had an awful time getting the prices, because they did not know what the code was going to do, and things were generally upset, and I do not think that at the last minute we had prices to cover over 50 or 60 days.

Mr. LAROUCHE. That is probably true, but we will say if Babcock & Wilcox should say that they had full information, say a year ahead, on this job, you would not think that there was any reason to say that that was not true?

Mr. CORNBROOKS. No; I do not see any reason why they should say that.

Senator VANDENBERG. Did you have anything to do, Mr. Cornbrooks, with the N. R. A. code hearings in respect to the monopoly section?

Mr. CORNBROOKS. No, sir.

Senator VANDENBERG. You did not know anything about that?

Mr. CORNBROOKS. No, sir; I was not here. I was not in any of those conferences.

Senator VANDENBERG. That is all, so far as I know.

Mr. RAUSHENBUSH. Mr. Cornbrooks, at various times the opening of the bids has been postponed from one time to another, sometimes at the request of the shipbuilders. Did you feel that this rush was an imposition on the shipbuilders?

Mr. CORNBROOKS. You mean, did I personally think it was?

Mr. RAUSHENBUSH. Yes.

Mr. CORNBROOKS. Yes. I asked, or I wanted to ask for an extension, but we thought that they wanted to get the program into action, get the work going, so that I did not ask for an extension.

Mr. RAUSHENBUSH. And none of the other shipbuilders asked for an extension?

Mr. CORNBROOKS. I do not know that; I cannot answer.

Mr. RAUSHENBUSH. This was to get the work started rapidly?

Mr. CORNBROOKS. Yes, sir.

Mr. RAUSHENBUSH. A large part was under the P. W. A. funds?

Mr. CORNBROOKS. Part of it was under the increased Navy and part of it was N. I. R. A. I do not know it was Public Works or not.

Mr. RAUSHENBUSH. And under that they wanted to get the employment going as fast as they could?

Mr. CORNBROOKS. Yes, sir.

TIME ELEMENT IN CRUISER BUILDING

Mr. LAROUCHE. Do you think your voice will stand up long enough to tell us something about the background of ship designing, which the committee would like to know about? I do not know whether my voice will.

Mr. CORNBROOKS. Go ahead. When my throat hurts me, I will say so.

Mr. LAROUCHE. Do you believe that it is possible, from your experience, and how long have you been a shipbuilder, Mr. Cornbrooks?

Mr. CORNBROOKS. Since 1897.

Mr. LAROUCHE. Since 1897?

Mr. CORNBROOKS. Yes, sir.

Mr. LAROUCHE. Do you think, from your experience, that it would be possible or practical for a shipyard, a modern shipyard, to build a cruiser that now takes from 36 to 42 months, to build it just as well in a lot less time, and for a lot less money, than we are now building them?

Mr. CORNBROOKS. It is possible, I think.

Mr. LAROUCHE. What would you say would be the minimum time, as against 36 to 42 months that are now required? What would you think that an equally good job could be done for? What would be the least time?

Mr. CORNBROOKS. Probably 2 years.

Mr. LAROUCHE. You would not think 18 months?

Mr. CORNBROOKS. It might. I do not know. It just depends on the class of ship and what the design of it was, and if there was any new stuff on it.

Senator BARBOUR. It would depend on the labor situation, too?

Mr. CORNBROOKS. It would depend on the labor situation, too, and it depends on so many things, Mr. LaRouche. You are asking my personal judgment.

Mr. LAROUCHE. Yes; I am. I have learned to respect it very highly.

Mr. CORNBROOKS. Thank you.

Mr. LAROUCHE. You spoke about designs. Do you think that under the existing order that we are getting the last word in modern designs? Do you think we are getting the last word in efficiency for the money that we spend?

Mr. CORNBROOKS. I think you are for the money you spend. Of course, you can go to higher pressures, and things like that, than you do now. That is, whether it would become practical or not, you would have to try it out.

Mr. LAROUCHE. You told me once that you could build a better cruiser than we are now building in 18 months for less money.

Mr. Cornbrooks. I do not know that I told you that, but I think it is possible.

Mr. LaRouche. I think that is what we wanted to know. That is a great deal less time than is now consumed?

Mr. Cornbrooks. That would have to be to cut out all Government inspection and things that hold you up.

Mr. LaRouche. Do you think the Government inspection helps the final product any?

Mr. Cornbrooks. I do not know, really.

Mr. LaRouche. You mean you do not think so?

Mr. Cornbrooks. I would not say that.

Mr. LaRouche. You would not like to say so?

Mr. Cornbrooks. No.

Mr. LaRouche. No harm in thinking it.

Mr. Cornbrooks. I do not know. It is such a complicated proposition that you cannot make a distinct answer to it. It depends on so many conditions.

Mr. LaRouche. What does it cost the Government to inspect a cruiser? Could you make a rought estimate?

Mr. Cornbrooks. No.

Mr. LaRouche. One-half or three-quarters of a million dollars?

Mr. Cornbrooks. I could not say. I do not know what they pay their people.

Mr. LaRouche. I do not know whether they know, either, but I thought you might know from your experience, in a rough, general way.

Mr. Cornbrooks. Inspection force for whatever time the contract is. Whatever it costs, I do not know.

Mr. Raushenbush. How many different men does the Government have inspecting the ship as it is built for the Government?

Mr. Cornbrooks. They have an inspector of ordnance and a superintending constructor and his corps, superintendent of machinery, or inspector of machinery, they call him, and his corps. I do not know how many are there, but 20 or 30. I do not know.

Mr. Raushenbush. You mean altogether 20 or 30?

Mr. Cornbrooks. Yes. I do not come in contact with all the people. I do not know. My dealings were simply with the superintending constructor or the inspector of machinery or the inspector of ordnance.

Mr. Raushenbush. And those men are not paid by the company? They are paid by the Government?

Mr. Cornbrooks. Yes; we do not pay them.

Mr. Raushenbush. It is not taken care of in your bid at all?

Mr. Cornbrooks. Not the Government inspection.

Mr. Raushenbush. That is an additional amount?

Mr. Cornbrooks. Yes, sir.

Mr. LaRouche. And it is not charged against the constructor at any time?

Mr. Cornbrooks. I think not; no.

Mr. LaRouche. So that actually when the shipbuilder gets through building the ship, and gets his final settlement, contract price plus extras, bonuses, and whatever else he gets, there is still a considerable cost which never appears, never is charged against that cruiser at all?

Mr. CORNBROOKS. Sure.

Mr. LAROUCHE. Is it not a fact that if there were a great deal less inspection, that there might be a great deal more ship?

Mr. CORNBROOKS. I would not like to say that.

Mr. LAROUCHE. I do not think you should be required to, but you would not deny it?

Mr. CORNBROOKS. I just do not know.

Senator BARBOUR. This Government inspection is entirely separate from your own operation altogether?

Mr. CORNBROOKS. Yes, sir.

Senator BARBOUR. You have no control over the number of men they send to the industry at all, or anything else?

Mr. CORNBROOKS. No.

Senator BARBOUR. And no reason why you should have?

Mr. CORNBROOKS. No, sir.

Senator BARBOUR. You would be misunderstood, if you did, probably?

Mr. CORNBROOKS. I think we would probably be severely criticized.

Senator BARBOUR. That is what I mean.

Mr. CORNBROOKS. Yes, sir.

Mr. LAROUCHE. I think the committee would be interested to know whether those two types that the New York Ship is now building, I believe, had anything to do with the delays in the cruiser program.

Mr. CORNBROOKS. Nothing whatever. It helped employment.

Mr. LAROUCHE. It helped employment?

Mr. CORNBROOKS. Yes, sir.

Mr. LAROUCHE. But you were unable to lay cruiser *No. 43* until you got one of those tankers out of the way. Is not that true?

Mr. CORNBROOKS. Yes; but it would not have advanced the cruiser any.

Mr. LAROUCHE. It would not have?

Mr. CORNBROOKS. No. You could lay the keel at that time, so far as that is concerned. I think during the war a number of shipyards laid the keels at the last minute, getting everything out, and I think one of the shipyards said they built a ship in 27 days, but, of course, actually they did not; 27 days from laying the keel and everything else, and go right ahead.

Mr. LAROUCHE. That was the *Tuckahoe*?

Mr. CORNBROOKS. I think it was. It was the New York Shipbuilding Co., but I was not there at the time.

Mr. LAROUCHE. I think it was 37 days.

Mr. CORNBROOKS. Whatever it was.

Mr. LAROUCHE. Not very many days, anyway.

Mr. CORNBROOKS. No.

Mr. LAROUCHE. The point of the questions simply was that I believe that the committee is interested, and the record should show, your opinions in regard to time and efficiency and all these other things.

Mr. CORNBROOKS. My opinions are not worth anything. It is the actual work.

Mr. LaRouche. Your experience in New York Ship and elsewhere is worth something. I think because of that your comments particularly on the time of cruiser building are pertinent.

Senator Vandenberg. All right, Mr. Cornbrooks, that is all.

Mr. Raushenbush. May we have Mr. Bardo?

TESTIMONY OF CLINTON L. BARDO—Resumed

REJECTION CLAUSE—1927 CONTRACT FORM

(The witness was previously sworn by the chairman.)

Mr. Raushenbush. Mr. Bardo, do you remember back in 1927, at a time when the shipbuilders were taking up with the Navy the idea of changing the proposed contracts on the scout cruisers for the year 1927?

Mr. Bardo. I recall distinctly that we made an application to the Navy Department to change some of the provisions of the contract. I do not know whether I recall the details.

Mr. Raushenbush. I have here a photostat taken from the Navy Department files, labelled " Conference held at the Navy Department on Tuesday, February 8, 1927, at 10 a. m., in connection with the proposed form of contract (class 1) for the construction of scout cruisers *Nos. 26, 27*, and *28*." And it lists as present for the American Brown Boveri Electric Corporation, Groesbeck, Bardo, and Newell. Which " Newell " was that?

Mr. Bardo. That is the Newell who is now president of the Bath Iron Works. He was at that time vice president and general manager of the shipbuilding company.

Mr. Raushenbush. And on the first page there is a reference to meetings that have been held between the shipbuilders in this matter of these contracts. Do you remember how many of those there were, or over what length of time they extended at all?

Mr. Bardo. My recollection is that it extended over quite a period of time. There were some features of the contracts which all of us felt were too onerous and ought to be changed, and we had several conferences, first among the shipbuilders, and then the shipbuilders and their attorneys, and then in a group with the representatives of the Navy Department.

Senator Barbour. Mr. Bardo, I am becoming a little confused. We are using this term " conference " in several different respects, as I see it. I want to clarify it in my own mind. My impression is that in relation to these contracts that are being so discussed, you and other shipbuilders were operating under the Industrial Recovery Act. Is that so?

Mr. Bardo. He was referring now to things that occurred in 1927.

Senator Barbour. I know, but it is this constant reference to conferences. I want to clear up something else in my mind which may not be relevant now, but you of necessity had a lot of conferences with your competitors because of the N.R.A.?

Mr. Bardo. If you are referring to the 1933 and 1934 program——

Mr. Raushenbush. Mr. Chairman, just a minute.

(Informal discussion off the record.)

Senator Barbour. This only refers to 1927, Mr. Bardo. so that I will withdraw my question.

Mr. Bardo. All right.

Mr. RAUSHENBUSH. I think you were answering the question as to the number of meetings that there had been between the shipbuilders in connection with these contracts and the form of contracts that was to be drawn for these scout cruisers in the classes 26 to 28. Did you have anything further to say in that connection, Mr. Bardo?

Mr. BARDO. I do not think so.

Mr. RAUSHENBUSH. There is a paragraph here on the first page of this memorandum to which I should like to refer. First, however, I want to offer this memorandum as "Exhibit No. 1490."

(The memorandum referred to was marked "Exhibit No. 1490" and is included in the appendix on p. 5207.)

Mr. RAUSHENBUSH. That reads:

> Mr. Palen stated that the meeting was the result of the request for duplicating the vessels, which presents a new phase to the shipbuilder. In considering the contract it was only natural to discuss the specifications, and the serious thing seems to be whether or not there is sufficient information for the estimators to make a fair and just estimate of cost and time for building these ships that would be equitable to the companies. That a memorandum had been prepared as to the matters desired to be considered.

You took part, I take it, in preparing that memorandum?

Mr. BARDO. I think so. That is a good while back to remember everything that you did.

Mr. RAUSHENBUSH. There is another paragraph here on the same basis:

"Mr. Wakeman"—Mr. Wakeman is a Bethlehem official?

Mr. BARDO. He is a vice president of the Bethlehem Shipbuilding Co.

Mr. RAUSHENBUSH (reading):

> Mr. Wakeman stated that the meeting developed from a desire to discuss certain sections of the contract. The shipbuilders had a meeting to discuss the question of interchangeability of certain parts of the scouts and in the discussion many other points were brought out.

Mr. Bardo, do you remember this series of meetings in the Navy Department?

Mr. BARDO. We had several meetings. I do not recall all of them or exactly what took place.

Mr. RAUSHENBUSH. Do you remember particularly what sections the shipbuilders wanted to have changed in those contracts?

Mr. BARDO. No; I could not answer the question. One of them I do recall was the question of the over-all liability, the penalties that could be assessed against the shipbuilder for failure to meet the guarantees, either as to weight, speed, usability, and oil consumption. The penalties were very severe, and we felt that it was not fair to impose those conditions in view of the fact that we were plowing a new field, that we were developing the art of the industry, and that if we were willing to go along and do that, that we ought to have some protection against the very heavy penalties which might amount to several hundred thousand dollars if we failed. We felt that there ought to be some agreed limit to liability which could be written into the contract, and which we might know would be the worst which could happen to us, if it happened.

Mr. RAUSHENBUSH. Is it the same time that the idea of bonuses came up to sort of offset liabilities?

Mr. BARDO. You mean in the contracts themselves?

Mr. RAUSHENBUSH. Yes.

Mr. BARDO. No; my recollection is that the old contracts contained substantially the same provisions that are in the new ones with respect to that.

Mr. RAUSHENBUSH. There seems to be considerable discussion here. Do you remember also the point that the companies in their memorandum proposed to strike out a clause, called clause 19, of the Navy contracts, that dealt with the right of the Navy to reject ships?

Mr. BARDO. Yes; I recall that particular feature because there again was another very dangerous provision. The old contract, as I recall it, vested in the Secretary of the Navy the right, in his judgment, to reject the ship, and we felt, as I have just outlined, in view of the new field that we were plowing, that that was a very severe penalty, and we ought to be relieved of it, or at least it ought to be modified.

Mr. RAUSHENBUSH. Up to that time the Navy had always had the right to reject ships. That is, that clause or its equivalent had been in all contracts?

Mr. BARDO. So far as I know. I had not been in the shipbuilding business before then. In fact, I was practically new at it. So that I cannot tell you very much about what happened prior to 1926.

Mr. RAUSHENBUSH. I note on page 9 of the memorandum which has been entered as "Exhibit No. 1490", clause 19.

> Clause 19, strike out the clause.

And this conversation takes place:

> Mr. WAKEMAN. What will the Comptroller say?
> Mr. PALEN. We don't want anything in here to have a vessel on our hands.

Was not that the proposition that a Government department should give up its right to reject the job for inferior workmanship, that is, was not that whole proposition whomewhat contrary to ordinary Government practice?

Mr. BARDO. You must differentiate between what you are talking about, in the first instance, namely, the right to reject a ship and the right to reject for defective workmanship. They are two very different and distinct features. In other words, we did not ask and did not want the Government's right to reject defective workmanship impaired in any way, and it never has been impaired, and it is still in all the existing contracts. But we did feel that the right to reject a ship involved something which would wreck a shipyard, because you might exceed your weight limitations, or you might fail in some of the guarantees; we felt that that was a dangerous provision and that we ought to be relieved of it.

Mr. RAUSHENBUSH. The penalties for going overweight, or other defects, were covered in other sections, were they not? This is a question of rejecting the whole ship for bad workmanship.

Mr. BARDO. Yes; but you injected into it the right of the Government to reject defective workmanship, which are two distinctly unrelated subjects.

Mr. RAUSHENBUSH. What other cause, outside of very defective workmanship, would there be for rejecting a ship?

Mr. BARDO. I could not tell you; I do not recall the form of Navy contract. It was a very involved contract, one which had been condemned by the shipbuilders, or by the directors, and by everybody else, as a very unfair contract.

Mr. RAUSHENBUSH. That is taking in a lot of territory, is it not?

Mr. BARDO. That contract took in a lot of territory.

Mr. RAUSHENBUSH. Condemned by everybody?

Mr. BARDO. I think that is a true statement. They had to sign it and be responsible for its provisions.

Mr. RAUSHENBUSH. I notice here that Captain Robert, on page 9 of the memorandum, makes the observation:

> Suppose you turned out a rotten ship and got by the inspectors and went to sea and during the 6 months there were a lot of defects plainly attributable to the contractors; if you've got a reservation of $250,000 it seems to me that there possibly could be a limited liability for guarantees, but not a limited liability for defective workmanship.

Mr BARDO. I do not know what was in the captain's mind when he made that statement, but certainly the right of the Government to condemn and reject defective workmanship has never been questioned in any contract.

Mr. RAUSHENBUSH. The point I am getting at is that the contracts up to this point had all had that right of the Government in, and at this point the shipbuilders put up the request that that be cut out. Is not that substantially correct?

Mr. BARDO. That is correct; and the request was made, as I have outlined to you, that we were in a new industry; there had been no cruisers built since the time of the war, and there was nobody who really knew very much about what was going to happen. We were in an entirely new field.

Mr. RAUSHENBUSH. I offer for the record a memorandum prepared by the Bureaus of Construction and Repair and Engineering, dated the 18th of February 1927, as "Exhibit No. 1491", in which the proposals of the shipbuilders are discussed.

(The document referred to was marked "Exhibit No. 1491" and is included in the appendix on p. 5216.)

Mr. RAUSHENBUSH. The whole report is turned over to the Judge Advocate General of the Navy, and speaking of this nineteenth clause, on the fifteenth page the bureaus say:

> This clause specifies that it shall not be obligatory upon the Department to accept or pay for the vessel or any part thereof unless it shall have been completed in strict conformity with the contract and in accordance with the provisions of the acts of Congress relating thereto. Upon discussion it appears that the shipbuilders are fearful less some great loss should rest with them such as to amount to a financial catastrophe. With the clause proposed below for limited liability it is believed that they are suitably protected and it is recommended that the nineteenth clause stand as written.

Did you know about this report where the bureaus proposed to keep that clause?

Mr. BARDO. Never heard of it.

Mr. RAUSHENBUSH. In the final contracts, as they were put out, that clause was eliminated, was it not?

Mr. BARDO. I could not answer that question. I would have to review the contracts to make sure whether it was or not.

Mr. RAUSHENBUSH. I show you a revised contract, photostat thereof, in which the nineteenth clause, the old one that I have read, has been eliminated, and the nineteenth clause deals with the 8-hour day instead, and there is no further reference to it [handing paper to witness].

Mr. BARDO. If that is what the contract says, there is nothing I can say about it.

Mr. RAUSHENBUSH. Do you remember what has happened since then on the contract for the 1929 cruisers. Was that clause in or was that clause out?

Mr. BARDO. I could not answer that question. I would have to refer to the contract.

Mr. RAUSHENBUSH. Did you employ as an attorney in these matters, the matter of these contracts, Ralph M. Ketcham?

Mr. BARDO. He was the company's attorney. He was our yard attorney, located in the yard.

Mr. RAUSHENBUSH. He was not connected with White & Case?

Mr. BARDO. No.

Mr. RAUSHENBUSH. He was your own company attorney?

Mr. BARDO. He was our own company attorney.

Mr. RAUSHENBUSH. I have here a letter purporting to be from him, Mr. Bardo, dated June 14, 1929, and addressed to Mr. F. H. Skinner, First National Bank Building, Newport News, Va. Was Skinner the attorney of Newport News?

Mr. BARDO. I understand that he was.

Mr. RAUSHENBUSH. And to Mr. A. B. Homer, manager of sales, Bethlehem Shipbuilding Corporation, Ltd., Cunard Building, New York City; which seems to deal with this subject. That letter states (reading from "Exhibit No. 1492"):

> GENTLEMEN: Referring to Mr. Skinner's memo to Mr. Homer covering his notes on proposed cruiser contract dated June 3, 1929, there is one point on which I would particularly like to make a contemporaneous record and if you gentlemen agree with me, I would like to have you join in the making of this record.
>
> In the memo referred to Mr. Skinner has mentioned the implied right of rejection in connection with the omission from the last draft of the contract of the rejection clause which appeared in the earlier drafts.

He is talking about 1929, and from that sentence it seems, does it not, Mr. Bardo, that the Navy had put back that rejection clause into the contracts, and it had been omitted in the last draft? In other words, the same thing happened; that is, the right of the Navy to reject a job had been waived in 1929, and again the clause had been eliminated. Is not that a fair inference from that statement?

Mr. BARDO. You would have to ask Mr. Ketcham about that. I would not undertake to interpret his letter or what he was writing about. I have no knowledge of it at all.

Mr. RAUSHENBUSH. Were you not at all active in this 1929 attempt?

Mr. BARDO. I was active from the standpoint of negotiating a contract, but I was not active with respect to such things as discussions of it. I never heard of it before.

Mr. RAUSHENBUSH. You had heard about it plenty in the 1927 conferences, had you not?

Mr. BARDO. Yes; surely; but he raises the question again. I did not know that the question had again been raised. That is something which took place between the attorneys, again.

Mr. RAUSHENBUSH. I will read that again [reading from "Exhibit No. 1492"]

> In the memo referred to Mr. Skinner has mentioned the implied right of rejection in connection with the omission from the last draft of the contract of the rejection clause which appeared in the earlier drafts.

The letter goes on:

> In my opinion, in a contract for construction of a ship in which no mention has been made with regard to rejection, either in the written contract or in the preliminary negotiations, there is without doubt inherent in the agreement between the builder and the purchaser an implied right of rejection if the vessel fails to conform to specifications in any substantial respect and this failure is not or cannot be remedied within a reasonable time after the due date for delivery, except as special provisions with regard to liquidated damages for delay, and with regard to acceptance subject to such liquidated damages may impliedly negative to some extent such a right of rejection. I think, however, that in the present case we are in a somewhat different situation.
>
> In the draft of the contract submitted to us prior to May 8 there was a specific rejection clause, subdivision (e) of article 13. In our conference with the Department officials and the Secretary of the Navy on May 9 and 10, at which each of our three companies was represented, we pointed out to the Department the impossibility of resale of the vessel as a reason for eliminating the right of rejection and insisted that in all fairness to the shipbuilders the Department's remedies in event of default should be limited to the right to complete the vessel at the shipbuilder's expense. The Department officials and the Secretary of the Navy acceded to this view and at our request, and for this purpose withdrew the rejection clause from the draft of the contract.

Now Mr. Ketcham goes on:

> In the light of this preliminary negotiation it would seem that the parties have themselves placed an interpretation upon the contract which would entitle us to maintain that the Department had surrendered any implied right of rejection.

That is, I take it, that the Department had a right to reject, and at the request of the shipbuilders it was withdrawn.

Mr. BARDO. That is a lawyer's opinion. I could not pass upon it.

Mr. RAUSHENBUSH. This is your company lawyer's opinion, who was charged with the negotiations at the time. [Continuing reading:]

> Under the circumstances, I believe that it has been agreed that on the contracts for scout cruisers 33 and 35 the Department will have no right to reject the vessels.

So if I understand it correctly—and I wish you would check from your memory—the right of rejection that is implied in all contracts, even though it is not written in, was taken out of it by this procedure in which the attorneys for the three companies apparently asked the Government specifically to withdraw that rejection clause, which the Navy did, and the fact that those negotiations, these preliminary negotiations, have taken place, the whole general right of rejection which lies in general contracts has been invalidated.

Mr. BARDO. That is a very involved question. You have gone all around the barn. What do you want me to tell you specifically?

Mr. RAUSHENBUSH. I asked whether that would check with your memory of Mr. Ketcham's letter?

Mr. BARDO. No; I am perfectly frank to say I do not recall it at all. I never saw the letter and I do not recall even the discussion.

Mr. RAUSHENBUSH. I offer this letter of the attorney of the New York Ship, Mr. Ketcham, for the record as "Exhibit No. 1492."

(The letter referred to was marked "Exhibit No. 1492" and appears in full in the text.)

Mr. LAROUCHE. Can you remember, Mr. Bardo, any provision in any contract to which the shipbuilders objected, and in which case the shipbuilders' opinion was not adopted?

Mr. BARDO. I do not recall the details. That is a very involved thing, and I should have to go back, and I have not any memoranda covering it, and it would be a very involved problem to try and find just what was asked for and what was suggested, and what was denied and what was modified.

Mr. LAROUCHE. Before every letting of any importance, there was a discussion of contracts and it was usually a discussion among the "Big Three", was it not?

Mr. BARDO. Now what are you talking about? You say there is a discussion among the "Big Three" about contracts. Are you talking about the contract form or about contracts? Let us be sure on that.

Mr. LAROUCHE. The specific contract and the contract form both.

Mr. BARDO. All right. You cannot talk about both of them in one breath, because one answer does not answer for both of them.

Mr. LAROUCHE. How about the specific contracts?

Mr. BARDO. The specific contracts; no.

Mr. LAROUCHE. They were not discussed?

Mr. BARDO. They were not discussed.

Mr. LAROUCHE. But the contract form was?

Mr. BARDO. No; not after we settled it once. As far as I know, there was no further discussion beyond 1927. I do not recall any at all.

Mr. LAROUCHE. There were numerous instances from 1927 up to 1934 in which the shipbuilders did find fault in some respect with some contract or other?

Mr. BARDO. With the contract form or with the contract? Let us be clear about it.

Mr. LAROUCHE. With the contract form.

Mr. BARDO. As I have said, I cannot answer the question because I have not refreshed my mind on it, and I would not keep it in my mind anyway. It is not anything that I would necessarily try to retain because it is too involved a problem.

Senator VANDENBERG. Mr. Bardo, you are acquainted with Mr. Kaltwasser?

Mr. BARDO. Yes, sir.

Senator VANDENBERG. What is his position with New York Ship?

Mr. BARDO. He came there I think in December 1933, as an assistant to me, representing the Cord interests.

Senator VANDENBERG. He came in there, using your phrase, as a representative of the Cord interests?

Mr. BARDO. That is correct.

Senator VANDENBERG. What, in a general way, was the function that he served in the organization?

Mr. BARDO. He came there, first of all, to familiarize himself with shipbuilding and its activities, and to see whether, from the standpoint of his industrial background and knowledge, he could be helpful in working out any problems relating to cost, which would be worthwhile, and he devoted his time to that particular endeavor right along.

Senator VANDENBERG. Was he in on most of the important conferences which occurred within the organization respecting business policy?

Mr. BARDO. Well, we discussed it with him occasionally, but because of his unfamiliarity with the whole subject, he was somewhat reluctant to say very much about it. He held rather aloof from a discussion of these things with which he was not familiar.

Senator VANDENBERG. But, as a representative of the Cord interests, he was kept intimately informed on everything that was proceeding?

Mr. BARDO. I do not know that I would go so far as to say that. I did not see very much of him. When he was there I might see him once or twice a week, but he spent, I would say, the first 3 months he was with us, one-half of the time going around in other shipyards and finding out what their practices were, and how they did things, and familiarizing himself generally with the most approved practices that he could find in any of the yards with which we might be in competition.

Senator VANDENBERG. Do you know Mr. Ben Smith?

Mr. BARDO. I met him only once, just once.

Senator VANDENBERG. Is he connected, directly or indirectly, with New York Ship?

Mr. BARDO. No. He has no official connection.

Senator VANDENBERG. Was he related in any unofficial way?

Mr. BARDO. Not to my knowledge.

INTEREST OF SHIPBUILDERS IN LEGISLATIVE ACTIVITIES

Senator VANDENBERG. Mr. Bardo, reading from the hearings in the so called " Shearer investigation ", I quote the following discussion between you and Senator Robinson of Arkansas:

> Senator ROBINSON of Arkansas. Neither you nor your company, I assume from that statement, has had any representation during the fight on the cruiser bill.
>
> Mr. BARDO. We have a representative in Washington, but he is not here for the purpose of mixing in with legislation.
>
> Senator ROBINSON of Arkansas. Who is he?
>
> Mr. BARDO. Frank Lord.

Then dropping to the bottom of the page it states:

> Senator ROBINSON of Arkansas. He has no authority to participate in efforts to secure, or defeat, legislation?

referring now to Mr. Lord.

> Mr. BARDO. No, indeed.

That is a correct statement of Mr. Lord's status in Washington?

Mr. BARDO. Yes, sir.

Senator VANDENBERG. Mr. Lord had no authority to participate in efforts to secure or defeat legislation?

Mr. BARDO. That is correct.

Senator VANDENBERG. I want to be sure that we fully understand your answers, so that I am taking the liberty of showing you a letter of December 10, 1928, written by you to Mr. Harry R. Humphreys. There seems to be but one copy and I will read the letter.

> DEAR HARRY: Yours of the 7th enclosing expense account received. Same has been passed for payment.
>
> I know that you are now prepared to devote all of your time, when not needed in Camden or Trenton, at Washington for at least the balance of the session. What we are most interested in now is the defeat of the Dallinger amendment to the cruiser bill, and this is being handled by Mr. H. G. Smith, vice president of the Bethlehem Co., although Mr. Ferguson and I have devoted some time and have interviewed a substantial number of Senators on the matter.

We are working in Washington with Messrs. Frank A. Lord, Hotel Blackstone, and James Barnes, who has an office on the sixth of the Albee Building. You no doubt know them both. I suggest that you keep in close touch with them so that our cooperation may be complete.

Very truly yours.

Would not that indicate that Mr. Lord was interested in legislation. Mr. Bardo?

Mr. BARDO. No. You will recall there, I think, in the letter where I had said I had made it my personal business to interview the Senators, and give that my personal attention. He had no authority to interview them or talk to them, and if he did it, he did it on his own.

Senator VANDENBERG. When you speak in this letter of your cooperation with Mr. Smith, of Bethlehem, and Mr. Ferguson, of Newport News, in seeking to defeat the Dallinger amendment, I assume that refers to the navy-yard amendment.

Mr. BARDO. It referred to an amendment that was tacked on to the bill—I do not recall the year—and, as I remember the language of it, the first and every alternate cruiser was to be built in navy yards.

Senator VANDENBERG. You and Mr. Smith and Mr. Ferguson were cooperating in that battle against that arrangement?

Mr. BARDO. Yes, sir.

Senator VANDENBERG. With further reference to Mr. Lord, I call your attention to your letter of December 21, 1928, written directly to him, from which I read:

DEAR FRANK: Yours of the twentieth received.

We are greatly interested in the cruiser bill and we want to make sure just as far as it is humanly possible to do so, that there will be no slip-up in disposing of the Dallinger amendment provisions of this bill when it comes before the Senate on January 3.

It seems to me quite desirable that you should get in touch with Messrs. Barnes and Gauntlet, and it may be well to talk to Duff, who is a representative of the American Shipowners Association. I understand they have filed a formal protest against this amendment.

Am glad to know that you could be helpful to Mr. Ketcham. As a matter of fact, I am quite sure that your good offices have been quite helpful in getting the rough spots ironed out in connection with the Grace Line contract.

What reaction have you had from Vice President Plummer regarding estimates on the Herberman ships? I understand that Herberman has tried to get away with some very fast stuff with one of our shipbuilders, which hasn't helped his cause in the least.

This refers to another matter.

I am interested in particular in this sentence, Mr. Bardo:

What reaction have you had from Vice President Plummer regarding estimates on the Herberman ships?

Would that indicate that there was an exchange of information with respect to estimates between these ship companies?

Mr. BARDO. I think the Vice President Plummer who is there referred to is the man who was then vice president of the Shipping Board. My recollection of that—now that you have mentioned it; I could not think who Plummer was at the moment, because the only other Plummer I could think of was the purchasing agent of Newport News—when the bids were submitted for the export ships, I had made it my business, upon one of my trips to call on Mr. Plummer. I usually did call there and say "Hello" to him, and he immediately assailed the shipbuilders and assailed me in particular, on the ground that we had submitted an exorbitant price for those ships.

I said, "Mr. Plummer, I will give you our estimates of labor and material. You can recheck them, you can analyze them, you can do anything with them that you want to, and if there is anything that you can find in those estimates that indicates that there is anything out of line, I will be very glad if you will call my attention to it."

Therefore, when I went back home I sent in the estimates of labor and material, and it was in connection with that that this particular inquiry was made to Lord, because he did see those fellows more or less frequently. They were very close friends.

Senator VANDENBERG. This Plummer is not the Newport News fellow?

Mr. BARDO. No; it is the fellow who was then vice president of the Shipping Board.

Senator VANDENBERG. Turning to the first two paragraphs of the letter, and I won't read the rest of it because it is not pertinent, are you not in this letter telling Mr. Lord of your great interest in the cruiser bill, and its defeat, and expressing the hope there will be no slip-up in disposing of the amendment, and suggesting to him the desirability of getting in touch with certain gentlemen in connection with it?

Mr. BARDO. That is correct.

Senator VANDENBERG. Does not that indicate some activity on Mr. Lord's part, that you knew of, in connection with legislation?

Mr. BARDO. No; not so far as Mr. Lord is concerned. You will recall that I asked him to get in touch with Mr. Barnes and Mr. Gauntlet. I did not ask him to get in touch with anybody else.

Senator VANDENBERG. Mr. Lord's letter of July 20, 1928, reporting to you on the matter reads:

> DEAR MR. BARDO: I am just advised authentically that the cruiser construction bill has just been made, by unanimous consent, the unfinished business of the Senate to be taken up and disposed of on Thursday, January 3, 1929.
>
> I have been able in the last day or two to smooth the way a little bit for Mr. Ketcham, and he told me last night that he believed negotiations were proceeding at such a rate that your bill will have an executed contract in this calendar year. I hope so.
>
> Referring back to the cruiser bill for a moment, I further wish to say that you were thoroughly satisfied with the resolutions passed by the United States Shipping Board. Mr. O'Connor has assured me that he is willing to go to the bat on this question, at any time, and in any place where his services would be of value. I have kept in touch with Zachary and he is still hopeful that Senator Borah will lead the fight for our contentions.

Does not that indicate some activity of Mr. Lord on the part of legislation?

Mr. BARDO. Not necessarily so. He was merely reporting to me the information he had gotten which was pertinent to our job, to our business. He was simply reporting it as any man would.

Senator VANDENBERG. I am not complaining about his sending you the information, Mr. Bardo, but I am simply trying to discover as to whether this is not a rather limited and technical assertion, when you say that Mr. Lord had no authority to participate in efforts to secure or defeat legislation.

Mr. BARDO. That is correct. I want to reiterate just that, that he had no authority.

Senator VANDENBERG. But he did participate, apparently, over quite a large area, did he not?

Mr. BARDO. He would go and talk—he had a lot of friends, a lot of people he knew, and he would go talk to them. He did not have much to do down there, and when he found out something which he thought was of interest, he would report it to me.

Senator VANDENBERG. I call your attention to Mr. Lord's letter of December 15, 1930, in which he reports that he has interviewed Congressman Britten, and is assured that the provisions for a cruiser will be stricken out. "The rest of the bill will be reported favorably and embody Secretary Adams' recommendation and request."

This is still just reporting information?

Mr. BARDO. That is all.

Senator VANDENBERG. Mr. Lord evidently is now in contact with at least one Congressman, and if he is, that is his business and not yours?

Mr. BARDO. That is his business.

Senator VANDENBERG. On January 3, 1929, there is a memorandum addressed to Mr. W. M. Flook, signed by Mr. Bardo. That reads:

> Referring to Mr. W. B. Shearer.
>
> I discussed this matter today at luncheon with Vice Presidents Wakeman of the Bethlehem Shipbuilding Co. and Palen of the Newport News Shipbuilding Co.

You were working all the time in constant cooperation with Bethlehem and Newport News in these legislative matters?

Mr. BARDO. Yes.

Senator VANDENBERG (continuing the reading):

> The National Council of American Shipbuilders recently appointed a committee, of which I am chairman, with the request that an invitation and report be submitted to the council having to do with the creation of a strong organization to handle legislative and other matters of mutual interest. This committee will make its reports within the next 10 days or 2 weeks, and this report will contemplate the employment of a strong individual to head up the association and to look after all of the matters of general interest.
>
> Both Messrs. Wakeman and Palen are opposed to Shearer, because of the fact that they regard him as being more or less unreliable. His conduct in our previous contact was anything but complimentary to him. They will not endorse or approve of his employment directly to represent the shipyards.
>
> In view of the report which will be submitted by the committee, it is felt that we should not embarrass our organization or the man in charge of it by taking into our service in advance a man who may or may not be useful or acceptable to the new organization.
>
> Inasmuch as we now have directly on our pay roll Mr. Frank Lord, who is very useful in some features of our Washington activities, and are contributing to one or two other Washington agencies useful in their own way, I do not feel that we should further increase our cost at Washington by the employment of Mr. Shearer, particularly in view of the fact that he is persona non grata with the other principals of our competing yards.
>
> Pursuant to your directions, I will arrange to see Shearer at an early date.

Is this a discussion of a purpose to create a legislative contact man in Washington, Mr. Bardo?

Mr. BARDO. That does not sound like my letter at all. I do not have any recollection of that letter. Not that I am in disagreement with what it says, but I do not recall the letter.

Senator VANDENBERG. Here is the letter [handing letter to witness].

Mr. BARDO. It is apparently a letter of mine. What is your question, Senator?

Senator VANDENBERG. May I have the letter back please?

Mr. BARDO. Yes, sir [returning letter].

Senator VANDENBERG. Does this indicate a contemplation to choose a joint legislative contact man in Washington?

Mr. BARDO. Apparently it did. That is apparently what was the purpose of it, the appointment of that committee.

Senator VANDENBERG. And it would seem to be a justified inference from the letter that inasmuch as "we now have directly on our pay roll Mr. Frank Lord" and so forth, that Mr. Frank Lord has been doing the work which it is contemplated is to be done by this joint representative hereafter.

Mr. BARDO. No; that was not the implication in the letter at all. I referred particularly to the fact that we then had a man on our pay roll, and I did not believe we should go on and should increase our cost by the appointment or selection or taking on of another man at Washington to represent the joint interests, and we never did. That just fell dead of its own weight.

Senator VANDENBERG. What were the other one or two Washington agencies, useful in their own way, to which you were contributing in Washington at that time?

Mr. BARDO. I do not recall any agencies at Washington to which we were making any contributions at that time. The only other agency that I can recall is the Midwest-Foreign Trade Association, with its headquarters in Cincinnati, which is headed by Malcolm Stewart, who has always indicated a very keen desire in all matters relating to a merchant marine, and we did contribute to the support of that organization a very nominal monthly amount. I do not recall what it was.

Senator VANDENBERG. Under date of July 5, 1929, Mr. Lord writes to Mr. Flook; who is Mr. Flook?

Mr. BARDO. He is the chairman of the board.

Senator VANDENBERG. Of New York Ship?

Mr. BARDO. Yes.

Senator VANDENBERG. Mr. Lord writes——

Mr. BARDO. At that time he was chairman of the board of the American Brown Boveri Electric Corporation, which was the holding company for several subsidiaries.

Senator VANDENBERG. Mr. Lord writes to Mr. Flook as follows on the stationery of the Metropolitan Club:

> Just a word to tell you how glad I was to see you at Camden, if only for a moment.
>
> You are going to have a busy yard. Of that there can be no doubt.
>
> Additional legislation should be procured to take care of freighters, and with existing sentiment in Congress, the next session should bring about the desired result and I hope that I can be of service in giving it a share.

Apparently now, Mr. Lord is discussing legislation with Mr. Flook.

Mr. BARDO. I think that was a comment he had to make, and he thought Mr. Flook might be interested in it, and I do not know anything about it myself.

Senator VANDENBERG. As a matter of fact, Mr. Lord's job in Washington was primarily a contact job in respect to legislation, was it not?

Mr. BARDO. It depends altogether on how you apply that particular question. His job here was to report to us anything of a character that he thought was important, but he had no authority at all to deal or to work with legislators. That is the job that I tended to myself. I always have and always did, and anything I wanted to take to a legislator, I went and talked to him personally, and I did not send a hired man.

Senator VANDENBERG. I think that is all, Mr. Raushenbush, for the moment.

Mr. RAUSHENBUSH. During that time, Mr. Bardo, how many employees of New York Ship were down here in Washington, in 1927, 1928, and 1929?

Mr. BARDO. We never had but one man here at a time. Mr. Humphreys was here, and then he withdrew.

Mr. RAUSHENBUSH. There is a reference in here somewhere suggesting that Mr.——

Mr. BARDO. I was just trying to get this picture cleared up in my mind. There may have been a very short overlapping between Humphreys and Lord, because Humphreys was looking after the shipbuilding activities and Lord, in the fall or the winter of 1927 and up until the time that Mr. Humphreys withdrew, was here on Mr. Wilder's staff, and he was not at that time performing any function for the shipbuilding company. I think I am correct in saying that there was an overlapping period there.

Mr. RAUSHENBUSH. What was Mr. Ketcham doing down here? It speaks in this letter of December 20, from Mr. Lord to you, of Mr. Lord smoothing the way for Mr. Ketcham.

Mr. BARDO. Mr. Ketcham was new. Mr. Lord was formerly connected with the Shipping Board. I think the letter refers to the Grace contract. It was a contract which we were to be awarded or had been awarded, for the building of the *Santa Clara* for the Grace Line, and I did not place any interpretation upon that, other than Mr. Lord would take Mr. Ketcham to the Shipping Board and introduce him and give him an entree that he probably would not get so readily if he went in there cold.

Mr. RAUSHENBUSH. There is a reference in a letter of December 21, 1928, that Senator Vandenberg read to you to the effect:

> It seems to be very desirable that you should get in touch with Messrs. Barnes and Gauntlet.

Could you identify them?

Mr. BARDO. Mr. Barnes is a representative here for the Todd Shipyard, and Mr. Gauntlet is the local representative of the Illuminating Co.

Mr. RAUSHENBUSH. Of which?

Mr. BARDO. Of the Illuminating Co. of America.

Mr. RAUSHENBUSH. Aluminum Co. of America?

Mr. BARDO. Aluminum Co. of America. That is right. He also, I think, performs some service for the Newport News Co. I do not know what it is.

Mr. RAUSHENBUSH. How does the Aluminum Co. get interested in this?

Mr. BARDO. Simply through the personality of Mr. Gauntlet, who, as I say, was an old employee of Newport News. He is now the representative of the Aluminum Co. of America here, and I know he keeps in touch with what is going on in Washington.

Mr. RAUSHENBUSH. Was Mr. James Barnes on your pay roll at any time?

Mr. BARDO. No.

Mr. RAUSHENBUSH. You state here in this letter of December 10, 1928, to Mr. Humphreys:

> We are working in Washington with Messrs. Frank A. Lord, Hotel Blackstone, and James Barnes, who has an office on the sixth floor of the Albee Building.

Mr. BARDO. That was the period when there was an overlapping between Humphreys and Lord, and I just gave him information that I thought he ought to have.

Mr. RAUSHENBUSH. Whom was Mr. Barnes employed by?

Mr. BARDO. I just said by the Todd Shipbuilding & Drydock Co.

Mr. RAUSHENBUSH. I am sorry. I did not get that. Yes; you did answer that.

Mr. Bardo, could you tell us at all whether you and other larger shipbuilders of the country have ever tried to keep out threatened competition in your field?

Mr. BARDO. Now, what period do you refer to, and when? Let us be specific about it.

Mr. RAUSHENBUSH. I was asking a very general question.

Mr. BARDO. I know, but general questions are very difficult to answer.

Mr. RAUSHENBUSH. Any period of time that your memory can recall, on which you can answer.

Mr. BARDO. The only time that that question came up was in the preparation of our code.

Mr. RAUSHENBUSH. Will you tell us what was done at that time?

Mr. BARDO. With the passage of the National Industrial Recovery Act, and about coincident with that, this Navy program came formally before us. We wanted to be prepared with a code, if we could, before the closing date of the bids, and we immediately collected probably 25 or 30 shipbuilders and ship repairers from all over the United States, from the west coast, the Gulf, the Great Lakes, and the Atlantic coast, and began conferences in an effort to prepare a code for submission to the administration. We were almost in constant session, either in New York or in Washington, with the administration.

There were very many strong differences between the various members of the group regarding very many of these questions that were interjected into the industry through the provisions of the National Industrial Recovery Act. One of them was this question of shipyard capacity.

The Navy, as I recall it, sometime previous to that, or in that immediate neighborhood, had made a survey of the capacity of the private shipyards of the United States. As a matter of fact, I think it was more or less a matter of information, that they keep up currently in their records here for future use.

It developed that there was a very substantial excess capacity in the private yards over and above what anybody could see was a normal requirement. We felt that we would be asked, when we went into the code—I say "we" talking about the conference—to agree with some things which were new, and that in that case we should be permitted to have some protection against new industries, when there was already a very substantial overcapacity in private yards.

As a result of that condition, I was selected by the group and was given a mandate to appear before the administrator, Mr. Whiteside, and present the views of the group with respect to that particular feature. At that time, as I recall it, we submitted to them all the information with respect to the overcapacity, which was a matter of official record, either with the Navy Department or with some of the departments in Washington.

Senator VANDENBERG. Now, Mr. Bardo, inasmuch as this phase of the inquiry will take one-half hour at least, and we must be in the Senate in a few minutes, I think the hearing will recess for the morning until 10 o'clock tomorrow.

Mr. BARDO. Senator, I have an important meeting of the board of directors tomorrow, and I was very much in hopes that I might get off that day, but if you are going on tomorrow, I will stay away and finish it up.

Senator VANDENBERG. You are entitled to all possible cooperation, Mr. Bardo.

Mr. BARDO. While I am here, I think I would rather stay and be done with it.

Mr. RAUSHENBUSH. I think we can finish up tomorrow with Mr. Bardo, without any question.

Senator VANDENBERG. I hesitate to keep Mr. Bardo from his meeting, and unless it is necessary.

Mr. BARDO. They could get along without me. It is an important meeting, and I would like to be there, but I think this of more importance, to get rid of this.

Mr. RAUSHENBUSH. When can you come back?

Mr. BARDO. I have a meeting in Cleveland on Wednesday, and I have a meeting with the Philadelphia Regional Labor Board on Friday.

Mr. RAUSHENBUSH. That leaves Thursday.

Mr. BARDO. I have got to get some time to get from Cleveland. I cannot just jump over there.

Mr. RAUSHENBUSH. Mr. Chairman, we are hoping to finish with this company this week.

Mr. BARBO. Then I would prefer to stay here.

I would like to make this further request:

I read last night the testimony of Thursday and Friday. There has been a lot of dead cats thrown into this investigation, which I want to clear up, and I want to have an opportunity to go ahead and tell this committee the story of this 1933 situation.

Senator Vandenberg. We should be very glad to give you full opportunity, Mr. Bardo.

Mr. Bardo. I think it is very important that that be done. Let us get this thing behind us.

Senator Vandenberg. Mr. Bardo, there has been certain information requested of your company, which has not yet come down. I wonder if you can check up on that.

Mr. Bardo. If you will indicate the nature of the information, I will try to.

Senator Vandenberg. I will see that you are furnished with it.

Mr. Bardo. I will be very glad to do anything that I can.

Senator Vandenberg. We will recess until 10 o'clock tomorrow morning.

(Whereupon the hearing was recessed at 12 o'clock noon until 10 a. m. tomorrow, Tuesday, Feb. 5, 1935.)

INVESTIGATION OF MUNITIONS INDUSTRY

TUESDAY, FEBRUARY 5, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D.C.

The hearing was resumed at 10 a. m., in room 357, Senate Office Building, pursuant to recess, Senator Arthur H. Vandenberg presiding.

Present: Senators Vandenberg, George, Clark, and Pope.

Also present: Stephen Raushenbush, secretary to the committee; and F. W. LaRouche, investigator.

Senator **Clark**. The committee will come to order. Mr. Bardo, will you come forward?

TESTIMONY OF CLINTON L. BARDO—Resumed

N. R. A. EXCLUSION CLAUSE

(The witness was previously sworn by the chairman.)

Senator **Clark**. Go ahead, Mr. Raushenbush.

Mr. **Raushenbush**. Mr. Bardo, at the end of yesterday morning's session you were asked the question:

> Mr. Bardo, could you tell us at all whether you and other larger shipbuilders of the country have ever tried to keep out threatened competition in your field?

Your reply to that question was begun and interrupted because of the necessity for adjourning at 12 o'clock.

Just to refresh your memory, the next few lines of the transcript read:

> Mr. **Bardo**. Now, what period do you refer to, and when? Let us be specific about it.
>
> Mr. **Raushenbush**. I was asking a very general question.
>
> Mr. **Bardo**. I know; but general questions are very difficult to answer.
>
> Mr. **Raushenbush**. Any period of time that your memory can recall, on which you can answer.
>
> Mr. **Bardo**. The only time that that question came up was in the preparation of our code.

Do you reaffirm that answer?

Mr. **Bardo**. That is the only time that I ever recall there was any action taken in which I took any part.

Mr. **Raushenbush**. Will you continue your statement?

Mr. **Bardo**. I do not think there is anything more I can say at all. I outlined to you in a very general way what happened to the shipbuilders and ship repairers in the preparation of their code.

Mr. Raushenbush. It was interrupted because of the necessity for adjourning, and it seemed to me to be incomplete. Do you care to read the remaining pages of your testimony, to be sure you have nothing more to add [handing transcript to witness]?

Mr. Bardo. I would be glad to, but I do not think there is anything I can add to that, as to anything that I had anything to do with. I think this last paragraph represents substantially a complete answer, so far as I am concerned. I think that is a complete answer. I do not recall any other instance that I have had anything at all to do with, on the question of shipyard capacity.

Mr. Raushenbush. The paragraph to which you refer reads:

> As a result of that condition, I was selected by the group and was given a mandate to appear before the Administrator, Mr. Whiteside, and present the views of the group with respect to that particular feature. At that time, as I recall it, we submitted to them all the information with respect to the overcapacity, which was a matter of official record, either with the Navy Department or with some of the Departments in Washington.

Mr. Bardo. The only thing I would add to that is, I would say that, as a matter of personal view, I was opposed to that particular provision in the code. That is one reason why I was particular to state in my presentation to the Administrator that I was acting under a mandate from the group, realizing that it was a serious thing from the standpoint of our own company because we have a duplicate shipyard which is entirely idle, on which we have been paying taxes since 1920.

Mr. Raushenbush. The clause in question was a so-called "exclusion clause" with respect to new shipyard facilities. Did it take in more than that? Did it take in the bringing up to date of facilities like your own, that were usable but not being used?

Mr. Bardo. Yes; it would contemplate, I should say, any provision or any attempt on our part to rehabilitate the south yard, the so-called "south yard", which is a complete shipbuilding facility without having the general assent of the group as a whole.

Mr. Raushenbush. As I gathered your testimony yesterday, you felt that you were giving up certain rights under the code and that you ought to get a quid pro quo, speaking of you as a representative of the shipbuilders, and the quid pro quo would be that there would be no more yards brought into existence under the code?

Mr. Bardo. Be clear about it, to the effect that that was not my personal view. I was stating the views of the group. I want to keep that clear.

Mr. Raushenbush. That was the view of the group?

Mr. Bardo. That was the view of the group, yes.

Senator Clark. That was referred to in the group as "birth control", was it not, Mr. Bardo?

Mr. Bardo. I do not know that it was quite so politely referred to as that, Senator.

Mr. Raushenbush. Earlier in your testimony, when you were asked, the other week, to comment on the fact that during the early years 1927, 1929, and 1931, on cruiser bids, the co-called "big three" were the only ones to bid, were there other yards at the time that could have bid on cruisers which were equipped at that time to build them?

Mr. BARDO. I suggest that you ask that question from the representatives of the Navy. They were in control of the bidding. We were not. They were the ones who decided whom they regarded as competent to build Navy ships. We did not decide that.

Mr. RAUSHENBUSH. Outside of the so-called "Big Three", no other shipbuilders from 1927 on ever got any awards for cruisers, did they?

Mr. BARDO. For many years there were not any, so that nobody could get any.

Mr. RAUSHENBUSH. From 1927 on there was a considerable number, and it is concerning that period I am asking.

Mr. BARDO. I do not think, with the exception of an occasional period. Newport News, in the first group, was awarded 2, and we were awarded 1, and Bethlehem was awarded 1.

The next group that came along, I think there was still only an award of one to Bethlehem and ourselves, and I do not think Newport News participated in that award at all. There were only two cruisers. I think that was maintained pretty much all through this program, and the private yards at no time had more than what you might say one live contract on the books. They would be starting a new one and finishing up an old one. So that, except for a very short overlapping period, no one of these big yards had any of these cruisers.

Mr. RAUSHENBUSH. My question was a little different. Did any of the other yards receive a cruiser award from 1927 on?

Mr. BARDO. The record will disclose whether they did or not.

Mr. RAUSHENBUSH. We know the answer is "no", do we not?

Mr. BARDO. I should say so. If you know it, why ask it?

Mr. RAUSHENBUSH. I ask it because of the question of the possibility of taking out competition through this exclusion clause and through other means.

Mr. BARDO. I think the exclusion clause ought to be cleared up a little bit. The exclusion clause is not at all intended in the light that you have presented it. You are dealing with two very different things. One is a shipyard, with ability to build ordinary ships, and the other is a shipyard with the ability and the capacity and the technical knowledge to build a particular kind of ship, which is a Navy ship. Those are two entirely separate and distinct categories, and they do not any more match than oil and water match. You can build an ordinary ship in any yard, but you cannot build a Government cruiser in any yard, by a long shot. Those of us in the business know what is involved in building a Navy ship. It is not a boy's task.

Mr. RAUSHENBUSH. The question of intention is a very hard one to talk about, Mr. Bardo. Talk about the result for just a moment. If the exclusion clause had gone through, it would have been practically impossible, would it not, for any other shipyard than those existing to increase their facilities to the extent that it would be able to build a cruiser, or for yards that had not up to that time extended their facilities to so extend them to build a cruiser? That would be the effect, rather than the intention. That is what we are trying to get at.

Mr. BARDO. Your inference is entirely erroneous. That was not the effect of it at all. As a matter of fact, as I recall the rule, it provided that there should be no increase in capacity or facility except with the approval of the code authority. It was not a close, airtight restriction. It was something that was written in there which we felt, at least the group felt, should be retained there in the protection of the industry as a whole. As I say, I did not share that view personally.

Mr. RAUSHENBUSH. And the code authority had a considerable number of representatives of shipbuilders on it?

Mr. BARDO. It was made up, as I recall it, of an equal number of shipbuilders and ship repairers, the code authority, with Governmental representatives. I do not recall just how it was.

Mr. RAUSHENBUSH. Do you remember who the Government representative was?

Mr. BARDO. During the earlier discussions of the code it was Mr. Davis, and, before the code was finally finished, he was transferred to another activity. I do not believe I can say who it was who succeeded him at that time. I do not recall.

Mr. RAUSHENBUSH. The National Council of American Shipbuilders made a series of recommendations to the governmental representative, did they not?

Mr. BARDO. I could not say as to that. That is a detail.

Mr. RAUSHENBUSH. We will introduce that later. As far as your recollection goes, Mr. Bardo, this attempt to exclude new shipbuilding facilities was the only one you can remember at all that tended to take out competition?

Mr. BARDO. Yes, sir. I do not agree that that intended to take it out. That was not the purpose of it. It was to have some regulatory control of it.

Mr. RAUSHENBUSH. With the control—that is, the permission for additional facilities—resting in the hands of a code authority largely composed of the shipbuilders and repairers who were actively in business at the time?

Mr. BARDO. Yes, and I would like to make this comment, too: I think you will recall that the codes themselves have developed the fact that there are a number of industries in the United States that are very much overcapacitated, and it has been those industries more than anything else that have broken down our whole economic and industrial structure, because they were overcapacitated in their mad struggle to support themselves and maintain the plant facilities and the investment which they had, they first reduced wages and reduced prices, and reduced and cut and chiseled in every direction. That, as a matter of fact, is one of the fundamental causes of the things which led us down into this depression where we are now.

Mr. RAUSHENBUSH. Yet you say yourself you were against this clause?

Mr. BARDO. I was against it as a matter of principle, yes.

Mr. RAUSHENBUSH. So that the constructive thought which you are developing now, that there should be either birth control or suicide, or whatever you want to call it, was not in accordance with your own view at the time?

Mr. BARDO. I did not know as much about this overcapacity situation as I have since learned, and which has been developed under the administration of the codes. That was not a matter of general knowledge except to those who were engaged in the particular industry. I did not have that knowledge, but I have it now, and, therefore, I am stating my view in the light of an actuality rather than an opinion.

Mr. RAUSHENBUSH. You mentioned the overcapacity situation. That has played a part from year to year, has it not? Do you not remember a considerable number of letters written by you and your company, and other companies, to the Senators and Congressmen in 1927, 1929, 1930, and 1931, and the like, pointing out that unless they got more work, new cruisers, their shipyards would be idle and men were suffering and walking the streets, and so forth?

Mr. BARDO. That was not a matter of overcapacity. That was trying to keep the work going in the plant which you had. It was to keep the regular work which you had under way.

Mr. RAUSHENBUSH. For the work which was actually existent at the moment, there was overcapacity, was there not?

Mr. BARDO. Yes, even the small part of the plants which were being operated.

Mr. RAUSHENBUSH. Do you ever remember getting any communications from any heads of steel companies or competitors, regretting the fact that other people were coming into the bidding, in addition to the three larger companies?

Mr. BARDO. I do not recall ever receiving such a letter as that.

Mr. RAUSHENBUSH. I have a letter here from Mr. Grace to yourself, which I show you [handing paper to witness]. I call your attention to the fourth paragraph:

> It is unfortunate to see some new interests getting their hand in on naval work when there is normally so little to be distributed.

That referred to the fact, did it not, that United had started bidding, getting into cruiser bidding, in 1933?

Mr. BARDO. That is Mr. Grace's letter, and I do not want to interpret what he writes in his letter. I would prefer that you refer that to him and let him answer it.

Mr. RAUSHENBUSH. All right; I will hold it up until Mr. Grace is on.

Mr. BARDO. I do not recall the letter, but I do not want to answer the intent of another man's letter.

EXCLUDING COMPETITION BY BLOCKING OF GULF INDUSTRIES' R. F. C. LOAN

Mr. RAUSHENBUSH. Now, Mr. Bardo, in regard to this question of taking out competition, or potential competition, you stated a while ago, in your earlier statement, that all you remembered was at the time of the code-authority hearings. Do you remember an attempt to keep the Gulf Industries from getting a loan and getting into this naval business?

Mr. BARDO. Yes; I remember that situation very distinctly.

Mr. RAUSHENBUSH. You did a considerable amount of work, did you not, to take them out?

Mr. BARDO. No; I do not think I did anything except write one letter, as I recall it. Beyond that, I took no action in it at all. I made some inquiries and wrote one letter.

Mr. RAUSHENBUSH. To whom was that letter?

Mr. Bardo. I wrote the letter to Governor Moore, of New Jersey.

Mr. Raushenbush. We have here, first of all, a memorandum from Mr. Flook to yourself, Mr. Bardo, away back on November 4, 1932, stating:

> I am very much interested in your letter with reference to the Pensacola promotion. It seems to me unthinkable that such a promotion could be successful at this time, but the man is a wizard and we had better keep our eye on it.

That refers to a letter from you, does it not? "I am very much interested in your letter", he states.

Mr. Bardo. I do not recall that letter. If he had such a letter, it should be attached to this. I discussed it with him distinctly. but I do not recall that I wrote any letter about it.

Mr. Raushenbush. He does refer to a letter there.

Mr. Bardo. I see that he does, but, if there was a letter, it should be attached to this.

Mr. Raushenbush. Please mark that as an exhibit, Mr. Reporter.

(The memorandum referred to was marked "Exhibit No. 1493" and appears in full in the text.)

Mr. Raushenbush. Then we come to a memorandum from the Gulf Industries Co., dated May 11, 1933. Do you recognize that, Mr. Bardo [handing paper to witness]?

Mr. Bardo. No; I do not recall that I ever saw that at all.

Mr. Raushenbush. Let us withhold that for a moment.

Then we have a letter here from Coverdale & Colpitts, consulting engineers, of 120 Wall Street, to you, signed "John", and starting off "Dear Boss." That deals with the same question, does it not, of the Gulf Industries' attempt to get an R.F.C. loan?

Mr. Bardo. That is right; that is correct.

Mr. Raushenbush. The letter reads:

> I understand that you phoned me yesterday and I presume that you wished to inquire what I have been able to find out with reference to Wilder's plans.

That is a phone call rather than a letter.

I offer that for the proper number.

(The letter referred to was marked "Exhibit No. 1494" and is included in the appendix on p. 5225.)

Mr. Raushenbush. Then you sent Mr. Flook a memorandum on May 17, 1933.

Mr. Bardo. Wait a minute. I want to go back and read this.

Mr. Raushenbush. Surely.

Mr. Bardo. He refers in here to this:

> I was able to secure some extracts from this prospectus which will indicate the scope of the plans.

Was that memorandum which you just handed me in connection with this?

Mr. Raushenbush. We think so, but we want you to identify it.

Mr. Bardo. I do not recall it. Mr. Slater was formerly an officer of the company, and he and I have been associated together for a great many years, and always maintained a very friendly contact and friendly reltionship on a lot of things of mutual interest.

Mr. Raushenbush. The last paragraph in "Exhibit No. 1493" is as follows:

> The situation in the R.F.C. is changing very rapidly and there is some prospect that the individual that I mentioned to you will not be in the organization long. I therefore do not believe that anything would be gained by anyone talking to him. I should suggest that the situation be closely watched, but that you do not appear directly in the matter until there is more evidence that aid will be given Wilder's project.

Who was the individual?

Mr. BARDO. I could not tell you who that was. I do not recall it at all.

Mr. RAUSHENBUSH. There is a suggestion here by Mr. Slater—

> that the situation be closely watched, but that you do not appear directly in the matter until there is more evidence that aid will be given Wilder's project.

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. Apparently, on the receipt of that, you sent a memorandum to Mr. Flook, according to that, and I wonder if you could not identify that as the memorandum you sent to him [handing paper to witness].

Mr. BARDO. No, I could not. There is nothing on that to identify it, and I would certainly have no occasion to deny it, if I recalled it at all, because it is a perfectly innocuous statement, so far as any activity on my part is concerned.

Mr. RAUSHENBUSH. I will offer that as "Exhibit No. 1495."

(The memorandum referred to was marked "Exhibit No. 1495" and is included in the appendix on p. 5225.)

Mr. RAUSHENBUSH. We have a letter from you to Mr. Ferguson dated May 17, 1933, reading as follows:

> Herewith for your information a memorandum having reference to Gulf Industries. Very truly yours.

Mr. BARDO. That letter and the letter to Mr. Flook referred, apparently, to the same thing, as they are dated May 17.

Mr. RAUSHENBUSH. This is also taking Newport News into the situation, to some extent, is it not, or at least keeping them in contact with the matter?

Mr. BARDO. It is giving them a matter of common knowledge so that he will be just as well informed as to what I knew, so far as that is concerned.

Mr. RAUSHENBUSH. I will offer that letter of Mr. Bardo to Mr. Ferguson as "Exhibit No. 1496."

(The letter referred to was marked "Exhibit No. 1496" and is included in the appendix on p. 5225.)

Mr. RAUSHENBUSH. On June 28, 1933, there was a letter addressed to Governor Moore, which I take it is the one you referred to. Will you look at it a moment? It talks about the Gulf Industries [handing paper to witness].

I offer that for the record.

(The letter referred to was marked "Exhibit No. 1497" and is included in the appendix on p. 5225.)

Mr. BARDO. Yes, that is the letter.

Mr. RAUSHENBUSH. There is a memorandum from Mr. Parker to you, Mr. Bardo, to which I call your attention, dated June 29, 1933, stating:

> I had a long talk with Harry Maloney in connection with the Wilder matter. Maloney understands this situation particularly well, and while he was very

busy, having just been sworn in today as collector of internal revenue, he said he would get in touch with Mayor Hague immediately and do everything possible to scotch the plan. As soon as he has a talk with Mayor Hague he will determine whether it will be necessary for either you or myself to have a talk with the mayor but he doesn't think this will be necessary as he fully understands the situation originally from the Cramp matter and later from the Wilder plan to rejuvenate Cramps, of which he was to be a part.

Have arranged the resolutions for signatures and the new resolution for possible Navy work and forwarded these to Miss Howe for the next directors' meeting.

Mr. BARDO. What is your inquiry as to that?

Mr. RAUSHENBUSH. Was Mr. Parker acting under your direction in this matter or purely on his own?

Mr. BARDO. No.

Mr. RAUSHENBUSH. Purely on his own?

Mr. BARDO. Entirely.

Mr. RAUSHENBUSH. He seems to be taking it up with the people he thinks will be politically influential in "scotching" this plan, does he not?

Mr. BARDO. No; I do not think so. Maloney was a Democrat, and Parker was a Democrat, and they had been in a lot of Democratic fights and battles and talked about a lot of things between themselves, and I suspect that was just another one which they got in.

Mr. RAUSHENBUSH. Mayor Hague is a Democrat, too?

Mr. BARDO. Yes; he is a real one.

Mr. RAUSHENBUSH. I will offer that letter for the record.

(The letter referred to was marked "Exhibit No. 1498" and is included in the appendix on p. 5226.)

Mr. RAUSHENBUSH. Do you recognize the reply of Governor Moore, dated June 30. 1933, and reading:

MY DEAR MR. BARLO: I have your letter, and shall be glad to help you in any way you might suggest. I have taken the matter up directly with Mr. Farley.

If there is anything further I can do, let me know.

Mr. BARDO. That is it.

Mr. RAUSHENBUSH. I will offer that letter for the record.

(The letter referred to was marrked "Exhibit No. 1499" and appears in full in the text.)

Mr. RAUSHENBUSH. At this point you do start taking up the matter politically, do you not?

Mr. BARDO. Yes; this is a very direct appeal. There is no question about that.

Senator VANDENBERG. What is it being taken up with Mr. Farley?

Mr. BARDO. If I may answer the question, Mr. Chairman, the reply which Governor Moore made to my letter to him, in which I reported the matter of the Gulf Industries and its effect on the industries of New Jersey.

Mr. RAUSHENBUSH. The question was taking out all competition, possible competitors, on a large scale.

Senator CLARK. The idea was to tear out the Gulf Industries?

Mr. RAUSHENBUSH. Yes.

Senator CLARK. You took it up with Governor Moore, who, in turn, took it up with Postmaster General Farley?

Mr. BARDO. That is what he says.

Mr. RAUSHENBUSH. There seems to be another letter to Governor Moore, when you stated there was only one letter. This is dated July 5, 1933.

Mr. BARDO. I should not be surprised that I should forget some of these things.

Mr. RAUSHENBUSH. You were pretty positive there was only one letter, Mr. Bardo.

Mr. BARDO. I was. I did not recall the second one.

Mr. RAUSHENBUSH. It reads [reading "Exhibit No. 1500"]:

JULY 5, 1933.

Honorable A. HARRY MOORE,
Governor, State of New Jersey,
State House, Trenton, N. J.

MY DEAR GOVERNOR MOORE: Many thanks for yours of June 30 in reply to mine of June 28, regarding Gulf Industries, Inc.

There is no doubt in my mind but what this situation will very largely rest in the President's lap before we get through with it. My suggestion would be that a letter direct to the President, calling his attention to the idle shipyard capacity in the State of New Jersey, fully equipped and competent to build any and all types of ships, either naval or merchant, should first be fully utilized before the door is opened under the Industrial Recovery Act for the creation of new industries for which there is no economic justification.

The promoter of this Gulf Industries outfit was formerly president of the New York Shipbuilding Corporation and organized the American Brown Boveri Electric Corporation. He is a promoter pure and simple and has none of the qualities necessary to carry his promotions through to a successful economic conclusion.

Your letter to Mr. Farley may reach the President, but I am very much of the opinion that any cooperative support which may directly reach the President on this subject will have weight, particularly from your good self.

Thanking you, I am, very truly yours,

C. L. BARDO.

Mr. RAUSHENBUSH. I will offer that for the record.

(The letter referred to was marked "Exhibit No. 1500," and appears in full in the text.)

Mr. BARDO. That is my letter, and I subscribe to it all.

Mr. RAUSHENBUSH. That is the second letter to Governor Moore?

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. Governor Moore acknowledged it, did he not?

Mr. BARDO. I suppose he did. He usually does.

Mr. RAUSHENBUSH. I show you a letter dated July 7, 1933, which reads as follows [reading "Exhibit No. 1501."]:

STATE OF NEW JERSEY,
EXECUTIVE DEPARTMENT,
Sea Girt, N. J., July 7, 1933.

MY DEAR MR. BARDO: I have your letter of July 5, and have today written the President in accordance with your request.

Very truly yours,

A. HARRY MOORE, *Governor.*

Mr. C. L. BARDO,
New York Shipbuilding Co.,
Camden, N. J.

Mr. BARDO. That is correct.

Mr. RAUSHENBUSH. I offer that for record.

(The letter referred to was marked "Exhibit No. 1501", and appears in full in the text.)

Mr. RAUSHENBUSH. Then we have a letter from Mr. Farley to Governor Moore, dated July 10, 1933 [reading "Exhibit No. 1502"]:

DEMOCRATIC NATIONAL COMMITTEE,
NATIONAL PRESS BUILDING,
Washington, July 10, 1933.

Hon. A. HARRY MOORE,
Governor, Trenton, N. J.

DEAR GOVERNOR: I have yours of July 5, with enclosure from Mr. C. L. Bardo, president of the New York Shipbuilding Co. I shall be glad to look into the matter to which he refers and advise you as soon as I have a report.

Very truly yours,

JIM.

Mr. BARDO. That was in reply to the first letter.

Mr. RAUSHENBUSH. This is July 10.

Mr. BARDO. I think he refers to the first letter I wrote, does he not?

Mr. RAUSHENBUSH. He is referring to Governor Moore's [reading]:

I have yours of July 5 * * * .

Mr. BARDO. That is the second letter.

Mr. RAUSHENBUSH. Apparently Governor Moore wrote on the same day he received your letter.

Mr. BARDO. Yes; it is the same date. I think so.

Mr. RAUSHENBUSH. I offer that for the record.

(The letter referred to was marked "Exhibit No. 1502", and appears in full in the text.)

Mr. RAUSHENBUSH. Here seems to be another letter to Governor Moore, which escaped your memory, Mr. Bardo, dated July 11, 1933 [handing paper to witness].

Mr. BARDO. That was simply an acknowledgement of the letter to which you previously referred here.

Mr. RAUSHENBUSH (reading "Exhibit No. 1503"):

JULY 11, 1933.

Hon. A. HARRY MOORE,
Governor, State of N. J.,
Sea Girt, N. J.

MY DEAR GOVERNOR: Many thanks for yours of July 7 in reply to mine of the 5, having reference to the shipbuilding situation.

Am sure that the action you have taken will be helpful and may forestall a development with Government funds that is by no process of reasoning industrially or economically justified.

Very truly yours,

C. L. BARDO.

Mr. BARDO. That is right.

Mr. RAUSHENBUSH. I offer that for the record.

(The letter referred to was marked "Exhibit No. 1503", and appears in full in the text.)

Mr. RAUSHENBUSH. Did you ask Admiral Cone, of the Shipping Board, to take up this matter with Mr. Farley?

Mr. BARDO. I do not recall that I ever wrote any letters to Admiral Cone, and I do not think I ever discussed it with him. I do not think that I ever did.

Mr. RAUSHENBUSH. We have here a letter from Mr. Farley to Governor Moore, dated July 15, 1933, which I offer for the record.

(The letter referred to was marked "Exhibit No. 1504", and appears in full in the text.)

Mr. **Raushenbush.** "Exhibit No. 1504" reads:

Democratic National Committee,
National Press Building,
Washington, July 15, 1933.

Hon. Harry I. Moore,
Governor, State of New Jersey, Jersey City, N. J.

My Dear Governor: You wrote me on July 5, inclosing a letter from the president of the New York Shipbuilding Co., and I attach hereto for your information copy of letter which I have received from Admiral H. I. Cone, Chairman of the United States Shipping Board relative to this, which is self-explanatory.

Sincerely,

Jim.

Mr. **Bardo.** I do not recall ever seeing that letter.

Mr. **Raushenbush.** Do you know whether this Mr. Maloney, to whom Mr. Parker talked, took up the matter with the representatives from New Jersey?

Mr. **Bardo.** I do not. I never heard any more from it.

Mr. **Raushenbush.** I offer for the record a letter from Representative Mary T. Norton to Mr. Maloney, acknowledging this protest, stating, in part:

> I have protested against the issuance of a financial loan, under the Public Works bill, to the promoters of the Florida shipbuilding concern.

(The letter referred to was marked "Exhibit No. 1505" and is included in the appendix on p. 5227.)

Mr. **Raushenbush.** Then you received a letter from Governor Moore, did you not, on July 18, 1933, stating as follows [reading "Exhibit No. 1506"]:

State of New Jersey,
Executive Department,
July 18, 1933.

Mr. C. L. Bardo,
New York Shipbuilding Co., Camden, N. J.

My Dear Mr. Bardo: I am enclosing herewith a letter from Mr. Farley concerning the matter which you took up with me recently.

Very truly yours,

A. Harry Moore, *Governor.*

(The letter referred to was marked "Exhibit No. 1506", and appears in full in the text.)

Mr. **Raushenbush.** You did receive that, did you not?

Mr. **Bardo.** I could not say whether I did or not. You are expecting me to remember a lot of details here that are just impossible for any human mind to remember.

Mr. **Raushenbush.** You seemed pretty positive there was only one letter.

Mr. **Bardo.** I do recall that, and I was positive about it, but to say that I remembered receiving all these letters, I would be saying something that I did not. I do not intend to put myself in that position here at all, if I can avoid it.

Mr. **Raushenbush.** You mean you do not think you received these letters?

Mr. **Bardo.** I do not say that I do not or do. You asked me if I remembered having received them, and I tell you frankly I do not remember having received them.

Mr. **Raushenbush.** We have another letter dated July 21, 1933, reading as follows [reading "Exhibit No. 1507"]:

State of New Jersey,
Executive Department,
Sea Girt, N. J., July 21, 1933.

Mr. C. L. Bardo,
New York Shipbuilding Co., Camden, N. J.

My Dear Mr. Bardo: I am enclosing herewith copy of letter which I have just received from President Roosevelt.

Very truly yours,

A. Harry Moore, *Governor.*

Mr. **Bardo.** I remember that one distinctly.

Mr. **Raushenbush.** I will ask that it be put in the record.

(The letter referred to was marked "Exhibit No. 1507" and appears in full in the text.)

Mr. **Raushenbush.** I show you a letter purporting to come from the mayor of Camden, showing resolutions which were apparently passed by the city commission, and sent to Secretary Ickes on this subject [handing letter to witness].

Mr. **Bardo.** Now, I would not say that that referred to this subject.

Mr. **Raushenbush.** What else was up at the moment? We have, by the way, for your information, a copy of those resolutions here.

Mr. **Bardo.** It may be that that is, but we were having quite a fight in the city of Camden as to whether or not we were going to build a municipal electric-light plant with public funds, and I was desperately opposed to it, and I thought possibly that was what this referred to.

Mr. **Raushenbush.** The resolution was attached to that letter.

Mr. **Bardo.** That clears it up. That was an action the city took.

Mr. **Raushenbush.** I offer those for the record with the appropriate numbers.

(The letter and resolution referred to were marked, respectively, "Exhibits Nos. 1508 and 1509" and are included in the appendix on p. 5227.)

Mr. **Raushenbush.** We also find records here showing that the Camden County Chamber of Commerce was informing you that it had sent resolutions to Secretary Ickes in the matter, and others.

Mr. **Bardo.** Yes; and I would like to make this comment here, Mr. Chairman, as to just what was back of this all:

First of all, the New York Shipbuilding Corporation had a very large investment in plant and property in the city of Camden. We employed 15 percent of the industrially employed people in the city of Camden, and we disbursed 18 percent of the industrial payroll. The shipyard itself paid about $1,000 a day in State, county, and local taxes, and the men employed in there contributed several hundred thousand dollars more in taxes, through their property ownership roundabout.

As a custodian of that investment and that industry, I just could not sit still and let any of this thing go by without calling the attention of those interested to exactly what was taking place, and let them decide for themselves what they wanted to do about it. That is the motive behind all this, and I want it made perfectly clear on the record. There was not anything selfish about it, but it was doing what I regarded, as a citizen, my obligation to do, and I did it, and that was the reason for it.

Senator CLARK. You were acting in your capacity as the president of the New York Shipbuilding Corporation and not a citizen?

Mr. BARDO. I certainly was.

Senator CLARK. So that your action could hardly be that of a private citizen, differentiated from your capacity as the president of the New York Shipbuilding Corporation.

Mr. BARDO. I do not agree to that. A private citizen has the same right to take action in these matters, if he knows what is wrong and what is going to happen.

Senator CLARK. That is perfectly true, Mr. Bardo, but when a president of a company, with a very selfish interest in the matter, acts, to go far afield in a political matter, it can hardly be said to have been done in his capacity as a private citizen.

Mr. BARDO. I say that my action as president of the company was not the controlling action. Here was an employment of 15 percent, and a large investment, and a large taxpaying population.

Senator CLARK. You were acting pro bono publico rather than in the capacity as president of the shipbuilding company?

Mr. BARDO. I would say that was the outstanding reason.

Senator CLARK. If you want to stand on that on the record, I am perfectly content.

Mr. BARDO. I am perfectly content to stand on that.

Mr. RAUSHENBUSH. I offer that letter from the Camden County Chamber of Commerce.

(The letter referred to was marked "Exhibit No. 1510" and is included in the appendix on p. 5228.)

Mr. RAUSHENBUSH. We have another letter to the Governor of New Jersey, in addition to the one which you remember, saying [reading "Exhibit No. 1511"]:

JULY 21, 1933.

Hon. A. HARRY MOORE,
Governor State of New Jersey, State House, Trenton, N. J.

MY DEAR GOVERNOR: Many thanks for yours of the 18th enclosing letter from Postmaster General Farley, under date of the 10th. Am sure your activity in this matter will have a very beneficial effect.

Very truly yours,

C. L. BARDO.

Mr. BARDO. I think that is in reply to that second letter, to which you referred earlier in the correspondence.

(The letter referred to was marked "Exhibit No. 1511" appears in full in the text.)

Mr. RAUSHENBUSH. There is a letter dated July 24, 1933, which I show to you, addressed to Hon. A. Harry Moore, Governor, State of New Jersey [handing paper to witness].

Mr. BARDO. That is correct. That is in reply to a letter.

Mr. RAUSHENBUSH. I offer that for the record.

(The letter referred to was marked "Exhibit No. 1512" appears in full in the text.)

Mr. RAUSHENBUSH. That letter reads:

JULY 24, 1933.

Hon. A. HARRY MOORE,
Governor State of New Jersey, Sea Grit, N. J.

MY DEAR GOVERNOR: Many thanks for your letter of July 21 enclosing copy of letter from President Roosevelt upon the subject about which I wrote to you. I appreciate your action in this matter exceedingly.

The information from the President adequately disposes of this hazard to two of New Jersey's principal industries.

Very truly yours,

C. L. BARDO.

We have another letter written to the mayor of Camden on the subject, on July 24, 1933 [handing paper to witness].

Mr. BARDO. That is an acknowledgment of the letter to which was attached the resolution previously referred to.

Mr. RAUSHENBUSH. Acknowledging the letter protesting the same action to Secretary Ickes, with resolution attached, which I offer for the record.

(The letter referred to was marked "Exhibit No. 1513" and is included in the appendix on p. 5228.)

Mr. RAUSHENBUSH. I offer a similar letter acknowledging the letter of the chamber of commerce, which I have offered, on the same date.

(The letter referred to was marked "Exhibit No. 1514" and is included in the appendix on p. 5228.)

Mr. RAUSHENBUSH. Then you apparently wrote a memorandum on the same day [handing paper to witness].

Then on the same day, July 24, 1933, you wrote a memorandum to your board of directors, which I have shown to you, saying [reading "Exhibit No. 1515"]:

Further in connection with Gulf Industries, Inc.:

I took this matter up with Governor Moore a few days ago, and I received this morning the enclosed copy of a letter which is self-explanatory. This would seem to dispose of that phase of the shipbuilding construction.

Had you taken up the Gulf Industries matter with the board before?

Mr. BARDO. I had reported the situation to them. That is all.

Mr. RAUSHENBUSH. I will offer that letter for the record.

(The memorandum referred to was marked "Exhibit No. 1515" and appears in full in the text.)

Mr. RAUSHENBUSH. Then on the same day you apparently sent this letter to the other shipbuilding companies, Messrs. H. L. Ferguson, S. W. Wakeman, Robert Haig, and L. H. Korndorff—that is Newport News, Bethlehem, Sun, and Federal?

Mr. BARDO. That is right.

Mr. RAUSHENBUSH (reading "Exhibit No. 1516"):

Referring to the Gulf-Industries, Inc., situation:

Am enclosing herewith copy of a letter from President Roosevelt to Governor Moore in connection with this subject, which is self-explanatory.

I offer that letter for the record.

(The memorandum referred to was marked "Exhibit No. 1516" and appears in full in the text.)

Mr. RAUSHENBUSH. That indicates that they had at least a little—shall we say—platonic interest in the result of this action?

Mr. BARDO. Without attempting to say what their interest really was, I thought what had taken place would be of interest to them. I do not attempt to say what their interest was.

Mr. RAUSHENBUSH. We have here a letter from Franklin D. Roosevelt to Governor Moore, dated July 15, 1933, which reads [reading "Exhibit No. 1517"]:

THE WHITE HOUSE,
Washington, July 15, 1933.

MY DEAR GOVERNOR: Thank you for your letter of July seventh. I appreciate your writing me about the matter but we have no intention of acquiring shipyards.

Very sincerely yours,

FRANKLIN D. ROOSEVELT.

His Excellency A. HARRY MOORE,
Sea Girt, N. J.

I offer that for the record.

(The letter referred to was marked "Exhibit No. 1517" and appears in full in the text.)

Mr. RAUSHENBUSH. Then there were further letters from your representative, Mr. Wolverton and others, were there not, Mr. Bardo, about the matter, which you also acknowledged?

Mr. BARDO. My recollection is that I wrote a letter to the Senators and all the Congressmen from New Jersey, and outlined this situation to them, so that they would be informed.

Mr. RAUSHENBUSH. And acknowledged any action that they took?

Mr. BARDO. Yes.

Mr. RAUSHENBUSH. Now, in that connection, Mr. Bardo, you stated earlier in the testimony that all you did in this matter was to write one letter, and then we find a letter to Flook, a phone call to Slater, a letter to Ferguson, one letter to Moore, which you identified as the one, another letter to Governor Moore, another letter to Governor Moore of July 11, another letter to Governor Moore of July 21, another letter to Governor Moore of July 24, letter to mayor of Camden, letter to the chamber of commerce, letter to Mr. Wolverton and others.

Now, there was a good deal more interest than your earlier testimony really indicated there, was there not?

I mean, you were a little more active on that matter than one letter?

Mr. BARDO. You are confusing the issue again. You are talking about two things.

Mr. RAUSHENBUSH. What are the two things?

Mr. BARDO. One about the restrictive provision in the code, and the other about the situation which had a very direct influence on two very important New Jersey industries.

Mr. RAUSHENBUSH. I think you will find that is incorrect, Mr. Bardo. After we were through with the exclusion clause, I asked you about the Gulf Industries matter, and you said you did write one letter on that subject.

Mr. BARDO. That is all I recalled. I do not deny any of these letters. I do not want to be misunderstood here, but for a man who has got so many things to attend to as I have, and you are talking here of 3 years ago, you say he remembered every letter he ever wrote, he would just be a phenomenon, who does not exist.

Mr. RAUSHENBUSH. The matter of taking out potential competition and maintaining an exclusive bidding arrangement is one that is of interest to the committee, so that we wanted to be sure that the amount of interest you had on that subject was not unduly minimized.

Mr. BARDO. I do not want to minimize it, and I do not want the impression to prevail that I do. I want to go on record as saying emphatically that I was opposed to it. We had been paying taxes on property overbuilt during the war, since 1920, for which we had no use, and if we were going to have that sort of competition come in, where the taxpayers' money is to be taken to build a competitive industry, as a matter of principle I am opposed to it personally, officially, and in every other way. And I do not want any mistake about it, either.

Mr. RAUSHENBUSH. 1933 was the first year that Gulf Industries had started bidding on ships in competition with yourself, was it not?

Mr. BARDO. Well, my recollection is not entirely clear on that. It may be. I think there were some destroyers put up for bid.

Mr. RAUSHENBUSH. Before 1933?

Mr. BARDO. That is my recollection but I do not say that it is absolutely correct, and I think possibly that they bid on them, although I should have to consult the records to be sure of that.

Mr. RAUSHENBUSH. When would that be? In 1931, do you think?

Mr. BARDO. No; I think it was in 1932.

Mr. RAUSHENBUSH. In 1932.

Mr. BARDO. There was a group of destroyers, the *Farragut* and the *Dewey* and, I think, a couple more, which were assigned to the navy yards, for which the Bethlehem company received the award for the plans. Now, it may be that that was early in 1933, but my recollection is that it was in 1932. But I would not say.

Mr. RAUSHENBUSH. We thought we put in all the bidding here, according to the official Navy records, and I do not find any bids from Gulf Industries until 1933.

Mr. BARDO. Do you have a record there of a destroyer that was awarded to Bethlehem and one to Bath?

Mr. RAUSHENBUSH. Yes; that seems to be 1931, the 348 to 358 class.

Mr. BARDO. Yes; was Gulf Industries in?

Mr. RAUSHENBUSH. No; Bath Iron Works, Bethlehem Shipbuilding, Maryland Dry Dock Co., Newport News, New York Ship, Pusey & Jones, United Dry Docks. That is all. So that 1933 was the first year that Gulf Industries was a competitor in the situation, was it not?

Mr. BARDO. Apparently it was, from the correspondence here, because I think it came on then.

Mr. RAUSHENBUSH. Did you note at the time, by the way, that the first examiner for the Reconstruction Finance Corporation had approved the loan that the company had asked for?

Mr. BARDO. I know nothing about the R. F. C. activities at all.

Mr. RAUSHENBUSH. And later on the loan was denied by the board.

DIFFERENCE BETWEEN ESTIMATES AND BIDS IN 1927

Mr. RAUSHENBUSH. In your examination last week, Mr. Bardo, we were trying to get some information as to the way in which the difference between the estimate and the bid on these various cruisers and destroyers was determined, how you figured out how much would go to profit and how much would go to overhead, and how much to taxes, and the like. Now, at that time, you did not remember what percentages were used, and I wonder whether, in the intervening time, you have refreshed your memory at all about how those big differences were composed?

I mean, what percent went to profit and what percent you used on overhead at various times.

Mr. BARDO. No, I have not made any attempt to refresh my mind because it had gone completely out.

Now, whether upon a review of the bids I can help you or not I do not know, but I will try to, if I can.

Now, if you will tell me what you are after or what you are referring to specifically, I will see if I can answer you.

Mr. RAUSHENBUSH. Let us start off with the 1927 cruisers, where you got the *Chester*. The estimate there was $7,950,000-plus and the bid was $10,000,000——

Mr. BARDO. Wait a minute. State it correctly. You say the estimate was?—the bid was what?

Mr. RAUSHENBUSH. $7,980,180, for labor and material.

Mr. BARDO. Let us get that clear.

Mr. RAUSHENBUSH. I thought you understood.

Mr. BARDO. I do; but the people back here don't, and I want to be sure they understand.

Mr. RAUSHENBUSH. And the bid was $10,815,000, and the difference between the two, $2,854,820. The question was directed to finding out in that case, and other cases we will take up later, how you split it, how much you figured for profit, how much you figured for overhead, and how you worked out that equation.

Mr. BARDO. We take the flat estimate of labor and material. That is, contracts run over a period of 3 years. We cannot anticipate at that time what is liable to take place. If we have nothing but the Navy job, the percentage of overhead, so far as you could see, would be substantially the percentage of the overhead of the plant, which in that event would be very much higher, or relatively higher, than the percentage of overhead if we had other work in the plant, or if we had some reasonable assurances that other work would come along.

Now we take this percentage of the overhead, whatever we may decide to use, and we take the percentage of labor. The labor, we will say, on that ship—what was the amount, if you please?

Mr. RAUSHENBUSH. The amount of labor estimated?

Mr. BARDO. Yes.

Mr. RAUSHENBUSH. Was $3,780,115.

Mr. BARDO. Now, the overhead of the plant at that time—we had only one ship in there which was the *Chester*—and the overhead of the plant at that time would be somewhere around 80 percent of labor.

Mr. RAUSHENBUSH. Pardon me, Mr. Bardo. That was before you had the *Chester* that you made the estimate, was it not?

Mr. BARDO. Are you talking about the *Chester* estimate?

Mr. RAUSHENBUSH. Yes.

Mr. BARDO. Then we had only the *Salt Lake City*, and she was just being started.

Mr. RAUSHENBUSH. You had only one ship, the *Salt Lake City?*

Mr. BARDO. Yes, and at that time the outlook for the shipbuilding business was exceedingly dead. We would take the overhead and then make any adjustment of that that in the judgment of the staff and myself we felt was appropriate to make. Eighty percent of $3,780,000-odd would be in the neighborhood of over $2,000,000. That would be the charge against that contract for overhead during the 3 years of its life.

Mr. RAUSHENBUSH. Eighty percent of the labor?

Mr. BARDO. Eighty percent of the labor cost. That is the application.

Mr. RAUSHENBUSH. Would be in the neighborhood of $3,000,000.

Mr. BARDO. Three million dollars, or whatever it is. That would be it. What percentage of overhead we took at that time, I could not now say, but, whatever it was, it was the percentage that, as a result of the best judgment of myself and of the staff, that we used. We took the material and we took the labor and we took the percentage of labor and overhead upon which we decided, and it was on all those three amounts we added 10 percent for profit, and it would be more or less of an indefinite amount. I could not say what it was, because of conditions changing, which would occur, and of which we knew nothing.

Mr. RAUSHENBUSH. When you had very little work in the ward, as you say you did, the *Salt Lake City*, would you take a percentage as large as 10 percent?

Mr. BARDO. We might or might not. It would depend on the conditions and a lot of things which were discussed and analyzed and reviewed at that time, whatever it may be.

Mr. RAUSHENBUSH. I note in this particular case that 80 percent for overhead of your labor estimate would be more than you added onto the total estimate.

Mr. BARDO. Then we did not use 80 percent.

Mr. RAUSHENBUSH. Then you did not use 80 percent?

Mr. BARDO. We just cut down whatever we thought was necessary to satisfy the situation, whatever it was. That question was always one that was in a state of flux. There was no fixed rule as to what it would be.

Mr. RAUSHENBUSH. How much did you have to pay annually on your bonded indebtedness?

Mr. BARDO. I think our bonds at that time were around 4 million of 5-percent bonds, a little over $200,000 a year for interest, and about $180,000 for the sinking fund.

Mr. RAUSHENBUSH. That is about $380,000?

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. For interest and sinking fund?

Mr. BARDO. But that had nothing to do with the 10 percent.

Mr. RAUSHENBUSH. That was part of the overhead which you had to cover, was it not?

Mr. **Bardo**. Oh, no. Bond interest was never put into the overhead. Overhead consisted of these items—let us see if I have got it here—overhead consisted of repairs; janitors and watchmen; tool and storekeepers; supervision—everything above the working leaders; maintenance labor; production scheduling; crane elevators and transportation; power system, including generation of power, steam, air, and so forth; fuel; all consumable supplies; compensation, group, plant, public-liability insurance, and so forth; all taxes except Federal income taxes; depreciation; officers and all administrative salaries; legal and auditing fees; corporate expense; stock transfers, directors' fees, and so forth; and outside offices and representatives.

Senator **Clark**. Did that money, which Wilder spent down here lobbying for the Jones-White bill, go in the overhead?

Mr. **Bardo**. No.

Senator **Clark**. How was that carried in your accounting?

Mr. **Bardo**. Profit and loss, mostly loss.

Senator **Clark**. It did not go into overhead at all?

Mr. **Bardo**. No, sir.

ACTIVITIES IN CONNECTION WITH BRAZILIAN NAVAL PROGRAM IN 1933 AND 1934

Senator **Clark**. Mr. Bardo, during 1933 and 1934 you were with the New York Shipbuilding Co. and were actively engaged in trying to sell a considerable number of war vessels to Brazil, were you not?

Mr. **Bardo**. No; not a considerable number.

Senator **Clark**. How many were they going to buy?

Mr. **Bardo**. Well, they had a very ambitious program.

Senator **Clark**. Will you just describe this program, Mr. Bardo, in general terms, so that we will have it before us?

Mr. **Bardo**. I will have to just review it for a minute, if you please, until I see how closely I can get to it. As I recall it, they wanted two cruisers.

Senator **Clark**. What type?

Mr. **Bardo**. They were somewhat smaller than our standard 10,000-ton cruiser. As I recall it, they were 8,500-ton cruisers.

Senator **Clark**. Eight-inch guns?

Mr. **Bardo**. Yes; they were 8-inch guns. They wanted a number of destroyers.

Senator **Clark**. Do you remember about how many, Mr. Bardo? I am not trying to fix it exactly, but would you be able to give it approximately?

Mr. **Bardo**. I could not recall that figure because we were not interested in it.

Senator **Clark**. You did not bid on destroyers?

Mr. **Bardo**. No. And along with it they wanted the contractor to supervise and to manage the completion of their navy yard, which they had partially under way. They wanted them also to organize and supervise Brazilian personnel.

Senator **Clark**. You mean the whole navy or the shipbuilding end of it?

Mr. **Bardo**. This was the Brazilian personnel in the fabrication and building of ships.

I think that was the general picture, Senator. We finally submitted a bid on two cruisers.

Senator Clark. Is that all that you bid on?

Mr. Bardo. That is all.

Senator Clark. When did you first become interested in this matter, Mr. Bardo?

Mr. Bardo. It is quite a considerable period of time. My recollection is that the matter first came to my attention through a Brazilian retired naval officer who was then representing the Brazilian—I do not know whether it was the Brazilian Government or the Brazilian Navy—as a purchasing agent in New York.

Senator Clark. What was his name?

Mr. Bardo. I do not recall it. It is one of those curious names. It is a Spanish name and I do not just recall. He has been there for a long time and, so far as I know, he is there still.

As a result of that first interview—it was not an interview but was a casual luncheon, as a matter of fact——

Senator Clark. Mr. Bardo, if I may interrupt you a moment to go back to this plan for Brazil, at that time the plan also contemplated a manufacture of guns, did it not, and did you not have under consideration at one time the using of your plant's facilities for the manufacture of guns?

Mr. Bardo. Oh, yes; yes, indeed. That came about earlier when the shipbuilding business, so far as we could see, was on its way out, and we had this very large plant, and obviously I did not want to stay still and see it dry up.

Senator Clark. The shipbuilding business started on its way up immediately after the breakdown of the Geneva conference, did it not, Mr. Bardo?

Mr. Bardo. No; I do not think so.

Senator Clark. Was not that considered the turning point in the shipbuilding business?

Mr. Bardo. No; I do not think so. It was started, as I recall it, before. In other words, Congress had made the appropriation for 15 cruisers, or rather they had authorized their—the construction of 15 cruisers long before the Geneva conference was talked about. But they made no appropriation for them until 1925, when they started with the first of that group, the *Salt Lake City* and the *Pensacola*—the *Salt Lake City* to be built by Cramps and the *Pensacola* to be built in the New York Navy Yard. That was the beginning. From that came along this group of cruisers which are still under construction—those at the present time have not yet been completed.

Now then following there was no particular activity in the cruiser field, but just a sort of drifting along. But we could see—at least that was the very best information that we had—that we were going to have a very large plant on our hands and it would be a serious thing to stay still.

Senator Clark. About when was this that you were considering going into the manufacture of guns, Mr. Bardo?

Mr. Bardo. It started, oh, I should say, 6 or 7 years ago, possibly longer, and came about in the first instance in this way: I was approached by a man by the name of Driggs——

Senator CLARK. About when was that?

Mr. BARDO. Six or seven, maybe eight years ago, the first instance. I have got to go back to tell the history.

Senator CLARK. I understand. I am trying to fix approximately the time.

Mr. BARDO. I should say 7 years, 6 years ago, at the very latest.

Senator CLARK. That would be 1927 or 1928?

Mr. BARDO. Yes; it may have been 1927. I was approached by this man Driggs——

Senator CLARK. Of the Driggs Ordnance Co.?

Mr. BARDO. Yes, of the Driggs Ordnance Co. I knew nothing about him in a business way. But he said he had a tentative contract with the Polish Government for 300 antiaircraft guns. He had the designs and the plans, but he did not have the money to finance it nor did he have the plant. He had some tools, and he wanted to know if I was interested in that development.

We had this large plant at Camden which was idle, upon which we were paying taxes.

Senator CLARK. That is the so-called "South yard?"

Mr. BARDO. That is the so-called "South yard", and obviously I wanted to find something for it to do, if I could.

Senator CLARK. Is that the one you got from the Government?

Mr. BARDO. Yes; that is the one the Government built and later turned over to us.

I investigated it at that time and turned it down. Then he came later, and I think this was in 1932, and he said:

"Now, this Polish contract is very much alive again. They have reduced it to 70 antiaircraft guns and some other stuff, and I would like to know if you are still interested."

Senator CLARK. Had not you told him you were already not interested?

Mr. BARDO. He is one of those persistent devils that does not ever take "no", and he came back, and keeps on coming back. He came back and I said first I was not interested. Then this Brazilian situation was in the picture. I said:

"If we are going to bid on Brazilian ships, we have got to bid on arms, armament, and ammunition, and we would be obliged to furnish it, and I think it wise that I find out a little more about it. because if we are going to build it, I might just as well build 70 antiaircraft guns for the Polish Government as to build 8-inch or 5-inch guns for the Brazilian Government to put on the ships."

So I got on a ship and went to Warsaw. I spent less than a week there, but it only took about 3 days to convince me that, as far as Polish guns were concerned, it was a pipe dream, and I got on the train and came back home, and I gave no more attention to that.

We bid on these Brazilian cruisers and gave them a bona fide bid.

Senator CLARK. Let me fix the time. Do you remember about when it was you started these negotiations?

Mr. BARDO. With Brazil?

Senator CLARK. Yes.

Mr. BARDO. I would not want to say positively, Senator, but it was somewhere in the year we talked about.

Senator CLARK. I am referring to about the time. Was it 1927 or 1928?

Mr. BARDO. No; I am quite sure it was later than that.

Senator CLARK. As a matter of fact, it was sometime late in 1932, was it not, Mr. Bardo, when the real Brazilian business started?

Mr. BARDO. Just what do you mean when you say "real"?

Senator CLARK. I mean, when you actually began more or less active effort to get the business.

Mr. BARDO. They submitted us an invitation to bid. That fixes the time when it became active with us, and I would not undertake to say just exactly when that was. They gave us a bona fide invitation to bid on this great big program, and I sent a man down there to check up on it.

Senator CLARK. Whom did you send, Mr. Bardo?

Mr. BARDO. I sent Mr. Frank Smith.

Senator CLARK. In what capacity?

Mr. BARDO. He was a special man that I just employed to make that special investigation for me.

Senator CLARK. Who was Mr. Frank Smith? An engineer?

Mr. BARDO. Yes; he was an engineer. He had been in an industrial executive position.

Senator CLARK. What did he report, Mr. Bardo?

Mr. BARDO. He was very enthusiastic about it, so much so that I did not go quite as far as he wanted me to. He thought it was a great opportunity to do a real job.

Senator CLARK. Then after his report, what did you do?

Mr. BARDO. Then we sat down and we put our engineering force together and we developed—we decided, as a result of further investigations, let me say this: That we would not have anything to do with the reconstruction of the navy yard. We would undertake to perform, if we did it at all—and that was not definitely settled—a very limited amount of supervision, so far as Brazilian personnel was concerned, but that we would submit them a bid on one or two cruisers.

We prepared plans, very elaborate plans, made an estimate, submitted the estimate, sent three of our men down there, the technical hull man, the technical engineer, and our sales manager.

Senator CLARK. Who were they, Mr. Bardo?

Mr. BARDO. Mr. Workman was the sales manager and Torbet was the chief engineer.

Senator CLARK. Did Mr. Workman occupy any other position, such as vice president of the company?

Mr. BARDO. No.

Senator CLARK. He was the sales manager?

Mr. BARDO. He was the sales manager, and Mr. Thompson, one of the technical men of the hull department. They went to Rio with the plans and stayed there. Mr. Workman was there over 3 months, and as I recall it, Mr. Thompson came back at an earlier date, and I think Mr. Torbet came back about midway between the return of Mr. Thompson and Mr. Workman. The bids were opened——

Senator CLARK. About when was that, Mr. Bardo; when the bids were opened?

Mr. Bardo. Senator, I do not know that I can say exactly when that was, but my guess would be that it was in the early part of 1933.

Senator Clark. As a matter of fact, it was about March 1933, was it not, Mr. Bardo?

Mr. Bardo. That is the date I had in my mind.

Senator Clark. I am informed that it was March 1933.

Mr. Bardo. Whatever it is, that is correct.

Senator Clark. Mr. Bardo, who was Carlton Jackson?

Mr. Bardo. Carlton Jackson was formerly an attaché of the Department of Commerce, or in Consular Service in Rio. I never knew him before. He was relieved under the new administration and was out of a job. I met him in New York.

Senator Clark. Do you remember about when that was?

Mr. Bardo. It was while this situation was active, Senator, and he told me or he said he was going back to Rio as a fiscal agent for some American company, and I had quite a long talk with him and he impressed me as a fellow who by reason of his long experience down there, might be useful in giving me some information as to what the outside situation was and what the atmosphere was, and what is going on.

So that I made an arrangement with him at a very nominal salary.

Senator Clark. Three hundred dollars a month, was it not?

Mr. Bardo. No; I think it was $200. It may have been three.

Senator Clark. Three hundred dollars a month is a pretty fair price for "atmosphere", is it not?

Mr. Bardo. I think it was $200, Senator.

Senator Clark. We are prepared to prove that.

Mr. Bardo. Whatever the record shows. It is immaterial anyway. Whatever it was, that is what we paid him. He used to write me a letter once in a while and tell me the situation.

Senator Clark. Give you the "low down"?

Mr. Bardo. I do not know whether it was "low down" or not. I could not say.

Senator Clark. As a matter of fact, Mr. Bardo, you hired this man on the theory that he was an insider and could get the inside information, did you not?

Mr. Bardo. No; that is a very unfair inference.

Senator Clark. It seems to me to be very logical.

Mr. Bardo. It may be logical, but it is very unfair to state it that way. That was not the idea. He was down there to keep me informed as to what the situation was.

Senator Clark. You had your own executives down there, did you not?

Mr. Bardo. They were not there all the while. He was down there a long time, or a substantial time before they were. I think, as a matter of fact, Senator, he went along with Frank Smith, when Frank Smith went down there, now that you mention his name.

Senator Clark. I interrupted you, Mr. Bardo. What happened about the bids getting open?

Mr. Bardo. I beg your pardon, Senator.

Senator Clark. You said the bids had been opened, and I think we agreed on March 1933.

Mr. BARDO. Senator, what happened after that?

Senator CLARK. What happened after that. Go ahead with your story.

Mr. BARDO. Nothing happened after that.

Senator CLARK. Were you awarded the bid?

Mr. BARDO. No; nobody.

Senator CLARK. You still maintained great interest in it, after that?

Mr. BARDO. No; I gave it up. I dropped it entirely.

Senator CLARK. You dropped it entirely after March 1933?

Mr. BARDO. No; when our representatives came back.

Senator CLARK. When your representatives came back?

Mr. BARDO. Mr. Workman was there, as I recall it, more than 3 months. They were there before the bids were opened a few days.

Senator CLARK. Mr. Workman was there on March 12, 1934, was he not?

Mr. BARDO. Of this year?

Senator CLARK. 1934.

Mr. BARDO. 1934? I could not say.

Senator CLARK. Did he not have an interview with the American Ambassador to Brazil on that date, demanding—and "demanding" is the proper word to use—that the United States should send a war vessel down there as a sample exhibit for your work?

Mr. BARDO. No.

Senator CLARK. Then you are very seriously at variance with the American Ambassador at Brazil.

Mr. BARDO. Mr. Workman is not the type of man who makes a demand on anybody.

Senator CLARK. Do you admit he was there on March 12, 1934?

Mr. BARDO. Senator, I cannot say.

Senator CLARK. He was there in 1934. That was last year.

Mr. BARDO. Do not try to make me say something I do not know about, because I am not going to say it.

Senator CLARK. You know whether Mr. Workman was there in 1934 or not, do you not? Your memory is not that short.

Mr. BARDO. He was there in 1934; yes, sir.

Senator CLARK. Did he report to you any conversation with Ambassador Gibson?

Mr. BARDO. I do not know whether he did or not.

Senator CLARK. And approximately at the same time you were endeavoring to have a warship sent down there, were you not?

Mr. BARDO. Yes, sir.

Senator CLARK. Do you mean to say that Mr. Workman never had any correspondence or conversation on that subject?

Mr. BARDO. Senator, you are trying to make me answer something to two questions.

Senator CLARK. I am not trying to do anything. I am trying to get you to tell what happened.

Mr. BARDO. The first question you asked was about what I knew about his conversation with the American Ambassador. I do not know anything about it. I do not recall that at all.

Senator CLARK. Did Workman ever report to you that he was endeavoring to have a naval vessel sent down there?

Mr. BARDO. He reported to me it would be a very desirable thing.

Senator CLARK. Did he report any efforts that he was making in that direction?

Mr. BARDO. I do not recall that he did. He may have but I do not recall all the details.

Senator CLARK. As a matter of fact, Mr. Bardo, after you say you had abandoned interest in this matter in March 1933, when the bids were opened, and it was not given you, is it not a fact that there was a consistent attempt throughout 1933 and 1934, on the part of the State Department, to stop the beginning of a naval building race in South America and an equally consistent attempt on the part of the New York Shipbuilding Co. to get in on it?

Mr. BARDO. No. Before I made any attempt to enter into this Brazilian situation, I went to the State Department—I think I saw Mr. White, as I recall the name—and I told him what the situation was and I said, "What is the situation of the State Department?" And he told me. Then I went again——

Senator CLARK. About when was that, Mr. Bardo?

Mr. BARDO. Let me finish it.

Senator CLARK. I want to fix the date.

Mr. BARDO. I may be able to fix it but it is all relative.

Senator CLARK. It is very important as to the time in relation to the exhibits which we have here.

Mr. BARDO. Then I went again——

Senator CLARK. Wait a minute. About when was the first visit, Mr. Bardo?

Mr. BARDO. I could not say when it was.

Senator CLARK. Could you fix it within a year?

Mr. BARDO. I would not say that.

Senator CLARK. Could you fix it within 6 months?

Mr. BARDO. I would not say that.

Senator CLARK. Could you fix it within 10 years?

Mr. BARDO. Oh, it was not 10 years.

Senator CLARK. What is the best approximation you can make as to the time, Mr. Bardo?

Mr. BARDO. It was before we took any action, I know, or did anything at all, before I would engage in the enterprise.

Senator CLARK. You mean before you made the bid?

Mr. BARDO. I mean before I made the bid, before I did anything.

Senator CLARK. That was prior to March 1933?

Mr. BARDO. Oh, I am sure of that.

Senator CLARK. All right.

Mr. BARDO. Then I went again. Before I bid, the administration changed, and I went and saw the gentleman who was being sworn into office that very day.

Senator CLARK. The early bird catches the worm, I have always heard.

Mr. BARDO. And talked to him again, because I wanted to be sure that the change of administration and the change of personnel would not change the situation. I do not recall the gentleman's name. He was a lawyer, as I remember it, from Cleveland. He said, "You submit me a memorandum and I will tell you about it." I submitted him another memorandum and we got a reply from the Department that so far as they were concerned, that they——

Senator CLARK. They what?

Mr. BARDO. I am not quite sure as to just the language, but there was no objection to it.

Senator CLARK. Now, as a matter of fact, Mr. Bardo, what the State Department told you every time you had anything to do with them was that the State Department had no legal right to prevent you doing that?

Mr. BARDO. That is right.

Senator CLARK. But they would regard the matter with disfavor, as being calculated to start a naval building race in South America. Is not that true?

Mr. BARDO. No; they never went so far as that. That is not a fair statement, so far as the State Department is concerned.

Senator CLARK. Mr. Bardo, did you ever hear of a meeting which was held in the State Department on December 6, 1933?

Mr. BARDO. No.

Senator CLARK. At which you were not able to be present but which was attended by Mr. R. A. Workman, the sales manager of the company, and a Mr. Foster?

Mr. BARDO. I know that they did.

Senator CLARK. Did they make any report to you about the conversation?

Mr. BARDO. I do not recall whether they did or not, Senator.

Senator CLARK. Now, Mr. Bardo, as a matter of fact, you expected to be there yourself and made the appointment for yourself?

Mr. BARDO. That is right.

Senator CLARK. And then asked the other two gentlemen, for some reason?

Mr. BARDO. That is right; I could not go.

Senator CLARK. So that they made some report to you on the matter, having gone there for you?

Mr. BARDO. No doubt they did.

Senator CLARK. Do you remember what they said?

Mr. BARDO. No; I could not say that.

Mr. RAUSHENBUSH. Is Mr. Foster in the room?

Mr. BARDO. See whether he is. [Addressing associates] I do not see him here.

Mr. RAUSHENBUSH. Mr. Foster? [No response.]

Senator CLARK. Who was Mr. Foster?

Mr. BARDO. He was the man located here in Washington.

Senator CLARK. He was your local representative in Washington?

Mr. BARDO. He was our local representative in Washington.

Senator CLARK. What were his initials, if you know?

Mr. BARDO. Addison G.

Senator CLARK. I now read from a State Department memorandum, headed Further Conversation Regarding Brazil's Proposed Naval Construction Program [reading "Exhibit No. 1518"]:

To: Mr. Edwin C. Wilson.
From: Mr. Manning.

Referring to my memorandum of November 29 concerning the expected visit of Mr. Bardo, president of the New York Shipbuilding Co., a few minutes before 3 o'clock yesterday afternoon Mr. Foster, the local representative, telephoned me saying that Mr. Bardo had been tied up all day in a conference with some congressional committee and would be engaged in the same the remainder of the day, therefore he would not be able to be present at the conference; but Mr. Foster announced that he, accompanied by Mr. R. A. Workman, sales manager of the company, who was fairly familiar with Mr. Bardo's plans, would call at 3 p. m., since it was necessary for both Mr. Bardo and Mr. Workman to return to New York later in the afternoon. This made it possible to have them come at a time when you would be in your office. On my invitation, Messrs. Green and Field, of the western European division, came to my office, and we listened to what Messrs. Workman and Foster had to say.

Mr. Workman opened the conference by handing to us for the Department's files the attached photostatic copy of their translation from the original Portuguese of the document supplied to them concerning the "Brazilian naval program." I have clipped a pink marker to the page which, they pointed out shows, with the following, exactly the proposed new units for the Brazilian fleet.

Mr. Workman then explained that their purpose in calling at the Department was to inquire whether the Department had any specific comment or request to make regarding the nature of the inquiry which the company should address to the Secretary of State to determine whether the Department had objections to their submitting bids for the work. We told them that the form and content of such an inquiry was a matter, of course, for them to determine, adding that when it should be received, consideration would be given and a reply be made to it. Mr. Field observed that if and when they should sign a contract for such construction work it would be necessary for them to inform the Government of that fact, submitting full data regarding the projected program to enable this Government to comply with its obligations to other nations with reference to informing them of any naval construction work undertaken by its nationals for any third government.

Mr. Workman then asked whether the Department would object to their submitting bids. I replied that we were not in a position, of course, to speak authoritatively for the Department on such a matter, as the question would have to be considered and replied to by one of the responsible officers of the Department. I stated that there appeared to be no legal ground on which the Department could object, but that it was my personal belief that this Government might view with regret any move on the part of Brazil which might inaugurate an era of naval rivalry between that country and other Latin American countries. In response to a repetition of the inquiry apparently made in an attempt to obtain a more precise answer, Mr. Green stated that there was no statute or treaty which would prevent American companies from bidding on this contract or from building the ships for Brazil if the contract were awarded. He added that any regret which this Government might feel would, of course, be regret at the action of the Brazilian Government in launching such a naval program, and not regret at the action of American ship builders in bidding on the contract or building the ships. Mr. Workman in response agreed that the Brazilian construction program would, if carried into effect, probably have the result of bringing about competitive building among South American countries, as it would make the Brazilian navy much stronger than the navy of any other of those countries.

Mr. Field expressed his surprise at the fact that 8-inch guns were prescribed as the armament of the cruisers included in the program, observing that they would be of greater caliber than any guns now carried by any cruisers belonging to countries other than the five great naval powers.

In the further conference a belief was emphatically expressed by Mr. Workman that, if his company submitted bids for the proposed construction work, it would do so virtually on a cash basis or with the understanding that a considerable portion would be paid in advance with the remainder coming by about the time the construction work should be completed. He explained that his company had no thought of doing the work on a long-time credit basis or providing for the financing through a long period of the cost of the construction. He appeared to believe that the program was an unnecessarily extravagant one, indicating that the cost of carrying out the program would be much greater than what is mentioned in the published Brazilian project.

After continuing the discussion for probably an hour, bringing in many additional minor related matters, Messrs. Workman and Foster thanked us for having given them the hearing and departed, indicating that they would probably communicate with the Department in writing on the subject in the not distant fuure.

(In longhand in ink:)

P.S. December 8.—Their letter, dated December 6, signed by Mr. Workman has already come and goes forward with this.

future.

/s/WRM

LA: WRM: HGK: SS

(The memorandum referred to was marked "Exhibit No. 1518" and appears in full in the text.)

Senator CLARK. Now, Mr. Bardo, does that refresh your recollection on the question whether you abandoned efforts to secure the Brazilian contract in March 1933?

Mr. BARDO. We did not abandon efforts.

Senator CLARK. You said so a while ago.

Mr. BARDO. Wait. You have got two things confused.

Senator CLARK. I know exactly what you testified.

Mr. BARDO. You were thinking one thing and I was thinking another thing.

Senator CLARK. If so, you were thinking about a different matter than you were talking about, because I am referring to your testimony.

Mr. BARDO. I did not do that at all. I said after the bids were opened some of our representatives stayed there for 2 or 3 months. Mr. Workman did. When he came back, he was perfectly satisfied they were not going to build any cruisers, and that is when I lost interest. I paid no more attention to it.

Senator CLARK. When did you lose interest?

Mr. BARDO. When Mr. Workman came back from Rio.

Senator CLARK. When did he come back?

Mr. BARDO. When he came back.

Senator CLARK. When did he come back?

Mr. BARDO. I cannot say.

Senator CLARK. You say he stayed 2 or 3 months after the bids were opened?

Mr. BARDO. After the bids were opened.

Senator CLARK. He was still down there 9 months after the bids were opened, making demand of the State Department for a ruling.

Mr. BARDO. That conversation to which you referred all took place before we made any bid at all.

Senator CLARK. I think we agree, Mr. Bardo, that the bids were opened—submitted and opened—in March 1933, and this conversation took place on December 6, 1933.

Mr. BARDO. We have got dates wrong. Let us get straight on it. There is no need of talking about things which are wrong. I do not remember those things. I can get that information for you, but I do not remember it, and I do not want to be put in a false position here. Whatever the facts show as to whenever the bid was submitted and it was invited, that is the fact, and whatever it is, let us rely on it.

Senator CLARK. Mr. Workman was in Brazil?

Mr. BARDO. Yes.

Senator CLARK. In 1934, was he not?

Mr. Bardo. Now, Senator——

Senator Clark. That is less than a year ago, Mr. Bardo.

Mr. Bardo. That is true enough, there are a lot of things which happen in a year and to ask me to sit down and tell where a particular fellow was at a particular time, I cannot say that it is so, and I do not think you ought to pursue it, because it has no relation to the thing anyhow.

Senator Clark. It has relation, Mr. Bardo, as to how long ago you began your efforts, when you began them, and how long you continued them.

Mr. Bardo. That is a matter of record, and we can submit that, and there will be no argument about it at all. I will be very happy to do it, but we are talking at cross-purposes about some dates which from memory I cannot tell you is so. I speak of that sort of thing because we are just wasting time. Whatever the facts show, that is all there is to it.

Senator Clark. Mr. Bardo, I am trying to find out from you what the facts are. You are the president of the company and conducted the negotiations, and certainly should not give the committee a lecture on how to run the hearing. You are just to answer the questions submitted to you.

Mr. Bardo. I will be very happy to, but you insisted on my answering something which I cannot positively remember.

Senator Clark. All right. Mr. Bardo, if you say you cannot remember that you had a representative, one of your principal representatives, in Brazil less than a year ago, and care to stand on that statement in the record, it is all right.

Mr. Bardo. I will say whatever the records show, that is what it is, and when Mr. Workman came back and informed me of the situation, I said, "I am all through", and dropped it and paid no more attention to it.

EFFORT TO GET UNITED STATES NAVAL VESSEL FOR USE IN PROMOTING BRAZILIAN SALES [1]

Senator Clark. Do you know when you instructed or communicated with Mr. Workman in respect to trying to get a naval vessel sent to Brazil?

Mr. Bardo. My recollection of that, Senator, is this: The *Tuscaloosa*, which was under construction in our yard, was scheduled to be completed, as I recall it, in February of last year, and either as a result of a letter from Mr. Workman, or as a result of a suggestion that came to me from somebody else, I addressed a letter to the Chief of Operations of the Department and suggested to him that in view of our negotiations then going on, that I thought it would be a desirable thing, if it could be arranged, to send the *Tuscaloosa* to Rio on her shake-down cruise.

Senator Clark. That was on the 20th of December 1933, was it not, Mr. Bardo?

Mr. Bardo. Whatever the date was.

Senator Clark. I will read the letter.

Mr. Bardo. Whatever that date was, Senator.

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[1] See end of appendix for letter from Secretary of War regarding this subject.

Senator Clark. I will read that letter into the record [reading "Exhibit No. 1519"]:

Admiral W. H. Standley, U. S. N.,
Chief of Naval Operations,
Navy Department, Washington, D. C.

My Dear Admiral: I fully intended to see you yesterday while in Washington but was obliged to leave hurriedly to make the 11 a. m. plane in order to attend an emergency meeting of the New Jersey State Labor Board, called for yesterday afternoon at Newark.

We have been working for some time upon a naval program for Brazil involving some cruisers, destroyers, submarines, tankers, and tugs, and as it is planned now the bids will be opened in Rio on March 15.

Have just received advice from the State Department to the effect that there are no regulations or laws which prevent our entering this field. We have had several conferences with the admirals of the Navy regarding the general question and will formally present the subject to the Honorable Secretary for his consideration and approval.

Quite aside from these particular matters, which will be taken up in their turn, and in view of the fact that it is customary to send our new or reconditioned ships off on extended shake-down cruises, it occurred to us that American prestige in this matter might be helped with the powers that be and the public at Rio if it were possible, as a part of the shake-down program, to have one of our new or modernized ships make a visit to that port on or before the time when these bids would be formally presented and considered, and to which I feel no criticism could attach if such visit were made as a part of the normally arranged shake-down run.

I apologize for my inability to see you yesterday, and because of the likelihood of my not being able to get to Washington for the next several days, I therefore present the matter in this tentative form for your consideration.

Very truly yours,

C. L. Bardo.

(The letter referred to was marked "Exhibit No. 1519" and appears in full in the text.)

Senator Clark. You sent that letter, did you not?

Mr. Bardo. What is the date of that letter?

Senator Clark. December 20, 1933.

Mr. Bardo. 1933?

Senator Clark. Yes.

Mr. Bardo. That begins to fix the dates.

Senator Clark. That was some 2 weeks after the memorandum of the State Department which I have just read.

Mr. Bardo. That is all right. That begins to fix them.

Senator Clark. Now Admiral Standley replied to that letter which I offer for appropriate number, under date of January 3, 1934.

Navy Department,
Office of Chief of Naval Operations,
Washington, January 3, 1934.

Mr. C. L. Bardo,
New York Shipbuilding Corporation, Camden, N. J.

My Dear Mr. Bardo: In reply to your letter of December 20, which the press of business and the recent holidays have prevented me from answering promptly, I am pleased to inform you that the Department will give your suggestion full consideration in connection with the itineraries of the newly commissioned cruisers.

However, the dates of completion of these ships are all late in the spring or early summer so that your suggested date of March 15, 1934 at Rio de Janeiro is not possible in any way.

Sincerely yours,

W. H. Standley,
Admiral, United States Navy,
Chief of Naval Operations.

(The letter referred to was marked "Exhibit No. 1520" and appears in full in the text.)

Mr. BARDO. That fixes the date when the bids were opened, March 15, 1934.

Senator CLARK. That shows that the Government was to send a warship down there to act as a sample exhibit in connection with your bid, at Government expense?

Mr. BARDO. True; they send these ships on a shake-down cruise.

Senator CLARK. But you were asking them to send a ship to that particular port, to really act as an exhibit for you. Is not that correct?

Mr. BARDO. They were not spending any extra money for our benefit. They take these ships off on a long cruise, after they are preliminarily accepted, and it is always a question where the cruise goes.

Senator CLARK. Yes; but the cruise was at Government expense.

Mr. BARDO. It is at Government expense, wherever they go.

Senator CLARK. But they were recommending that the ship be sent there at Government expense, to appear as an exhibit to promote your work.

Mr. BARDO. I do not agree with that at all.

Senator CLARK. What kind of conversational correspondence did you have with Mr. Workman on the subject of an exhibit; that is, to send a ship there and to procure through the State Department the sending of a vessel to Rio de Janeiro? Did you instruct him to make such an effort?

Mr. BARDO. I do not recall that I did, Senator.

Senator CLARK. Did he report to you that he had made such an effort?

Mr. BARDO. I do not recall that, either. He may have done it. I would not say that he did or did not.

Senator CLARK. Did he ever report to you any conversation with Ambassador Gibson?

Mr. BARDO. I do not recall that he did, Senator. He may have.

Senator CLARK. You would remember it, if he had reported to you having an argument with the American Ambassador to Brazil, and undertaking to put pressure on the Ambassador?

Mr. BARDO. Not necessarily so. I cannot, at least, put all of these details in my mind and carry them around here indefinitely. That is out of the question.

Senator CLARK. Would that be the kind of detail you would be apt to forget, the matter of one of your agents undertaking to put pressure on an American Ambassador?

Mr. BARDO. I would not attach very much importance to it.

Senator CLARK. That is all in the day's work, is it?

Mr. BARDO. That is all in the day's work.

Senator CLARK. I will read the report of Ambassador Gibson, or the substance of the report, dated at Rio de Janeiro, March 12, 1934. which I will ask be appropriately numbered.

(The report referred to was marked "Exhibit No. 1521" and is included in the appendix on p. 5229.)

Senator CLARK (reading):

> No. 37. Receiving call from Mr. Robert Aitken Workman, the N. Y. Shipbuilding Co.'s vice president. He asked that I wire immediately recommending a

scout cruiser be sent to Rio for the "moral effect" while the Brazilian Government was considering bids for naval construction. His manner was rather truculent and he took me to task for not being here when he wanted to see me. He pointed out the fact that there were two British cruisers in the harbor and referred cautiously to the fact that the British knew how to take care of their interests. The cruisers were there on a regular schedule—arranged some time ago—a fact which I pointed out to him. In spite of this he said that he would take the matter up with Navy through his own channels—to have a cruiser available for detached service sent to Rio.

I feel that no cruiser should be sent because of the effect its sudden appearance would have. I question the value of such a visit in view of the present unsettled political situation, without some valid reason.

Did you ever hear of such a conversation?

Mr. Bardo. What is the date, Senator?

Senator Clark. March 12, 1934, 11 months ago.

Mr. Bardo. That followed the conversation which had gone on before. I do not recall it.

Senator Clark. No report was ever made of any such conversation or demand to you?

Mr. Bardo. I would not say that no report was made, Senator. You asked me if I recalled this thing.

Senator Clark. Mr. Bardo, do you mean to say that a matter of such magnitude as one of your officials having conversation of that character with the American Ambassador to Brazil and threatening him that you would go through your own channels to the Navy Department would not make enough impression on your mind to remember it 11 months?

Mr. Bardo. Mr. Senator, Mr. Workman is not the kind of man that threatens anybody.

Senator Clark. Did you ever hear any report of this matter?

Mr. Bardo. I say that I do not recall that I did.

Senator Clark. You do not recall it at all?

Mr. Bardo. Yes; and I say that honestly. I am not here misrepresenting this situation. There is nothing about it I would want to conceal in the least. It is a perfectly open and real business transaction.

Senator Clark. Now, at that time, Mr. Bardo, or rather, just prior to that time, in January 1934, the Navy Department was assisting you in preparing your estimates on this Brazilian work, was it not?

Mr. Bardo. No.

Senator Clark. What conferences did you have with the Navy Department?

Mr. Bardo. We had a conference with the Navy Department for the purpose of ascertaining to what extent we might use any of our standard construction on United States Navy ships in the preparation of our designs for the Brazilian cruisers, and they gave us a general permission regarding the structure itself, and made certain reservations.

Senator Clark. Did you not ask them to prepare for you certain estimates of cost?

Mr. Bardo. Oh, no.

Senator Clark. For use in preparing your estimates, and did they not actually prepare them and furnish them to you?

Mr. Bardo. Wait a minute. Cost of what?

Senator Clark. Cost of various items going into it.

Mr. BARDO. Yes; the things that the Government normally furnishes for the cruisers which we build, of which we have no information as to what the cost was. We asked the Government for that.

Senator Clark. So that they did furnish it for bidding on the Brazilian cruisers?

Mr. BARDO. No.

Senator CLARK. As a matter of fact, did you not tell the Navy Department you wanted it for the purpose of preparing your estimates on Brazilian cruisers?

Mr. BARDO. Now, Senator, let us get this thing straight, because we are just talking and not getting anywhere.

Senator CLARK. The reason we are not getting anywhere, Mr. Bardo, is you keep saying " wait, wait, wait", and apparently do not desire to get anywhere.

Mr. BARDO. All right. Let me get this straight: On the cruisers built for the United States there is a limited cost of $17,000,000; $5,000,000 of that covers materials and supplies the Government furnishes, and $12,000,000 approximately covers what is paid for the ship. What we asked the Navy Department for was to give us an estimate of the prices or the cost of material that was involved in this $5,000,000, over which we had no control, or regarding which we had no information at all.

Senator CLARK. That is beside the point. The question I asked you was whether the Navy Department did not assist you in preparing the estimates on the bids which you were to submit, and you replied that they did not. I now offer in evidence, for appropriate number, a letter from the Navy Department, Bureau of Ordnance, Washington, D. C., dated January 26, 1934, subject, estimates of cost bids on Brazilian cruisers.

Mr. BARDO. That is right.

(The letter referred to was marked " Exhibit No. 1522 " and is included in the appendix on p. 5229.)

Senator CLARK. That letter reads in part [reading]:

> In connection with conferences of recent date between representatives of your company and representatives of the Bureau of Ordnance, the following information is furnished you for possible use as a basis in preparing estimates for the building of two Brazilian cruisers.

That is precisely what I asked you, Mr. Bardo. [Continuing reading:]

> The figures following represent the approximate costs and approximate weights of the most nearly similar United States naval material to that which you propose to furnish to the Brazilian Government. An exact comparison is not available in certain cases; for example, the Brazilian proposal is for an 8-inch, 50-caliber gun, whereas the latest information available in the United States Navy covers an 8-inch, 55-caliber gun, and so forth.

Then follows five pages of itemized information that they were furnishing.

Mr. BARDO. That is right, but that is all material, Senator, which we never furnish, and on which we had no information as to the cost.

Senator CLARK. Mr. Bardo——

Mr. BARDO. But if we had had——

Senator Clark. Just a minute, Mr. Bardo. The question I asked you was. " whether or not the Navy Department did actually assist you in the preparation of your estimates ", and you replied they did not, and this letter shows conclusively that they did.

Mr. **Bardo**. I stated that as the answer; yes, sir. So far as the estimate is concerned, we made the estimate for all the things we ordinarily estimate and supply, but the Brazilian cruiser required that we should give them a complete ship, so that we went to the Navy Department and they gave us an estimate covering all that material, which we never buy and never have anything to do with. They did do that. I want the record clear on that. There are two different things involved.

Senator **Clark**. Mr. Bardo, the Navy also gave you, or promised to give you, a set of specifications belonging to the Navy, from which it was your intention to start to build this material from the ground. Is not that true?

Mr. **Bardo**. No; we wrote our own specifications, except possibly the specifications for this material which we did not have.

Senator **Clark**. That is what I am speaking about. They did give you the Navy's specifications on that material, did they not?

Mr. **Bardo**. That may be true. I would not say they did or did not. I would not question that.

Senator **Clark**. What was—I do not know whether it is the name of a man or a company—Casa Mayrink Veiga S. A.?

Mr. **Bardo**. He was the man whom we selected as our representative in Rio. It is a very old concern there, and has been handling Brazilian business with outside companies for a number of years.

Senator **Clark**. He represented a lot of outside companies down there, did he not?

Mr. **Bardo**. That is right.

Senator **Clark**. He advised you on March 15, 1933, that Vickers, was very active on this matter?

Mr. **Bardo**. Oh, yes.

Senator **Clark**. And that two British naval vessels were in the harbor?

Mr. **Bardo**. Yes, sir.

Senator **Clark**. I will read his letter (reading "Exhibit No. 1523"):

AIR MAIL,
March 15, 1934.

Mr. C. L. BARDO,
President New York Shipbuilding Co., Camden, N. J.

DEAR MR. BARDO: In accordance with plan, the tender for the construction of vessels under the Brazilian naval program, was duly realized to-day.

As you will observe from list attached hereto, 24 firms participated, 1 being Finnish, 1 American, 6 British, 6 Italian jointly, 1 Brazilian, 4 French, 2 Dutch, 2 German, and 1 Spanish. No bids have as yet been examined, the presiding committee having decided to deliver them to the committee designated for this purpose, who will open and examine them at a secret session to be held within a few days.

In all, including your organization, four shipbuilding companies bid on the cruisers—Vickers-Armstrong, Swan, and the Italian group. It is as yet rather early to prophesy, but it would appear that we have not very much to fear from the last two mentioned competitors, and serious competition is therefore reduced to one company, namely, Vickers-Armstrong.

Upon Mr. Workman's arrival in Rio last week, he found two English cruisers—*Norfolk* and *York*— in port, and we are sure he endorses our opinion that the United States Government should follow the example set by Great Britain and arrange for one of its most modern cruisers to visit this city at an early date. In this connection we had occasion to speak to Ambassador Gibson and as a result of this Mr. Workman cabled you to do everything in your power to convince the United States Government that the visit of a United States cruiser to Rio at this time would prove of incalculable assistance to the New York Shipbuilding Co., the only American firm competing.

With highest expressions of esteem from writer,

Yours very truly,

CASA MAYRINK VEIGA S. A.
——— ———, *Director.*

I offer that letter for the record.

(The letter referred to was marked "Exhibit No. 1523" and appears in full in the text.)

Senator CLARK. Does that refresh your memory as to receiving a cablegram from Mr. Workman?

Mr. BARDO. I do not think it was a cablegram. I do not recall that.

Senator CLARK. You think Veiga was in error?

Mr. BARDO. I do not say he was in error, but I do not recall any cable.

Senator CLARK. He states that he cabled you.

Mr. BARDO. I do not think he did, but sent it in the form of a letter, although he may have cabled me. I remember that letter distinctly, because that was an important letter.

Senator CLARK. Did you pursue the matter further through the Navy Department, of sending a ship down there, Mr. Bardo?

Mr. BARDO. In both the letters to which you have referred, which I wrote to Admiral Standley. I do not think I followed it beyond that.

Senator CLARK. You did not carry it out through your own channels with the Navy Department?

Mr. BARDO. What were the dates?

Senator CLARK. The date of Ambassador Gibson's cablegram, which I read a few minutes ago, was March 12, 1934. The date of Mr. Veiga's letter——

Mr. BARDO. Was March 15.

Senator CLARK. March 15, 1934.

Mr. BARDO. What was the date of my letter to Admiral Standley?

Senator CLARK. December 20, 1933.

Mr. BARDO. You see, those two had no connection at all.

Senator CLARK. Did you pursue further the effort to get a naval vessel sent there?

Mr. BARDO. I do not know that I did.

Senator CLARK. Mr. Bardo, you wrote to Admiral Standley again on August 14, 1934, urging him to send a naval vessel down there; did you not?

Mr. BARDO. I do not recall the letter—if you have it. I may have written it but I do not recall it.

Senator CLARK. You did resume the negotiations through your own channels with the Navy Department, following the refusal of Ambassador Gibson to participate in that effort?

Mr. BARDO. Senator, I do not recall anything that ever took place, so far as my knowledge is concerned, between Mr. Workman and Mr. Gibson. That I do not recall anything about.

Senator CLARK. To say the least, in August 1934, you did take up the matter again with the Navy Department, did you not?

I read here a letter from Admiral Standley addressed to you, which I offer for appropriate number, dated the 18th of August, 1934.

(The letter referred to was marked "Exhibit No. 1524" and appears in full in the text.)

Senator CLARK. That letter reads:

NAVY DEPARTMENT,
OFFICE OF CHIEF OF NAVAL OPERATIONS,
Washington, August 18, 1934.

Mr. C. L. BARDO,
New York Shipbuilding Corporation,
Camden, N. J.

MY DEAR MR. BARDO: With reference to your letter of August 14 concerning the visit of United States vessels to Brazilian ports, I am pleased to inform you that the aircraft carrier *Ranger* is now scheduled to visit Rio de Janeiro from August 30 to September 9, Buenos Aires from September 12 to 18, and Montevideo from September 18 to 24.

The *Tuscaloosa* is scheduled to visit Buenos Aires and Montevideo in November and will probably visit Rio de Janeiro late in November.

Very sincerely,

W. H. STANDLEY.

Do you remember receiving such a letter as that from Admiral Standley, Mr. Bardo, in response to one which you had written him 4 days previous?

Mr. BARDO. I think so.

Senator CLARK. In response to that, on August 20, 1934, you wrote the following letter, which I will offer for appropriate number:

AUGUST 20, 1934.

Admiral W. H. STANDLEY,
Chief of Naval Operations, United States Navy,
Navy Department, Washington, D.C.

MY DEAR ADMIRAL: I am more than delighted to receive yours of August 18 in reply to mine of the 14th, advising that the aircraft carrier *Ranger* and the cruiser *Tuscaloosa* are to be in southern waters.

I very much hope that you will find it convenient to have the *Tuscaloosa* make a visit to Rio de Janeiro in November, as this is not only a very fine ship but in my opinion she is the very best of the group which we have built. I was greatly impressed with the steadiness of the ship on her official trials at high speed.

Thanking you, and with high personal regards, I am,

Very truly yours,

C. L. BARDO.

Copies, Messrs. Cornbrooks and Workman, together with copy of Admiral Standley's letter. I suggest that Mr. Workman advise Mr. Veiga accordingly.

C. L. B.

(The letter referred to was marked "Exhibit No. 1525" and appears in full in the text.)

Senator CLARK. You will notice that the *Tuscaloosa* is referred to there.

Mr. BARDO. Yes.

Senator CLARK. And you helped out by contributing $1,000 to help fix up the wardroom, did you not?

Mr. BARDO. No.

Senator CLARK. You had contributed?

Mr. BARDO. The wardroom was finished in accordance with the specifications. While she was lying at the New York Navy Yard the men in the wardroom, on their own money, arranged to have that room decorated and refixed. I knew nothing about it. And the ship came back to the Philadelphia yard and I went over to see it. I was very much impressed with what they had done toward improving the livable characteristics of the wardroom. The chief executive officer, I talked to him about it, and I said, "Who furnished the money for this?" and he said, "It comes out of the donation of the officers of the ship." I said, "This is such an improvement and such a highly desirable thing that I am perfectly willing to contribute $1,000 toward the expense for the relief of the officers of the ship."

Senator CLARK. He told you at the time that the cost of it was $1,000, did he not?

Mr. BARDO. No; he told me the cost of it was around 22 or 24 hundred dollars.

Senator CLARK. Before you contributed one thousand dollars, did he not tell you that that was the whole cost?

Mr. BARDO. No.

Senator CLARK. He said he did.

Mr. BARDO. He told me it was 22 or 24 hundred dollars.

Senator CLARK. Here is a letter from D. A. McElduff, Commander, United States Navy, dated October 1, 1934, addressed to you.

> MY DEAR MR. BARDO: We received your check for one thousand dollars as a contribution toward expenses incurred in decorating the wardroom. We certainly appreciate your kindness and assure you this check will be of material benefit to the officers who otherwise would have had to pay for the improvements made out of their own personal funds.

Mr. BARDO. That does not say——

Senator CLARK. Wait a minute. I will not take the trouble of reading the entire letter, because it is rather lengthy.

Mr. BARDO. All right.

Senator CLARK (continuing reading):

> We have done all this as moderately as possible and have been able to procure a discount of 30 percent from Sloan and a discount of 50 percent from Lightoiler Co. However, even with the utmost economy in buying, the total cost for the wardroom will be approximately $2,000.

Mr. BARDO. That is right.

Senator CLARK (continuing reading):

> I am telling you all this because of the interest you have shown in our wardroom and because when I saw you in Philadelphia I informed you that the total cost would be only one thousand dollars.

Mr. BARDO. He did not—$2,000 or $2,200 was the only information he ever gave me.

Senator CLARK. So that he is in error when he voluntarily wrote you this letter on October 1, 1934?

Mr. BARDO. He is in error in saying he told me the cost was $1,000 only. I was told the cost was $2,200 or $2,400, and that is confirmed by his letter.

Senator CLARK. Mr. Bardo, you felt you might have secured this Brazilian business if the State Department had exercised a little more friendly attitude, did you not?

Mr. BARDO. No; I did not feel that the State Department, so far as soliciting business for us is concerned, had anything to do with it. The only thing in which I was interested was whether or not we could go on and do it without embarrassment. I never made any approaches or made any suggestions to anybody in the State Department as to any activity or on what they might do in our interest.

Senator CLARK. You did know that other countries were helping their shipbuilding companies?

Mr. BARDO. Absolutely I knew that, and doing everything that they could.

Senator CLARK. Did you not know that your bid was some 30 percent above your competitors?

Mr. BARDO. I do not recall, Senator, that I ever saw the exact figures of the other companies.

Senator CLARK. Did you ever consider that it was the belief of the State Department that they could have secured an award for you except they did not desire to do it because of the danger of starting a naval building race in South America?

Mr. BARDO. Will you repeat the question, please?

Senator CLARK. I say, did you ever know that it was the general belief in the State Department that they might have possibly secured the award for you, 30 percent above your competitors, except they did not desire to start such an activity?

Mr. BARDO. I never knew that; no.

Senator CLARK. You actually abandoned the whole Brazilian enterprise when the Nye committee, before which you are now appearing, started operations last fall?

Mr. BARDO. No.

Senator CLARK. I would suggest at this time that the letter from Commander McElduff, to which I have previously referred, be appropriately entered.

(The letter referred to was marked "Exhibit No. 1526" and is included in the appendix on p. 5231.)

Senator CLARK. You got a letter on September 27, 1934, from Ray W. Berdeau to you, reading as follows:

INTERNATIONAL ENGINEERING & DEVELOPMENT CORPORATION.
New York, N. Y., U. S. A., September 27, 1934.

Mr. C. L. BARDO,
President New York Shipbuilding Co., Camden, N. J.

DEAR MR. BARDO: When I last talked with you on July 9, 1934, you suggested that I get in touch with you in the event that Pusey & Jones Corporation could not take on the Uruguay ferry scheme.

You probably have heard directly from Mr. Lee that they are definitely not interested and as no proposals were submitted in Uruguay on September 25, 1934, I am writing to enquire if you would be interested and would care to work with me on it.

In that there are features in this that may be of interest to other operations of the Cord properties, I would like to discuss it also with your Mr. Manning, but will defer this conversation until after hearing from you.

I am sailing shortly for South America and would be glad to get into this with you when and where it would be convenient.

Yours faithfully,

(Signed) RAY W. BERDEAU.

On September 28, 1934, you wrote the following letter (reading "Exhibit No. 1527"):

Mr. RAY W. BERDEAU,
Care International Engineering and Development Corporation,
149 Broadway, New York City.

DEAR MR. BERDEAU: Yours of September 27.

In view of the developments in connection with the Nye investigation, supported by information which I received from South America today, I question whether it is worth our while to waste any time in endeavoring to get South American business.

I have positive assurances that at least two of the countries in South America have closed their doors to American products, and I have no desire to be chasing rainbows.

Very truly yours,

C. L. BARDO.

Mr. BARDO. That is correct.

Senator CLARK. So that you did that after the committee started?

Mr. BARDO. The Nye investigating committee had nothing to do with it. Mr. Berdeau is an entirely different type of individual.

Senator CLARK. Entirely different type?

Mr. BARDO. From a lot of fellows.

Senator CLARK. What do you mean by saying he is a different type from a lot of fellows?

Mr. BARDO. He is a type of fellow you cannot afford to waste any time with. I had had experience with him before, and that is what I mean by that.

Senator CLARK. You mean different from you?

Mr. BARDO. I hope he is.

Senator CLARK. The fact is that you assigned the investigation of this committee as one of the reasons?

Mr. BARDO. That was just an easy way to put him off the track, because I was not going to waste any time with him.

Senator CLARK. I will offer that letter of September 28, 1934, for the record.

(The letter referred to was marked "Exhibit No. 1527" and appears in full in the text.)

Mr. RAUSHENBUSH. Mr. Bardo, did I understand your testimony of a little while ago to be that the communication which you had with Admiral Standley about getting a cruiser down there in December 1933, I mean the correspondence dated December 1933, had nothing to do with the bids which were opened March 15, 1934?

Mr. BARDO. What is the connection which you want to establish?

Mr. RAUSHENBUSH. I thought very definitely you had stated for the record that there was no connection, and I wanted to bring you back to that and ask you whether I understood the testimony correctly.

Mr. BARDO. I did not mean to convey the impression, if that can be read out of my answer, because I very definitely had in view that if we were going into this foreign business, that we were entitled at least to the same consideration from the standpoint of our Government that other governments gave to their people engaged in foreign business.

I do not want the impression to prevail that there was no connection, because in my mind there was a very definite connection.

Mr. RAUSHENBUSH. You did not know at that time, in December 1933, when you wrote Admiral Standley, trying to get a cruiser down there, that the British would have two in that port?

Mr. BARDO. They always have done it. They never miss it.

Mr. RAUSHENBUSH. Just to clear that up, I wanted to call your attention to this letter from Admiral Standley, in reply to yours, in which he ends up:

> However, the dates of completion of these ships are all late in the spring or early summer, so that your suggested date of March 15, 1934, at Rio de Janeiro is not possible in any way.

You wanted the cruiser down there for that?

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. It is not very important, but I wanted to clear up the record.

Senator CLARK. This Ambassador Gibson, whose cablegram I read, was the same Hugh Gibson who was the head of the Geneva Conference which was a failure because of the activities of the New York Shipbuilding Co. and the other companies, was he not? Did it ever occur to you that his coolness as to your efforts in Brazil had anything to do with your efforts in Geneva?

Mr. BARDO. I can only give you the same answer to that, Senator, that I gave to Senator Shortridge before: That anybody is a wild ass who thought I would send a man over to Geneva without power, influence, or prestige to break up an international conference, and he did not know what he was talking about.

Senator CLARK. What did you send Shearer over there for?

Mr. BARDO. Not to break up the conference.

Senator CLARK. What did you send Shearer over there for?

Mr. BARDO. I said I sent Shearer over there as an observer, to tell us what was going on. That is all.

Senator CLARK. Did you know of his efforts to break up the conference?

Mr. BARDO. I knew of it afterwards, but not then.

Senator CLARK. You did not know of it then?

Mr. BARDO. Besides, Senator, Shearer was always a big-Navy man. The plans of the people were for a big Navy. Why would he be breaking up an international conference when they were doing what he believed in himself?

Senator CLARK. The purpose was not to have a big Navy.

Mr. BARDO. The reason for breaking up was because Great Britain wanted a big Navy.

Senator CLARK. That is a matter of opinion. A great deal of the breaking of the conference was due to the activities of Shearer.

Mr. BARDO. You read the record?

Senator CLARK. I have read the record.

Mr. BARDO. So have I.

Senator CLARK. What was the reason for the soiree or dinner on July 15, 1934? What was the occasion of it?

Mr. BARDO. Where was it?

Senator CLARK. Pine Valley Gulf Club, July 15, 1934.

Mr. BARDO. That is right.

Senator CLARK. What was the nature of that?

Mr. BARDO. That followed the big demonstration which was made at New York of the Navy. They sent several of those ships to Philadelphia, to put them on display, and they invited the people of Philadelphia to arrange for entertainment for these Navy officers. I said, "I will be very glad to furnish entertainment for one afternoon for the group ", and I took Captain Johnson and all—I do not think there were over 6, 8, or 10 altogether—down to Pine Valley and we played golf. That was simply discharging an obligation I made to the entertainment committee of the city of Philadelphia.

Senator CLARK. You had golf and dinner?

Mr. BARDO. We had golf and dinner, and a thunderstorm.

Senator CLARK. Any further questions, Mr. Raushenbush?

Mr. RAUSHENBUSH. Mr. Chairman, we have got into the question of competition or noncompetition between the big three for several of the bidding years, and we want very much to get back into that sometime within the next couple of weeks, if that is possible. We have a full schedule for the rest of this week so that it will have to go over until one of the coming weeks, so far as Mr. Bardo's testimony is concerned.

Senator CLARK. Mr. Bardo may be excused subject to call, and the committee will take a recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:05 p. m., the hearing was recessed until 10 a. m., tomorrow, Wednesday, Feb. 6, 1935.)

INVESTIGATION OF MUNITIONS INDUSTRY

WEDNESDAY, FEBRUARY 6, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m., in room 357, Senate Office Building, pursuant to recess, Senator Arthur H. Vandenberg presiding.

Present: Senators Clark, Bone, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee; and F. W. LaRouche, investigator.

Senator Vandenberg. The hearing will come to order. Mr. Parker, take the stand.

TESTIMONY OF N. R. PARKER—Resumed

PROPOSED MERGER OF NEW YORK SHIPBUILDING CORP. WITH NEWPORT NEWS SHIPBUILDING CO.

(The witness had previously been sworn by the chairman.)

Mr. Raushenbush. Mr. Parker, in July of 1932 we find that you were considering the matter of a proposal of a merger with Newport News Shipbuilding & Dry Dock Co. Could you tell us who was interested in that proposed merger?

Mr. Parker. The proposal was considered by the board of directors of the New York Shipbuilding Corporation. and I was directed to furnish certain information to engineers making a survey for merger purposes.

Mr. Raushenbush. Why was that proposal dropped?

Mr. Parker. Because the board of directors, I assume, did not believe that it was a feasible or advantageous proposition.

Mr. Raushenbush. I show you a copy of one of your comments on it, dated July 20, 1932, which I offer for appropriate number. [Handing paper to witness.]

(The document referred to was marked "Exhibit No. 1528" and is included in the appendix on p. 5232.)

Mr. Raushenbush. I call your attention to the second paragraph:

> It is, of course, impossible to ascertain the general attitude of the Government toward the merger of two companies out of three available to afford reasonable competition on Government contracts. This is believed to be a controlling matter in the consideration of the method of the merger. The governmental attitude is indirectly connected with the possible distribution of new business. With but three shipbuilding yards available for competition and the announced desire on he part of the Government to maintain those yards as an independent

but nevertheless part of the national defense system, governmental policy has generally distributed the work fairly equitable between the three active yards. A merger of two of these yards might very well divide the work into two parts rather than three, so that while no Newport News Shipbuilding & Dry Dock Co. independently obtains one-third and New York Shipbuilding Corporation independently obtains one-third, or a total of two-thirds under independent operation, a merger might very well reduce the combined distribution to one-half for the combined yards. It is reasonably certain that if this was the result the loss in combination would far offset any possible benefits through merger.

Do you remember that statement?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. That is a fair comment there, is it not, so far as you remember it, that the Government distributes " the work fairly equitably " and they want at least three companies for the purpose of apparent competition?

Mr. PARKER. It had been indicated to the Department, that is, the Navy Department had been somewhat disturbed by the failure of one of the four qualified yards for naval construction, that is, the Cramp Shipbuilding, and, insofar as it was possible thereafter they certainly did not want to see any of the larger available yards go out of business.

Mr. RAUSHENBUSH. Was the intent of the merger to put one of the yards out of business or simply to cut the overhead by a combination? Two yards would have remained in existence, as such, would they not, as operating yards?

Mr. PARKER. As I understand the proposal, it was to, of course, reduce operating expenses of the two yards by a combination, but also contemplated the possibility of specializing in one of the two combined yards for merchant work, and specializing in the other of the two combined yards for naval work, which in effect would have really brought about two Navy building yards.

Mr. RAUSHENBUSH. Yes; it would have left two Navy building yards, would it not?

We find some memoranda back in the early days of your company, Mr. Parker, concerning the employment of Mr. Sterling J. Joyner. Do you remember whether he was any representative of Electric Boat?

Mr. PARKER. He was not, as far as I know.

Mr. RAUSHENBUSH. There are various checks, one for $1,000, and for $3,000, and the like.

REPLIES OF NEW YORK SHIPBUILDING CORP. TO COMMITTEE REQUESTS

Mr. PARKER. Mr. Raushenbush, at my last appearance I could not, because of lack of time, furnish the committee with information requested, and since the recess, at which time I was excused, I have been attempting to collect the information at the request of Senator Vandenberg, some special information as well as information for you, and information in connection with insurance.

In the matter of special representatives, I have collected some which I think has a bearing on your question as to Mr. Joyner.

Mr. RAUSHENBUSH. Is this a complete and accurate file of information in regard to the special representation? [Referring to document just offered by witness.]

Mr. PARKER. Yes, sir; so far as that goes.

Mr. RAUSHENBUSH. The other one, because of lack of time, you put in, saying definitely: "This was made up from the best of recollection and memory."

This is finally from the books, is it?

Mr. PARKER. This is from the vouchers and disbursements that I have been able to check.

I have also supplementing that, as requested by Senator Vandenberg, 2 years of the Washington representative, Mr. Foster, with all the details taken from that.

Mr. RAUSHENBUSH. About the other question, Senator Vandenberg wanted the agents of the insurance companies through whom the premiums were placed, or the insurance was placed.[1] Do you have that?

Mr. PARKER. We turned that in through Mr. Bardo, in order to put before the committee the record of the insurance policies, the coverage by the policies, and the brokers through whom this insurance was placed.

Mr. RAUSHENBUSH. Yesterday afternoon, after examination of this material turned in by Mr. Bardo, we wired you asking for the representatives of your agents. You have a good deal of it marked through Childs & Wood, through Johnson & Higgins, and we wanted the names of the individual representatives of those brokers. Could you supply that this morning?

Mr. PARKER. I am ready to. With Johnson & Higgins, the policies written by that firm were negotiated, first, with an employee of Johnson & Higgins named Becker, who died, and the last of the policies were negotiated with a man named Keegan, also an employ of Johnson & Higgins.

Senator VANDENBERG. Is Johnson & Higgins a New York institution?

Mr. PARKER. Johnson & Higgins is one of the largest of the marine insurance writers in this country, in New York.

Childs & Woods: all matters and policies handled by Childs & Wood have been negotiated with Mr. Donald Wood, of the firm of Childs & Wood. They are a Chicago firm. The policies negotiated with Tifft, Layer & Co., were negotiated with Mr. Layer of the firm.

The agents through whom those various brokers place insurance are indicated in some cases on policies, as in the case of Childs & Wood's policy for use and occupancy insurance, as shown on the schedule, where it was made through a firm D. A. Henderson & Co. in Camden.

Childs & Wood are general agents for a number of companies and write the insurance directly.

The foreign insurance for Johnson & Higgins, Tifft, Layer & Co., and Childs & Wood is handled through foreign correspondents.

Senator VANDENBERG. Was there more or less of a switch over to Childs & Wood 2 or 3 years ago?

Mr. PARKER. After August of 1933, when the Cord interests and affiliates acquired ownership of the New York Shipbuilding Corporation, they had various interests scattered throughout the world, and their interests in all insurance matters were handled by Childs & Wood; and it was believed that many economies could be effected through blanket coverages, and I was instructed to turn over our insurance matters to Childs & Wood.

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[1] See Hearings, Part XVIII, p. 4668 for request.

Senator VANDENBERG. In other words, the reason that Childs & Wood entered the situation at that particular time was because of the New Cord relationship to New York Ship?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH. Do you identify this material prepared by you in connection with the insurance matter? [Handing papers to witness.]

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. May we, without offering that for the record, mark it and identify it as "Committee Exhibit (New York Ship) No. 1"?

(The document referred to was marked for identification "Committee Exhibit (New York Ship) No. 1" and is on file with the committee.)

Mr. RAUSHENBUSH. Coming back, then, to this matter of the employment of Mr. Joyner, do you remember back that far, or have you ever had it called to your attention, the matter of a somewhat mysterious check for $5,000 which he apparently received back there?

Mr. PARKER. What date, Mr. Raushenbush?

Mr. RAUSHENBUSH. That was back on December 31, 1920. There is an order here to make it out for expense, and Mr. Joyner writes Mr. Wickersham [reading]:

> Inserted special on expense ship. If this is improper for your purposes, let me know. Mr. Neeland will tell you what the expense is for.

Mr. PARKER. What date is that, sir?

Mr. RAUSHENBUSH. Back in 1920. What was he doing for you at that time, if you remember, Mr. Parker?

Mr. PARKER. I do not recall. I checked Mr. Joyner back for the period—may I see that letter just a second?

Mr. RAUSHENBUSH. Yes, sir; 1920 to 1923. [Handing paper to witness.]

Mr. PARKER. That is right. I recall it.

Mr. RAUSHENBUSH. But you do not recall?

Mr. PARKER. I recall the amount and the purpose of it.

Mr. RAUSHENBUSH. What was the purpose of that?

Mr. PARKER. Mr. Joyner, as stated in my letter, was engaged to be the New York Shipbuilding Corporation representative for certain work, on a basis of salary and commission. Through his efforts we obtained a Japanese contract for the construction of a naval oil tanker, *Kamoi*.

Senator CLARK. About when was that, Mr. Parker?

Mr. PARKER. About 1921 or 1922. The basis of his commission was not less than 5 percent of the net profits earned by the company on that particular contract. On the basis of the anticipated profits on the contract, he was paid $5,000 commission in advance. That is the check to which you refer. He actualy received, in final settlement, thirteen-thousand-some-odd dollars, which I have noted there.

Mr. RAUSHENBUSH. If that was a commission, what was the point of putting it in as an expense item? So that he could avoid the income tax on that? Is that the point of that?

Mr. PARKER. That is something I know nothing about.

Mr. RAUSHENBUSH. He definitely puts it in as an expense item [reading]:

> Inserted special expense ship. If this is improper let me know. Mr. Neeland will tell you what the expense is for.

Mr. PARKER. That was a matter of arrangement between Mr. Neeland and Mr. Wickersham, the then treasurer.

Mr. RAUSHENBUSH. It has nothing to do——

Senator CLARK. Did that expense item go into overhead, Mr. Parker?

Mr. PARKER. Yes, sir.

Senator CLARK. That was the Japanese representative about whom we were talking when you left here?

Mr. PARKER. Yes, sir.

Senator CLARK. In other words, the services in Japan in getting this tanker contract were partly charged up to the Government for overhead on the naval construction work which you were doing at that time?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. You prepared this statement, which I offer for the record under the number "Exhibit No. 1529", supplementing further information regarding the representatives, Mr. Parker.[1]

(The letter referred to was marked "Exhibit No. 1529" and is included in the appendix on p. 5233.)

Mr. RAUSHENBUSH. I see here the name of Charles Denby, special representative, China and the Orient, 1922 to 1923. The actual amount paid to Denby was $5,048.72. Was that the brother of the Secretary of the Navy at the time?

Mr. PARKER. I believe so.

Senator CLARK. Had Mr. Denby ever been in your employ, Mr. Parker, so far as the New York Shipbuilding Co. is concerned?

Mr. PARKER. Not so far as I know.

Senator CLARK. Was there any particular reason why he would be employed and sent over to the Far East at the time when you already had two other highly paid representatives in that territory?

Mr. PARKER. That was a matter that Mr. Neeland decided. He was president of the company.

Senator CLARK. You had nothing to do with it?

Mr. PARKER. I had nothing to do with it whatever.

Senator CLARK. You simply know he was employed at the same time because the check was made out?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. In the paragraph below you state that Joyner was paid during this period salary expense of $103,432.98 and Joyner was also paid in addition $13,750 commission on the Japanese tanker *Kamoi*. If Mr. Joyner was covering the Orient at the time and getting this fairly high salary, what point was there particularly in Mr. Denby going over there? He did not get any business for you, did he?

Mr. PARKER. No.

Senator CLARK. Mr. Gillis was your far-eastern representative at that time, and was the same Mr. Gillis formerly naval attaché at the American Legation at Peking, was he not?

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[1] Hearings, Part XVIII, p. 4523.

Mr. PARKER. I do not know his connection.

Senator CLARK. At the same time he was representing you, he was also representing du Pont in China and the Far East?

Mr. PARKER. At one time he was representing du Ponts and other shipyards.

Senator CLARK. And representing Bethlehem and Newport News at the same time, was he not?

Mr. PARKER. He was representing Bethlehem Steel—Fore River plant, which was not a Bethlehem company at that time—Newport News, and du Pont.

Mr. RAUSHENBUSH. There was a good deal of other information,[1] Mr. Parker, which you prepared for the committee, at its request, and as we go along I would like to have it identified and put in the record or marked as a separate committee exhibit.

Do you identify that reply to our question no. 20? [Handing papers to witness.]

Mr. PARKER. Yes.

Mr. RAUSHENBUSH. And it states at the bottom of that:

> The limited time available does not permit the preparation of a statement of the financial effect of the changes with regard to the company and the amounts involved.

You have not been able to do anything further on that, have you?

Mr. PARKER. No, sir.

Mr. RAUSHENBUSH. In that connection there were supplemental contracts with the Government during the years 1917, 1918, and 1919. How many of the destroyers that were ordered during the war are not started—that is,(keels were not laid until after the war? Do you recall. How many of those destroyers you had which were ordered during the war but were not begun until after the war?

Mr. PARKER. I do not know the number. I know there were a few of them that were not, due to the fact that we were required to build the plant in which the destroyer was to be built, and the difficulties of building the plant took up all of our time and energy. We ran into a winter, one of the coldest winters of history, in 1917 and 1918, and we had to blast the ice in order to build piling to build the ways on which the destroyers were to be laid, and before the keels were laid the armistice had arrived.

Mr. RAUSHENBUSH. The question is not intended to cover in any way the cause of the delay, but the question is, rather, how it happened that after the war was all over on November 11, 1918, these ships whose keels were not laid at the time were then laid and continued and completed? Can you throw any light on that? You have explained quite satisfactorily that you had to build a yard, and that was the cause for that delay, but my question was the other one: Why, after the war was over, the contracts were not canceled, but instead you were given 10 destroyers to complete, and there were altogether 91 whose keels were laid subsequent to November 11, 1918. Can you throw any light on that at all?

Mr. PARKER. Not at all, except that we had a contract to build ships. The contract was not canceled, and we built them.

Mr. RAUSHENBUSH. I call the attention of the committee to the hearings in Navy Department appropriation bill, 1933, United States

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[1] Hearings, Part XVIII, p. 4521.

House hearings, Seventy-second Congress, on pages 66 and 67, in which these 91 destroyers, of which New York Ship had 10 whose keels were not laid until after the war, being ordered during the war, are listed, and offer for the record the statement just identified by Mr. Parker in reply to question 20.[1]

(The document referred to was marked "Exhibit No. 1530" and is included in the appendix on p. 5234.)

Mr. RAUSHENBUSH. There is an illuminating comment on that, Mr. Chairman, by Admiral Pratt, who gives at least one reason why these destroyers, 91 destroyers, were built after the whole war was over [reading]:

> Admiral PRATT. That seems like a very fair question. I cannot give you a real, practical, definite reason why, but I should say this: That if you start a big machine moving, such as this production is, it takes a certain amount of time before it gets slowed up and working normally; and I should think that that had about as much to do with it as anything. We just got swept into it, and before we could get our breath and stabilize and get together. there we were with our output.

The result of that is that there were 91 destroyers whose keels were not laid at all at the time of the armistice, but were begun afterwards.

Senator CLARK. The result was we had 91 destroyers which we did not need?

Mr. RAUSHENBUSH. I am under the impression, but I could not testify to it myself, that a considerable number of them were decommissioned very shortly afterwards.

Do you know anything about that, Mr. Parker?

Mr. PARKER. No, sir; I do not.

VINSON ACT—ATTEMPT TO LIMIT PROFITS ON NAVAL SHIPBUILDING

Mr. RAUSHENBUSH. We want to get into another question, now, Mr. Parker, that dealing with the Vinson bill. You took part in some conferences with the other shipbuilders on that, did you not?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH. You followed the discussion back and forth a good deal, did you not, lasting over a period pretty much since the adoption of the Vinson bill?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH. The Vinson bill was an attempt, was it not, to limit profits on naval construction from 1934 on to 10-percent profit?

Mr. PARKER. That is correct.

Mr. RAUSHENBUSH. The whole subject matter is interesting to the committee, because it is interested in the attempt to limit profits during war time.

Now, were the shipbuilders friendly to this part of the Vinson bill when it went to them, or did they oppose that part limiting profits to 10 percent?

Mr. PARKER. I had no discussion with any shipbuilders other than our own management in connection with the Vinson Act.

Mr. RAUSHENBUSH. What did your own management do about it?

Mr. PARKER. I believe they referred the matter to joint action by their representative association, the National Council of American Shipbuilders.

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[1] Hearings, Part XVIII, p. 4529.

Mr. RAUSHENBUSH. And what did the National Council of American Shipbuilders do about it?

Mr. PARKER. That I do not know, except such information and records as were written to us, as a member of that association, by the association, indicating that they had attended hearings and advising us of the various drafts of the proposed act from time to time. The matter was actively handled by Mr. Bardo. I had nothing to do with it.

Senator CLARK. Mr. Bardo?

Mr. PARKER. Yes, sir.

Senator CLARK. Was this National Council of American Shipbuilders opposed to the general proposal? Were you able to determine from the information furnished you?

Mr. PARKER. I can only speak for our own corporation. We believe that the principle of profit limitation is desirable. I think a canvass of the management as of the time the bill was passed would indicate a whole-hearted sympathy in the theory of limitation of profits, or at least preventing excess profits, not only on spending public moneys for shipbuilding but the spending of public moneys in any form, whether through naval appropriations, P. W. A., A. A. A., or any other governmental agency.

Mr. RAUSHENBUSH. Could you furnish us from your files any evidence of the whole-hearted support of your company or management for the Vinson bill, so far as the limiting of profits to 10 percent is concerned, from letters approving the bill, using the influence of the company to secure that amendment limiting the profit to 10 percent? Do you know of any such correspondence, any such influence?

Mr. PARKER. There is not any such correspondence, because it is also believed, at least by me, speaking for myself, that the Vinson Act does not accomplish that particular thing.

Mr. RAUSHENBUSH. You mean it does not limit profits to 10 percent?

Mr. PARKER. It limits profits to 10 percent but it creates an inequity that will eventually lead to a financial catastrophe so far as the shipbuilders are concerned, for the reason that it is " a tails you lose or heads you lose " all but 10 percent; that in the event of having a contract for four ships, with a profit limitation on the four, you might have a peculiar situation where on the first ship, being the first ship designed, redesigned, trial and error experience and development would run you a loss, say, of 30 percent, but that under the act would be " the tails you lose."

On the second ship you might break even, because of the experience on the first.

On the third and fourth you might make, say, 20 percent profit. The excess over the 10 percent would be returnable. So that if you take a job as a whole, you would lose money on all of it. It is a condition which creates an inequity that does not just limit profit, but prevents the averaging of work, as any industry may average work, in that certain industries may make one product and secure it at practically cost or less, in order to obtain volume, where their other product is the profitable part of it, but would not be profitable except for the volume obtained. And without the ability to average, you would have a situation that would adversely affect the concern.

Senator VANDENBERG. Now, Mr. Parker, does the 10-percent limitation in fact mean much of anything unless the cost factors which you inject into the cost estimate are strictly limited? In other words, so long as you are relatively free to count your cost items as you please, is the 10-percent profit limitation a real limitation?

Mr. PARKER. Senator, you are free under the act, or under the regulation which is a part of the contract, to count your cost items as you please. The Treasury Department is the final court in determining what is an item of cost, what elements of cost shall be allowed in determining the profit, on which the excess will be figured. So that we are not free to include elements of cost, as you would normally under the ordinary cost-plus contract.

Senator VANDENBERG. You would not be free to include items such as were originally included in the cost-plus contracts during the war?

Mr. PARKER. You would probably include them, if the contract provided for their inclusion, as they did at that time, with the same result that there was on those contracts; the Treasury Department would not allow them.

ITEMS OF COST IN WAR-TIME COST-PLUS CONTRACTS

Senator CLARK. Did that contract during the war include provision for assessing the services of your Chinese and Japanese representatives and for wines, liquors, and cigars which you actually put into the cost?

Mr. PARKER. It included all costs having to do with operating the business, and wines and liquors in shipbuilding are just as necessary as steel in many cases.

Senator CLARK. Do I understand that the contract provided for under the Vinson bill should include wines, liquors, and cigars?

Mr. PARKER. Absolutely so.

Senator CLARK. That is very illuminating.

Senator VANDENBERG. In the case of those cost-plus contracts during the war, do I understand that the items which you included in cost, and which were subsequently eliminated, such as income taxes, and so forth, do I understand that you were authorized to include those at the time in the first instance?

Mr. PARKER. The contract, the first cost-plus contract, provided as one of the items of cost all taxes. That seemed to be authority to include income taxes.

Senator VANDENBERG. Where did that authority come from?

Mr. PARKER. As a matter of fact, it was, I believe, the true meeting of the minds of the parties drawing the contract that income taxes would be included. Realize that the contracts were drawn in 1917. Income taxes were just beginning. The theory was that the 10-percent profit would be a net profit to the contractor, and that the Government, at least so we felt, had just as much right to make a contract relieving us of income taxes applicable to a Government contract as it had to sell bonds, the income on which is not subject to income tax.

Senator VANDENBERG. What I am interested in is the source of this authority to include all taxes. Did I understand that that was a Government permit to you?

Mr. PARKER. It was a contract between the Navy Department and the New York Shipbuilding Corporation.

Senator VANDENBERG. And the contract included the right to count income taxes and all taxes as part of the cost?

Mr. PARKER. The contract said, "All taxes."

Senator VANDENBERG. All taxes. Who negotiated those contracts for the Navy Department? Do you remember?

Mr. PARKER. I do not.

Senator CLARK. Did your lawyers suggest that particular clause, Mr. Parker? Do you know?

Mr. PARKER. My recollection is it was not a matter suggested on the part of the builder at all. We were told what we were to do at that particular time. We were the contractor and the contracts were handed to us. As in the case of the battleship contracts handed to us at the same time, and the airplane contract, the telegram from the Department said, "You are directed to build." There was not any contract executed in that particular case.

Senator CLARK. Do you know whether your lawyers did suggest this particular provision to which we have been referring?

Mr. PARKER. I am sure they did not.

Senator VANDENBERG. You do not recall who negotiated these contracts for the Navy Department?

Mr. PARKER. I do not.

Mr. RAUSHENBUSH. Who was president of the company at the time?

Mr. PARKER. Mr. M. A. Neeland.

Mr. RAUSHENBUSH. That was when it was still the American International, was it not?

Mr. PARKER. That was afterward.

Mr. RAUSHENBUSH. Bought by American International Corporation?

Mr. PARKER. Bought by American International Corporation.

Senator CLARK. Mr. Parker, I would like to have a little further explanation of your very surprising statement a little while ago that wines, liquors, and cigars were fully as important elements in the shipbuilding business as steel. Will you just explain why it happens that wines, liquors, and cigars are just as important in the manufacture of a ship as steel?

Mr. PARKER. Senator, if I would paint a picture of what the use of wines and liquors in the shipbuilding business is——

Senator CLARK. Since the Government has to pay for them, and then pay you an additional percentage of profit on top of them, I think that picture would be very interesting.

Mr. PARKER. All right. Wines and liquors have more to do with the building of the ship than just the champagne bottle that we push it overboard with or the few drinks that may be passed around on a trial trip, which Congressmen and Senators enjoy sometimes. [Laughter.]

In days of old when a trial was conducted, and I am sure we all remember the stories we read of the issuance of grog aboard ship, particularly in a time of stress, of storm, of extraordinary effort, that when a ship is required to go on trial, and you have the picture of 20 men throwing big, hand-picked coal in the furnaces, there are 5-gallon demijohns of liquor alongside them, and they have their drinks of beer and whisky just the same, and it is a matter of rule and routine and just as much a part of the business of operating a ship under these conditions as it is in a restaurant where the service is allowed.

Senator CLARK. Is there any more necessity for dealing out liquor and beer to these men on a trial trip than there is when the ship is in commission in the Navy? Of course, they are sweating from shoveling coal when the ship is on a regular cruise in the Navy, are they not? Is there any particular reason why they should get drunk on a trial trip any more than on a regular cruise? As a matter of fact, Mr. Parker, what this item of wines, liquors, and cigars amounts to is this, is it not: You go on a trial trip and the shipbuilding company is permitted to invite a large number of influential or distinguished people, some of whom may be Congressmen, Senators, or other Government officials, and a general jamboree is held by all, with fine, rich food and fine wines and liquors, and the Government not only pays the bill for that, for the purpose of making friends for the shipbuilding company, but also, under this program arrangement, has to pay you an additional amount for the privilege of allowing you to give a party? Is not that correct?

Mr. PARKER. Senator, when you go back to 1917 and 1918, that was the practice up to that time. That is 18 years ago. The practices which were in existence before the war were continued during that period, of course. But we did not run jamboree parties in naval vessels and never do. The only people on a naval vessel are the trial board and the representatives of the contractor and representatives of auxiliary manufacturers. There is no general jamboree on that.

Senator CLARK. I notice on naval vessels constructed after the war a very large item set down—I forget exactly when it was, but I referred to it when you were last here—a very large item for wines, liquors, and cigars in the construction of those vessels, set down as a part of the cost, on which the Government was required to pay an additional commission to you.

Mr. PARKER. They were Shipping Board vessels, Senator.

Senator CLARK. Whether they were naval vessels or Shipping Board vessels, the jamborees took place, did they not?

Mr. PARKER. They did.

Senator CLARK. You considered that part of the national-defense scheme, did you not, Mr. Parker, to have jamborees?

Mr. PARKER. Well, it certainly had a part of it. It was the first time that many of these Senators from the West and Congressmen from the West had ever seen a real ship in operation.

Senator CLARK. After having taken this pleasure trip, you felt they were better educated as to national defense, and more susceptible to suggestions of the New York Shipbuilding Co. and other members of the "Big Three"? Do I understand that to be your statement? As a matter of fact, that was the purpose of the trial trip, was it not, Mr. Parker?

Mr. PARKER. I would say that would be true from their attitude. They surely knew more about ships after that.

Senator CLARK. And also the shipbuilders, too, did they not; and had a wider education in the matter of wines and liquors?

Mr. PARKER. Yes, sir.

VINSON ACT—AGREEMENT OF SHIPBUILDERS ON UNIFORM OVERHEAD CHARGES

Mr. RAUSHENBUSH. Now, Mr. Parker, coming to the various meetings held by the shipbuilders after the Vinson Act had been passed, I show you a memorandum, treating of a meeting held on May 8, 1934, and ask you to follow that, at which were present the representatives not only of the " Big Three " but from the " Little Three " and suppliers, such as United Dry Docks, Sperry Gyroscope, Babcock & Wilcox, Worthington Pump & Machinery, Westinghouse Electric, General Electric, Electric Boat Co., and so forth? [Handing paper to witness.]

That is the summary of a discussion, is it not, that the representative officials of the shipbuilding companies and the main suppliers had concerning the effect of the Vinson bill on their business? Do you recognize that?

Mr. PARKER. I did not attend that meeting.

Mr. RAUSHENBUSH. No; but you attended a subsequent meeting, for which this was the basis. You have had this in your possession, have you not?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH. And you have studied it? The answer is " Yes "?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH. I turn to page 4, where there is discussion of how much overhead should be allowed, and discussion as to what the Treasury Department will do, and what the Navy Department will do. It refers to Mr. Smith. He is president of the council, is he not?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH (reading from " Exhibit No. 1531 "). At the top of the page, Mr. Smith says:

> Yes. That is where it is going to be unless there is a change in the law. The Navy Department does not want to deal with it.
>
> Mr. GILLMOR. They do not want to get into it.
>
> Mr. SMITH. The man who drafted this bill drafted it with the purpose of allowing some leeway.
>
> Mr. KING—

of Babcock & Wilcox—

> Are you going to be allowed your actual expense? Will they allow the actual overhead or a predetermined one?
>
> Mr. SMITH. I think you can collect your actual overhead as long as it goes against all work.
>
> Mr. GILLMOR—

of Sperry Gyroscope—

> They point to this provision in the act that the contractor must make his statement under oath.
>
> Mr. NIVEN—

of General Electric—

> They go on to say that the books shall be open for inspection at all times.
>
> Mr. GILLMOR. I believe their present idea is to make check inspections only.
>
> Mr. POWELL—

of United Dry Docks—

> This thing will go along all right until somebody turns back some money.
>
> Mr. GILLMOR. I think the only thing to do is act in unison.

Mr. SMITH. Supposing you do have 10 percent profit and a few dollars left over. The industry may find itself in a situation where there are items of cost which could have properly gone in but were not included. It seems to me very desirable that so far as the outstanding items of overhead are concerned there should be unanimity of opinion.

Does not that give pretty much the tone of the general discussion? The shipbuilders here wanted to get together and decide very definitely what proportion, predetermined proportion, they would agree upon as an overhead charge.

Mr. PARKER. No, sir; I do not think that is the case at all. I think that what the shipbuilders and the main material suppliers were trying to find out is what the Vinson Act meant so far as their particular business is concerned.

Mr. RAUSHENBUSH. Let us follow on with the rest of it through and see where we come out.

Turn, please, to page 7, Mr. Parker. They are starting to discuss overhead, as I understand it. [Reading from "Exhibit No. 1531":]

Mr. SMITH. When you say "actual" I suppose you mean your actual average—

of General Electric—

Mr. WHITESTONE. No; I mean actual expenditures.

Mr. SMITH. As supplied to that particular contract?

Mr. WHITESTONE. In the case of shipbuilding it will probably apply to a whole ship.

Mr. SMITH. If you had one plant using actual and another normal——

Mr. POWELL. Suppose three or four yards take contracts on a competitive basis. Then one fellow turns in actual and has a very low overhead and he turns back a lot of money—it simply throws out your whole idea of competitive bidding. It seems to me you have almost got to come to a basis of agreeing with the Treasury Department on some fixed overhead. If we could spread our overhead over 10 years, I would say it would be high enough. I think it would be high enough so that you would not have to worry about your 10-percent profit. The average overhead would be plenty high enough to satisfy anybody.

They are beginning the discussion, or resuming it, are they not, of trying to agree on a fixed percentage of overhead that all companies could charge, and that the Treasury would have to approve?

Mr. PARKER. These expressions, Mr. Raushenbush, are expressions of individuals, thinking of their own particular business, how this act affects their own particular situation, but the purpose of it all was to find out how it affected everybody, and particularly how it affected the prime contractor, the shipbuilder.

Mr. RAUSHENBUSH. Turn to page 8 in reply to that. [Reading:]

Mr. SMITH——

President of this conference and of the council—

What is your reaction to this: You have the shipyards and the allied groups, but your uniformity should be attained first amongst the shipbuilders themselves and then there can be some approach to uniformity between the shipbuilders and the allied groups.

Mr. GILLMOR. If the shipbuilders, boiler manufacturers, and electrical manufacturers—

That is taking in a rather large group, is it not?—

act in accordance with uniform rules, it will be so strong that I think the Income Tax Bureau would have a hard time resisting it.

Is not that the reasonable idea of this whole matter, that not only the shipbuilders but the operators who have a definite interest in the work and in the Vinson bill should get together and put up uniform rules; and is it not Mr. Gillmor's idea that if they do that they will be so strong that the Income Tax Bureau will have a hard time resisting it? Is that not what they are trying to do there?

Mr. Parker. They were trying to find some way by which those elements of actual cost would be unquestioned by the Treasury Department.

Mr. Raushenbush. Now, on the next page, Mr. Parker, Mr. Bardo comments after this statement [reading from "Exhibit No. 1531"]:

> If the shipbuilders, boiler manufacturers, and electrical manufacturers act in accordance with uniform rules, it will be so strong that I think the Income Tax Bureau would have a hard time resisting it.

Mr. Bardo comments:

> They could not break it down. You have two established recognized systems of accounting in the two principal groups with which we do all our business. We should get our accounting offices together. I do not think we can decide anything.

Mr. Bardo, a little later, says:

> I think we should get the shipbuilders together first on a uniform plan.
>
> Mr. Smith. Homer—

of Bethlehem—

> what do you think about it?
>
> Mr. Homer. The method of determining the 10-percent profit is to be established by the Treasury Department, and the obvious thing is that the industry will have to establish something for its protection.
>
> Mr. Jackman—

Worthington Pump & Machinery Corporation—

> They can establish it, but the Treasury Department will have to approve it.

And the whole discussion turns, as I look at it, on whether it is possible for the shipbuilding companies to get any agreement, and they decide that the comptrollers of the companies better meet together, and then you and others meet directly a little later, at the same place—11 Broadway. You were present for New York Ship, together with Mr. Langell, Mr. Ferguson was present for Newport News, and Mr. Shick and Mr. Harper and Mr. Rittor for Bethlehem Shipbuilding Corporation, Ltd.

Mr. Parker. That is correct.

Mr. Raushenbush. I do not know whether I have an extra copy of this. I want to offer that for the record—the meeting of the shipbuilders—as "Exhibit No. 1531."

(The document referred to was marked "Exhibit No. 1531" and is included in the appendix on p. 5235.)

Mr. Raushenbush. Turn now to this meeting at which you were present, and at which the subject was gone into further, and Mr. Blewett, of Newport, makes a comment here on which we would like to have your comment. I will have to show you this until we find our extra copy [handing paper to witness].

On page 3 of this mimeographed memorandum, "Exhibit No. 1532", Mr. Blewett says:

> We have recently gone through the cost of changes. We asked a higher overhead on the changes than on normal overhead. We asked for 20 points higher and they granted us 10.

He means the Navy granted them 10, does he not?

Mr. PARKER. I assume so, speaking of Navy changes.

Mr. RAUSHENBUSH. Speaking of Navy changes [reading]:

> In other words they admitted naval work called for higher overhead than commercial work. If we could obtain 20 percent higher it would cover everything such as equipment, development charges, and all items. So far as going into a uniform cost-accounting system, that is a job of 5 or 10 years rather than a month or so.

You remember this meeting fairly well, do you not?

Mr. PARKER. I do.

Mr. RAUSHENBUSH. Mr. Blewett, speaking for Newport News, was trying constantly to make the point, was he not, that the shipbuilders should definitely agree upon an overhead that was normally uniform but was very considerably higher for Navy work than for merchant marine work? Is that not correct, so far as your memory goes?

Mr. PARKER. Mr. Blewett was trying to make the Navy work bear an actual proportion of overhead which Navy work should bear. It is a fact that with all of the limitation of Navy work, inspection and various changes and consequential damage from changes, the actual overhead applicable to Navy work is truly higher than to other work, and when you spread that to all work on the same basis, Navy, of course, gets the benefit and the other work gets some penalty.

Mr. RAUSHENBUSH. He was trying very difinitely to get it on a fixed basis higher than other work, 20 percent?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. He reports Newport News asked for 20 and had gotten 10 and was apparently suggesting that the other companies agree on their overhead, too. That, of course, involved an agreement on what labor was, so that overhead could be determined.

Here is a copy, if you want to follow it [handing "Exhibit No. 1532" to witness].

Mr. Smith at page 6 shows some considerable anxiety that everything is going to be put into cost by everybody, so that some of the shipbuilders do not charge the Government too little. Mr. Smith says:

> I would not do that. This group ought to go away satisfied as to what items get into cost. Each and every one of us should be assured that we are going to put into cost everything that properly belongs there.

In other words, they do not leave out anything, and not, as Mr. Gillmor said in the other meeting, so that some money does not get returned to the Government and then the Government forces them to get into action.

Can you explain the comment on page 7 of Mr. Shick, of Bethlehem, where Mr. Blewett said:

> Didn't we have such a thing as adjusted prices during the war? We took such things as cost of machinery and put it into an adjusted price.

To which Mr. Shick replied:

> That was a cost-plus contract. You only got 10 percent of it. I can give you an example of what happened on a gun contract. The Navy wanted a 16-in gun. We had to buy the equipment to machine it. Daniels—

that was the Secretary of the Navy, was he not?

Mr. Parker. I suppose that is who he is speaking of.

Mr. Raushenbush (continuing reading "Exhibit No. 1532"):

> said, "All right, this is not the last order we are going to give you for 16-inch guns. We will let you add $35,000 per gun so you can amortize this equipment. We will let you amortize part of the cost through this job so you will get paid for your new equipment, but you have to take a little chance." They did that for the reason they did not want to say to us, "We will pay you for this." If they did, then they would own it, but they wanted it to stay in our possession. We were only amortizing $35,000 on that job.

Do you have any comment on that? Does it mean anything to you?

Mr. Parker. No.

Mr. Raushenbush. It seems to be an illustration of where the Government was paying very definitely for the equipment but just because they did not want to own it they let the gun people, in this case Bethlehem, charge up an extra $35,000 per gun and amortize it immediately.

The discussion goes on at some length, and the net result of all this was that there was an interchange of information among the companies, was there not, as to definitions of their costs as regards direct labor and overhead?

Mr. Parker. That is correct.

Mr. Raushenbush. On page 12 Mr. Chick, of Bethlehem, makes one point:

> We should decide what we are going to do. For our own protection it would be a good thing if we did have an understanding so that on the completion of these contracts the overhead rate will not be out of line. If Bethlehem had 60 percent, Newport News 50 percent, and somebody else 40 percent, they will ask what is wrong? Therefore, it is important for the shipbuilders to have a very clear definition as to what is direct labor if that is the basis of distributing overhead. I believe we can agree on a definition of direct labor.

After that these interchanges of information took place, did they not?

Mr. Parker. They did.

Mr. Raushenbush. So that the point of all this was, Mr. Parker, quite frankly, to have the shipbuilders agree on something that was not an actual cost, that came out of it—and if that was so they would not need any agreement—but they agreed on a perfectly arbitrary amount of overhead, which they would unite on in trying to have the Treasury Department accept as a basis for fixing profits under the Vinson Act, thereby agreeing or following out the suggestion made by Mr. Gillmor in the earlier meeting that if they all got together they would be stronger than the Income Tax Bureau.

Mr. Parker. Not at all. That is not my understanding.

Mr. Raushenbush. If that is not true, what is your understanding?

Mr. Parker. I never heard the theory advanced that there should be a definite rate of overhead applied to every yard alike.

Mr. RAUSHENBUSH. They were certainly discussing the possibilities of it all through here, were they not?

Mr. PARKER. No; the only discussion that this refers to is that the books of each of the companies will reflect the actual and proper charges to cost that the contract provided, so that in any one of them, if they should inadvertently submit some cost, or by his method, or changing his method so that it would result in a question for the whole group. But only, of course, included those items which are proper elements of cost.

Mr. RAUSHENBUSH. What is all this discussion about as to fixed percentage of overhead, Mr. Blewett's idea that they asked for 20 percent for naval work? That is an arbitrary thing, rather than an actual one?

Mr. PARKER. That is on changes, alone, Mr. Raushenbush.

Mr. RAUSHENBUSH. That is on changes?

Mr. PARKER. The practice has always been on changes to fix a definite rate of overhead.

Mr. RAUSHENBUSH. These are changes, but still changes often amount to a very considerable amount in the cost of a ship, do they not?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. In some cases a million dollars more than what the bids were.

Mr. PARKER. What Blewett was talking about was just a rate of overhead which was a proper rate of overhead. We already have a fixed rate of overhead applicable to changes, fixed by the board of changes.

Mr. RAUSHENBUSH. On page 4 of "Exhibit No. 1532", if you will follow that——

Mr. PARKER. Back again?

Mr. RAUSHENBUSH. It gets into the normal overhead, and Mr. Bates of United Dry Docks says:

> You mean a standard or normal overhead?
>
> Mr. BLEWETT. Yes.
>
> Mr. SMITH. Let me ask you this, Blewett; you say you asked for so many points higher. Would you do that on the basis of each plant saying here is my average overhead, we want 20 points higher for naval work taking into account no two plants might have the same.
>
> Mr. BLEWETT. Yes.
>
> Mr. SHICK. Only if you get it high enough.
>
> Mr. SMITH. That is the point where I see difficulty with the Government.

They are talking about overhead for naval jobs rather than for changes at that point, are they not?

Mr. PARKER. No; I believe they are still referring to changes.

Mr. RAUSHENBUSH. There is no mention of changes right at that point.

Then later on the quotation I read from the Bethlehem man, he was particularly talking about the general overhead rather than the changes, was he not?

Mr. PARKER. I do not know what he was talking about particularly.

Mr. RAUSHENBUSH. On page 12. Look at it again. All the way through—I do not want to bore the committee with reading the whole story, but I want to put it into the record.

By the way, what percentage of overhead did the Navy board on changes allow you on changes in ships before this bill went through?

Mr. Parker. It varies. Periodically the Navy makes an investigation of the actual overhead of the plant and sets a rate of overhead to be used on changes. The rate varies with the average variance of overhead rates in the yard generaly, some place between 70 and 90 percent.

Mr. Raushenbush. Do you not make quite a lot of money on changes?

Mr. Parker. No, sir; we do not make money on changes. No one ever made any money on changes. The consequential damages and delay due to the interruption of work, which are never paid for, make changes the most unprofitable part of Government work.

Mr. Raushenbush. The changes are all paid for, are they not?

Mr. Parker. The changes and the actual material, but no one can collect consequential damages.

Mr. Raushenbush. You are taking in a lot of territory when you say no one makes any profit on them. You mean your own company?

Mr. Parker. I mean my own company, and am sure the business of the other companies are so closely related that their situation is identical.

Mr. Raushenbush. I will offer this as "Exhibit No. 1532."

(The document referred to was marked "Exhibit No. 1532" and is included in the appendix on p. 5241.)

Mr. Raushenbush. The upshot of all this was several things, was it not, Mr. Parker? The companies got together and agreed on what they wanted to ask of the Treasury Department, and, in addition to any informal conversations they had with the Treasury Department they did ask for several specific changes. They asked the Treasury Department the allowance for the income taxes, did they not?

Mr. Parker. I believe a brief was filed by the National Council requesting that.

Mr. Raushenbush. That is the protest of the National Council of American Shipbuilders on rulings of the Commissioner of Internal Revenue excluding State income tax as items of cost? There was a definite protest on that, and they wanted selling expenses as a proper item, did they not?

Mr. Parker. Correct.

Mr. Raushenbush. They also made a point about compensation insurance. That was all touched on in the conversations with the Treasury Department, and any other arrangements that had been made. Then we find here a letter from the du Pont Co. as to the Vinson Act, together with comments from the National Council of American Shipbuilders, in which the du Ponts say that in addition to all the items that the shipbuilders wanted charged into the costs under the Vinson Act, they also want to have Federal income taxes. Do you remember that?

Mr. Parker. I remember reading the letter.

Mr. Raushenbush. They wanted to charge the State income tax in, the Federal income tax, they wanted to charge unemployment insurance costs in. So that they went you one better, a little bit, did they not? You people were not asking for the inclusion of Federal income taxes any longer as an item of cost, were you?

Mr. Parker. No.

Mr. Raushenbush. This was the du Pont idea, and they included it in a letter to the Bureau of Internal Revenue, explaining why they wanted to have that allowed under the Vinson Act. I offer that series of correspondence for the record as "Exhibit No. 1533."

(The documents referred to were collectively marked "Exhibit No. 1533" and are included in the appendix on p. 5248.)

VINSON ACT—PROFIT OF SUBCONTRACTOR

Mr. Raushenbush. Then, Mr. Parker, you worked out yourself, did you not, a way of handling the subcontractors under the Vinson Act, a way of seeing that they never made more than 10-percent profit?

Mr. Parker. No; I would not say that I worked it out myself.

Mr. Raushenbush. Who else gets credit for it?

Mr. Parker. I think it is a composite idea which several people contributed to.

Mr. Raushenbush. Could you describe that very briefly, what you had in mind when you tried to do that?

Mr. Parker. The Vinson Act, in attempting to limit the profit to 10 percent—and I am fully in accord with the limitation of profit—does not guarantee 10 percent nor does it prevent you from sustaining a loss of 10 percent, 20 or 50 percent. The Vinson Act, as we understand its intent, is a profit-limitation matter, but it intends to limit the profit of the contractor and requires that contractor to require of all his subcontractors an agreement to the same profit limitation that the contractor subscribes to. The problem was to find a way by which the intent of the act or the profit limitation could be passed on to the subcontractors who were limited in profit in the same manner that the contractor was.

It naturally occurred to several of us that if the subcontractor did not earn in excess of 10 percent, the act was not at all detrimental to him; that under the various codes most industries were permitted to sell at cost, and prohibited from selling at less than cost, and it seemed that since the Vinson Act is, in itself, a cost-plus contract, regardless of the so-called "topside price", which is subject to much adjustment, it is, nevertheless, in the final analysis, a cost-plus contract, and that the contractor having a cost-plus contract on his hands, would necessarily have to make his subcontracts on a cost-plus basis.

Mr. Raushenbush. Just explain that one point once more, why you say the Vinson bill is a cost-plus contract. How do you figure that, Mr. Parker?

Mr. Parker. The Vinson Act is a cost-plus contract, unquestionably, because what you finally receive is cost, as determined by the Treasury Department.

Mr. Raushenbush. Now you are talking, are you, about the bids put in under an adjusted-price basis?

Mr. Parker. I am talking about any contract under the Vinson Act. The amount that any contractor or subcontractor can receive under the Vinson Act is his cost—that is, the maximum he can receive—is his cost plus 10 percent of his contract price.

Senator Bone. There is no guarantee of that in the bill, is there?

Mr. Parker. That is the maximum he can receive.

Senator Bone. I understand; but there is no guarantee of that in the bill, is there?

Mr. Parker. The bill provides that that is exactly what he can get as a maximum.

Senator Bone. The bill provides that he may not get more than 10 percent?

Mr. Parker. That is right.

Senator Bone. That is the provision of the bill?

Mr. Parker. That is right.

Senator Bone. That does not guarantee him it.

Mr. Parker. Not at all. He has no guarantee of 10 percent.

Senator Bone. It is not really a cost-plus contract.

Mr. Parker. It is a cost-plus contract as far as the maximum is concerned.

Senator Bone. There is no guarantee there.

Mr. Parker. Correct.

Senator Barbour. But, as a matter of fact, Mr. Parker, if, after the completion of it, and the acceptance, as I suppose is the practice of the Government, it was found that you had lost 10 percent instead of having made a profit of some 10 percent, the Government would not allow you any profit at all under these circumstances?

Mr. Parker. Certainly not.

Senator Bone. That is precisely the point we want to get at. They do not guarantee profits.

Mr. Parker. In order to place that same provision, which we must subscribe to, in the main contract, and to pass that to our subcontractors, we had to make the same form of contract with our subcontractors, which was a cost plus 10 percent of a contract price not to exceed a certain amount, in the same provision that we have in our main contract.

Mr. LaRouche. Does that not mean, Mr. Parker, that instead of paying the money back to the Treasury Department, the subcontractors in effect pay it back to you, and that cuts off the Treasury?

Mr. Parker. Not at all.

Mr. LaRouche. That is the effect of it, is it not?

Mr. Parker. Not at all. It means we are making contracts, on the basis where the subcontractor could not get more than 10 percent.

Mr. LaRouche. If he did make more than 10 percent, under another type of contract not made by you, he would have to pay it to the Treasury Department. Is not that so?

Mr. Parker. If he had a contract on which he made more than 10 percent, he would have to pay it to the Treasury Department.

Mr. LaRouche. But you made a sliding-scale contract with your subcontractors, where you had a fixed basis with the Government. Is not that true?

Mr. Parker. We have no fixed basis with the Government.

Mr. LaRouche. You have a set amount.

Mr. Parker. We have not.

Mr. LaRouche. What do you have?

Mr. Raushenbush. Ten percent is what you have.

Mr. Parker. We have a contract under the Vinson Act, subject to the provisions of the Vinson Act, and subject to modification by the Secretary of the Treasury to indices prescribed, but in his discretion subject to adjustment by other indices.

Senator Bone. How do you get at the profits of a subcontractor? What mechanism is employed? What sort of set-up of bookkeeping do you have to check his profits? You do not attempt to audit his books, do you?

Mr. Parker. Certainly not.

Senator Bone. How do you know what profit he is making?

Mr. Parker. We are not concerned with the profit he makes.

Senator Bone. I understood you to say, but maybe I got it wrong, that you intended to limit the profits of subcontractors under the Vinson Act to 10 percent.

Senator Barbour. No, Senator; they are limited. The shipping company does not intend to limit it.

Senator Bone. I understood from what Mr. Raushenbush said that you had evidently got some kind of contract with the subcontractors where you apply certain restrictions to them. Maybe I misunderstood it. If I am in error, let us drop it and not take up precious time. Mr. Raushenbush can make it very plain right now.

Mr. Raushenbush. The understanding, as I have it, is that the shipbuilders there turned around to their subcontractors and said:

> Here, we will allow you cost plus 11.1 percent, which is 10 percent of the total. We will allow you that, and we do not want any prices higher than that.

The only thing I was trying to develop through Mr. Parker at this point was the effect of that sort of an arrangement. Whereas normally a subcontractor might come in and say, " Here is my price ", and get it, among other subcontractors, and might make 20 percent profit. Then he would have to turn back some to the Treasury. This arrangement cuts out the Treasury as a benefactor of the subcontractor, as I understand it. The Treasury is never going to get anything back under this arrangement from the subcontractors.

The net result, as I gather, Mr. Parker, of this arrangement is that the shipbuilders have a far larger leeway than they ordinarily would have. Where they might have a little more charged to them normally by the subcontractors, and have a smaller margin to operate on for profit and the like, this practically takes out a large part of the risk, or a substantial amount.

Senator Barbour. I would like to ask Mr. Parker a direct question. Did you ever participate in the profits of a subcontractor in the sense of where you permitted them to charge more than the 10 percent permissible under the Vinson Act, and then you shared in it?

Mr. Parker. Senator, this is the first contract under the Vinson Act.

Senator Barbour. I see.

Mr. Parker. We have never had them before. But, to clarify your mind on the old cost-plus contracts——

Senator Barbour. That is really what I was referring to.

Mr. Parker. You had the same situation then, and had cost-plus contracts with all subcontractors, under the old cost-plus contract. And the Vinson Act is a cost-plus contract, and you are having the same arrangement as applying between the Government and the contractor as is applied between the contractor and his subcontractor.

To answer Senator Bone as to how we check the subcontractor, that is not a problem for us. The subcontractor under the Vinson Act must certify, under oath, his costs to the Secretary of the Treasury or the collector of internal revenue, and the checking will be by the Internal Revenue Department. And the Revenue Department, if he makes more than 10 percent, will collect it from him.

Mr. RAUSHENBUSH. There is a memorandum here, Mr. Parker, prepared by a committee of which you seem to be chairman, and I want to offer it for the record as "Exhibit No. 1534."

(The memorandum referred to was marked "Exhibit No. 1534" and is included in the appendix on p. 5256.)

Mr. RAUSHENBUSH. In that memorandum the advantages to the contractor and the advantages to the subcontractor are fairly clearly set out. Under the disadvantages to the subcontractor, you say:

> (1) Loss of a part of the maximum profit allowed by the Vinson Act, if it should be earned.
>
> (2) Will require adoption by code authorities of resolutions permitting violation of any code provisions now in effect which would prevent members from bidding on this basis.
>
> (3) Will disclose costs to shipbuilders currently, and perhaps create a precedent which may be difficult to overcome in the future. A similar disclosure may be made under the Vinson Act, but probably at a much later date, and with no certainty that excess profits under individual contracts will be made public.

Then the memorandum continues:

> E. Possible general advantages.—(1) Mr. Parker fears that the Vinson Act may lead to a new and permanent form of taxation by the Federal Government on all profits over a certain maximum without regard for losses which may be incurred. The general adoption of this proposed plan of letting subcontracts may, in his opinion, either avoid this possibility entirely or at least limit it to Government work, and then only on the main contract without extension to subcontracts.

Do you remember that whole memorandum?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. The net result of that is, is it not, Mr. Parker, that by making it impossible for subcontractors to turn back any amounts to the Bureau of Internal Revenue for excess profits under the Vinson Act you have increased the margin between your total costs and your bid price?

Mr. PARKER. The explanation of that is rather lengthy. If you will just bear with me, I will give it to you.

Say, assuming you are familiar with the Vinson Act, that under any subcontract in excess of $10,000 the subcontractor must comply with the provisions of the act and must indicate his compliance with the acceptance of it and must certify under oath his costs.

Just shortly after the passage of the Vinson Act it was quite apparent to us, and it was apparent in the requests for tentative proposals to be used in bids that the subcontractors were very fearful of the effect on them of the Vinson Act as applied to subcontractors. Many of the subcontractors were supplying several types of equipment. The "X" company, for instance, would supply one piece of apparatus at $65,000. Normally and ordinarily we would make that a separate contract. Another piece of equipment would be supplied by the same company or the company's competitors on the basis of competitive bids, which would amount to $110,000, and the result was that "X" company got in the course of the whole contract there 8 or 10 contracts, each in excess of $10,000, all of which would be subject, or each of which would be subject, to the Vinson Act.

It was apparent to them that with a limited profit of 10 percent that on maybe 8 or 9 contracts they might lose. The loss was all theirs. And that on the one contract they might win, maybe 25 or 30 percent, and that would have to be repaid, and the net which they would get out of the whole would be a loss. They were a little averse to giving us prices, or averse to quoting. And we recognized the fact that we were going to have great difficulty in performing the contract on this basis, unless we found some solution to it. The solution, then, was just naturally that we would make this on basis of the cost, and instead of making a contract or several contracts, or a dozen contracts, we would make one contract for the ship as a whole. We would give to " X " company all the apparatus on the ship, on a cost-plus-11.11 basis, making one contract out of it. So that if all lost money on one piece of apparatus, due to operating conditions, and made money on another piece of apparatus, he would have the benefit which we do not enjoy, of placing his losses against his profits, and sharing a net profit, if the net profit results.

Mr. Raushenbush. Just in that connection, let me interrupt with a section of this memorandum, " Exhibit No. 1534 ", Mr. Parker, where you point out the advantages to the contractor. The first one is:

> If the subcontractor should exceed the full 10-percent profit allowed by the Vinson Act, the shipbuilder would benefit by, and the subcontractor would lose, a part of such profit.

Was that not really the reason why you were interested in that thing?

Mr. Parker. We were interested in that angle, for this reason: We are entering into a contract with a definite price basis, with a limited profit, taking risk on a rising commodity and labor index, where, if we lose, it is just tough luck, and, if we win, our profits are limited. It is like in a poker game, where you can only keep 10 percent of your winning hands, and the losing hands are all your own. In a very short time the poker game will get you. You cannot live under those conditions.

We realize that if a profit is made, if we can through operations, economies, and efficiency of building the ship develop a profit in excess of 10 percent, it goes to the Government, but it was quite apparent to us that if we made arrangements with some of the subcontractors, which include the same sort of contingencies, over a 3-year period, where they could protect themselves and would have to put in 25 or 30 percent in excess of their normal price for extraordinary contingencies, it might develop—and we would have to pay that price—where we might create a situation where we might lose $2,000,000 on the subcontract and subcontractors might return $2,000,000 to the Treasury on the subcontract.

Mr. Raushenbush. How often did you lose money on Navy ships, Mr. Parker?

Mr. Parker. That I cannot say, except by examination.

Mr. Raushenbush. Did you supply us with that information at one time?

Senator Barbour. To put the question a little differently: How often might you have lost if you had not given it all this thought?

Mr. **Parker.** As a matter of fact, Senator, our naval vessels, from the beginning of our construction up to the war, with the exception of destroyers, on which there was a small amount of profit, we lost money on practically every naval contract.

Senator **Clark.** Is that the reason you were always agitating for a big Navy?

Mr. **Parker.** The benefit of a naval contract was volume; that if you could have a naval contract, even though you lost some small amount of money, or got out with bare cost, you kept your organization and facilities in use, so that, with volume and other work, you could make some money on other work. It provided some sort of a backlog. That was the condition up to the time of the war.

Mr. **Raushenbush.** After the war, you did make money on your naval vessels, did you not?

Mr. **Parker.** On the cost-plus contracts, of course, you made money.

Mr. **Raushenbush.** Since that time you have made money on naval vessels and charged the loss against the merchant-marine vessels, did you not?

Mr. **Parker.** Since what date, sir? We were awarded no naval contracts from the war time up to 1927.

Mr. **Raushenbush.** From 1927 on you did not report any loss on any ships, did you?

Mr. **Parker.** We had no naval contracts except the completion of the *Saratoga*, which was in 1916, sir.

Mr. **Raushenbush.** From 1927 on, I am talking about.

Mr. **Parker.** From 1927 on we made money on naval ships.

Mr. **Raushenbush.** Yes.

Senator **Clark.** You made a good deal of money, did you not, Mr. Parker?

Mr. **Parker.** Yes, sir.

DIFFERENCES BETWEEN ESTIMATES OF COST AND MARGIN OF PROFITS IN BIDS

Senator **Clark.** I have here a letter from Mr. Bardo to the board of directors of the New York Shipbuilding Corporation, dated October 18, 1934, in which he says (reading from "Exhibit No. 1535"):

> Sirs: Having today submitted my resignation as president of this corporation, it seems only fitting that I should leave as a matter of record a brief account of my stewardship.
>
> When I first became connected with this corporation in the latter part of 1925, the shipbuilding activities were only a part of a wide prospective field, including construction of transformers, circuit breakers, electric locomotives, public-utility equipment, etc. These extended activities, together with the change of management which had taken place, resulted in the serious demoralization of the morale of the shipbuilding organization and further resulted in such a falling-off in the quality and character of the work that the corporation and its officers were subjected to very severe criticism and condemnation by the Navy Department for the work which was then in progress.
>
> In the ensuing months, while efforts were being made to reorganize the shipbuilding personnel, the financial affairs of the corporation grew rapidly worse and reached a crisis during the year of 1927.

That was the year on which this new naval building program was put into effect, was it not?

Mr. **Parker.** Yes, sir.

Senator Bone. Was that the year of the Geneva Conference?

Mr. Parker. I do not recall, sir.

Mr. LaRouche. It was.

Senator Bone. A very abortive conference, too.

Mr. Parker. It may have been.

Senator Clark (continuing reading from "Exhibit No. 1535"):

> Following this crisis, progress was steadily made from the standpoint of the corporate organization, financial condition, and reorganization of personnel.

The progress that was made was following on step by step with the increased naval building program, was it not, Mr. Parker?

Mr. Parker. Mr. Bardo wrote the letter, Senator.

Senator Clark. I am asking you from your familiarity with the company whether that is true or not, and if it is not a fact that the progress and improvement in the company's financial condition went along step by step with the increase in naval building authorization?

Mr. Parker. It went along coincident with it.

Senator Clark (continuing reading from "Exhibit No. 1535"):

> It is not necessary to review in detail what has been accomplished in each of these fields. I content myself in pointing out certain pertinent factors of the present situation as compared with that at the end of 1926, as follows:
>
> 1. Net current assets increased from $1,300,000 to $5,000,000.
>
> (Note.—At the end of 1926 there was a tax claim of $3,800,000 which later was settled for $2,350,000.)
>
> 2. Funded debt of the corporation reduced $1,500,000.
>
> 3. Preferred stock reduced from $4,000,000 (including $1,000,000 of preferred stock of a subsidiary afterward sold) to $2,000,000.
>
> 4. Participating and founders stock, 695,256 shares, reduced to 500,000 shares of $1 par value. In doing this we were able to establish the equity relationship between the founders and participating stock so that except for voting rights the stocks are equal in every respect.
>
> 5. (*a*) Balance sheet intangible assets—contract and patent rights, patents, goodwill, etc.—$4,432,845.21, written down to $1.
>
> (*b*) Corporate reorganization and electrical-division development expenses, $532,653.89, written off.
>
> 6. Surplus increased from $1,654,000 to $6,804,000.
>
> 7. Net profit during this period was $6,075,607.70. The average income during this period far exceeds that of any similar period in the corporation's existence, with the exception of the period during and immediately following the war, when all work was on a cost-plus basis.
>
> 8. (*a*) Cumulative dividends defaulted on preferred stock in 1927 and 1928 were paid and preferred-stock dividends have been earned and maintained since 1929.
>
> (*b*) Common-stock holders have received 40 cents per share per year since March 1933.
>
> 9. The value of uncompleted contracts on hand at the present time exceeds those at the end of 1926 by more than $40,000,000.
>
> In other words, during this period the management which came into full control early in 1927 and the reorganized personnel have been able to eliminate the highly dangerous actual and contingent liabilities on the one side and the intangible and highly questionable assets on the other side, and to provide a balance sheet for all the stockholders of which, in my judgment, any company may well be proud.
>
> During the same period the reorganization of the supervisory personnel took place. It is significant, however, that except for two positions this was accomplished by promotions within the plant; the two exceptions being experienced executives from other shipbuilding organizations.
>
> Following this reorganization the spirit and morale of the officers and employees progressively improved and it is due to that fact, as well as to the efforts of the officers and department heads, that great progress was made in improving the quality of the work and in radically reducing the expenses of the accomplishment. As to the quality of the work, I refer to the contrast as between the severe criticism made by high officers of the Navy in 1926 and

the letter in December 1933, from The Assistant Secretary of the Navy, which, as you will recall, commends in the highest terms the technical skill and efficiency of the organization and expresses appreciation for the fine cooperation given by the organization to the Navy Department. I also refer you to the letters and telegrams from Mr. P. A. S. Franklin, president of the International Mercantile Marine Co., expressing his appreciation and admiration for the results of the organization's efforts in building the *Manhattan* and *Washington*. The highly satisfactory performance of the ships in service more effectively emphasizes the skill of our technical and operating forces.

The satisfaction of our customers, the Navy Department, the Export Steamship Corporation, and the United States Lines, is an asset of immeasurable value to the corporation. This has not been obtained at the expense of the stockholders, as evidenced by the substantial income earned during this period. Such net earnings have been increased through the efforts of the staff in reducing costs below the estimates. For example, the actual cost of labor and material upon the three cruisers constructed during this period was $3,620,000 below the estimate or a saving of 15 percent. On the balance of the work a similar comparison shows favorable results. In the case of each Navy contract we have earned substantial bonuses and have incurred no penalties.

Now, those estimates, I mean the bids submitted on those three cruisers, allowed a very large margin of profit above the estimates, did they not, Mr. Parker? The figures were put in evidence here in previous hearings, and there was a very large allowance for a margin of profit between your estimates of cost and the bids which were actually submitted to the Navy Department and awards made as the result of those bids. Is not that correct?

Mr. Parker. There was a margin of profit there.

Senator Clark. There was a very large margin of profit. In all it was $3,000,000, was it not?

Mr. Parker. That was not profit.

Senator Clark. Take the difference between your estimate of labor and material and the award given you.

Mr. Parker. The contract price, but that includes overhead, administrative expenses, contingency allowance, penalty guarantees, and your profit is after that.

Senator Clark. Then this $3,620,000—do you agree with that?

Mr. Parker. It is the saving on labor and material.

Senator Clark. That was the saving below the estimate?

Mr. Parker. Labor and material estimate.

Senator Clark. And that 15 percent simply represented "velvet" to the company, did it not?

Mr. Parker. That is right.

Senator Clark (continuing reading from "Exhibit No. 1535"):

Improvement has not been confined to the production field but has been extended also into important items of overhead, such as local taxes, fire and compensation insurance. We are advised by the State rating bureaus that we enjoy the lowest rate for any comparable industry in the State of New Jersey for fire and compensation insurance. Notwithstanding an increase in the tax rate of 25 percent, the actual taxes paid on the shipbuilding plant have increased less than 10 percent.

Do you understand how that was accomplished, Mr. Parker?

Mr. Parker. Yes.

Senator Clark. With the tax rate going up and your property account constantly increasing, how do you account for that?

Mr. Parker. The property account was not increasing. The property account was decreasing.

Senator Clark. How was the property account decreasing?

Mr. PARKER. The property in 1925 was appraised and restated at high value, in the days of the American Brown Boveri Electric Co. As stated in that and as shown in the balance sheet shown to the committee, that reflects current adjustment downward, some writing off of plant values.

Senator CLARK. You were appraising your property at lower value?

Mr. PARKER. Exactly; and proving it to the tax appraisers.

Mr. LAROUCHE. Did not Harry Humphreys have something to do keeping that down?

Mr. PARKER. He assumed some credit for it, Mr. LaRouche.

Senator CLARK. He was paid on that basis, was he not?

Mr. PARKER. Many people are.

Senator CLARK (continuing reading from "Exhibit No. 1535"):

> These results have been brought about not only by the experience, skill, and efficiency of the supervisory personnel and the excellent morale of the rank and file, but also by the harmonious cooperation of all department heads and their subordinates. Shipbuilding is a highly complex industry, which by its very nature requires a diversified personnel.

I am inclined to agree with that myself. [Continuing reading:]

> The avoidance of discordant elements within our organization has been one of the most important factors in improving the financial standing of the corporation, in placing it in such high standing with its customers, and in producing the favorable earning results in the past years. I am confident that a continuation of this policy will assure the success of the corporation in future years.
>
> Respectfully yours,
>
> C. L. BARDO.

That certainly shows that since 1927, when the new naval building program started, the company has been doing very, very well, does it not, Mr. Parker?

Mr. PARKER. Yes, sir.

Senator CLARK. I offer that letter for appropriate number.

(The letter referred to was marked "Exhibit No. 1535" and is included in the appendix on p. 5257.)

Mr. RAUSHENBUSH. Mr. Parker, you submitted at the committee's request the stockholders having 1 percent or more at various dates.[1] Will you identify that as correct [handing papers to witness]?

Mr. PARKER. May I qualify that, Mr. Raushenbush? I submitted your request, or the request of the committee, to our secretary, and our secretary, Mr. Pruitt, prepared this list, and I passed it in. I did not accompany it with any letter. I submitted it, but it was prepared by our secretary, Mr. Pruitt.

Mr. RAUSHENBUSH. Is Mr. Pruitt going to be here again?

Mr. PARKER. I believe he will be here later.

Mr. RAUSHENBUSH. Can you, from your own knowledge, identify the board of directors, the present board, who have 1 percent or more of the stock as listed on that sheet, dated December 22, 1934?

Mr. PARKER. This does not list any of the present board of directors as stockholders.

Mr. RAUSHENBUSH. None of the present board of directors have stock, then, we may take it, stockholdings of 1 percent or more of the company's outstanding stock in each classification?

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[1] Entered as "Exhibit No. 1547", see p. 5136.

Mr. Parker. That is what the list would indicate, if it is correct. I did not prepare it.

Senator Clark. I would like to ask Mr. Parker another question. Referring, Mr. Parker, to this letter which I just read, this figure given by Mr. Bardo as to the saving under the estimates for labor and material on the three cruisers of $3,620,000, that is correct, is it?

Mr. Parker. Yes, sir.

Senator Clark. So that during this period since 1927 there was an actual saving of 15 percent under the estimates on labor and material costs. Is that correct?

Mr. Parker. Yes, sir; approximately.

Senator Clark. Which would indicate, would it not, that the cost of labor and materials was decreasing during that period?

Mr. Parker. Yes, sir.

Senator Clark. Then, what was the justification of an increase of nearly 100 percent during the same period in the bids submitted to the Navy Department for cruisers and the awards of cruisers during that period?

Mr. Parker. That was not the case, sir.

Senator Clark. It was the case. In 1932 a cruiser was awarded for $8,000,000.

Mr. Parker. Not the New York Shipbuilding Corporation.

Senator Clark. No; not the New York Shipbuilding Corporation, but, as this chart[1] shows, the general trend of all the shipbuilding companies was approximately constant, and, while your own figures show a saving during that period of $15,000,000 on labor and materials cost at the very same time that chart shows a constant rising scale of bids and awards. What is the justification for that?

Mr. Parker. Senator, it is quite apparent to anyone familiar with long-term contracts, that long-term contracts have their chances both ways. That if you have a long-term contract, at a firm price, and you fall into a depression or a decrease in the commodity and labor indices, regardless of efficiency and regardless of the credit that Mr. Bardo would take to himself for that accomplishment in his letter, it was due to the conditions of the time. A long-term contract on a fixed-price basis must necessarily result in a decreased cost.

Senator Clark. Yes; but what I am getting at, Mr. Parker, is this: I am trying to find an explanation of the fact that cruiser costs increased from approximately $8,000,000 in December 1932 to approximately $16,000,000 in August 1934, at a time when the actual construction costs were 15 percent under the estimates.

Mr. Parker. The converse is likewise true, on a long-term contract, on a rising market, and that goes for the contractor or subcontractor. He must add those contingencies, if he thinks he is in a rising market. I can only speak for New York Shipbuilding Corporation's bids.

In 1927, the one contract there, the first contract on which we bid and were awarded the contract, our price was $10,815,000, in 1927, the cruiser *Chester*. Our next bid, incorporating in the next ship more than was contemplated or specified in the first ship, was $10,903,200 for the cruiser *Indianapolis*, a slight difference.

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[1] See appendix, p. 5274, for cruiser bids and estimates chart.

Mr. Raushenbush. At the same time your estimates were $703,000 lower?

Mr. Parker. Yes, sir.

Mr. LaRouche. At the same time you got about $1,000,000 in extras on that job.

Mr. Parker. That was for additional work entirely.

Senator Bone. Mr. Parker, here is the president of your corporation. on October 18, 1934—and we can only assume, and I think justly so, that he knew what he was talking about—and he seems to have given every evidence of being pretty smart in that business, when testifying—who is saying that during the period 1927 and 1928 the actual cost of labor has been below the estimate, amounting to a saving of 15 percent. In other words, labor going down, or, in other words, a lessening of the labor cost involved in one of these vessels. Is not that what he is saying in there?

Mr. Parker. I think I can answer your question, if you will permit me to finish my reply to Senator Clark.

Senator Bone. Go ahead.

Mr. Parker. On the *Chester*, the $10,815,000 in 1927 has been referred to; $10,903,200 for the *Indianapolis*, which had more work on it originally, not including the changes which were additional, but the original specifications had more work; the *Tuscaloosa*, $10,450,000, which still had more work than was on the other two—there are practically no differences in the prices in that period.

The price on the 1933 two cruisers, which, of course, was on the basis of N. I. R. A. code limitation of hours, increase of pay, as provided in the code, was $11,677,000.

Mr. LaRouche. In 1933?

Mr. Parker. In 1933. The last one, in 1934, was $11,975,000, scarcely 10 percent more, or less than 10 percent more, with more than 20 percent additional work over the work specified on the vessel of 1927.

PERCENTAGE OF LABOR IN SHIP CONSTRUCTION [1]

Senator Bone. What increase did the codes require in labor costs? The average man working in shipyards, how much more did he get by reason of the code? Ten percent increase?

Mr. Parker. The code minimum.

Senator Bobne. Can you give us some definite figures on that?

Mr. Parker. The code minimum required about 10.12 percent as a code minimum.

Senator Bone. Did you pay above the minimum?

Mr. Parker. We did.

Senator Bone. How much?

Mr. Parker. 25 percent.

Senator Bone. You mean 25 percent above the minimum?

Mr. Parker. We paid the men the equivalent for 32 hours work, that they had received for 40 hours prior, 25 percent less hours.

Senator Bone. Reflected in percentage, how much would that add to your labor costs over and above the previous figures?

Mr. Parker. We assumed that the code would add at least the code minimum; that the efficiency of operation and the savings already reflected on former vessels would make up the difference.

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[1] See illustration "Costs of naval construction", appendix, facing p. 5274.

So that our labor estimate, in total, and our bid, taking the factors of overhead which necessarily were involved because the 32-hour operation involved additional overhead, additional operation, and additional efficiency, supplementing all overhead forces, which build the overhead up, too, the net result of the contract bid of $11,677,000 in 1933, of $10,450,000 for the *Tuscaloosa*, and $10,903,200 for the *Indianapolis*, and $10,815,000 for the *Chester*, was scarcely 10 percent-increase in the total price.

Senator Bone. Senator Clark is asking about a bid on cruisers which reflects a 100-percent increase.

Mr. Parker. It was not our bid. You will have to ask the man who made it.

Mr. Raushenbush. Wait a minute, Mr. Parker. We had that out with Mr. Langell the other day. The bid we are referring to is the adjusted-price bid on which the Government took the gamble over and above the bid. You also put in the fixed-price bids, which are reflected there in comparison with the others away up there [referring to chart].

Mr. Parker. There was no adjusted bid except the last contract. If you compare the 1933 bid with any of them before, you have $11,677,000 for 1933, having full effect of the code.

Mr. Raushenbush. In 1933 we find a bid from New York Ship of over $15,000,000 on a fixed-price basis.

Senator Bone. How much of the cost of a ship—one of the cruisers, battleships, or any type of ship—how much of that cost is reflected in labor cost? In other words, if you build a ship in your yard, how much actually goes to labor?

Mr. Parker. You have it there, Mr. Raushenbush.

Senator Bone. I am not talking about salaries of executives, but about the men who actually build the ship.

Mr. Parker. The proportion, I imagine, is about 45 percent. It is about four million. At the present time it is pretty nearly fifty-fifty; just about half and half.

Senator Bone. The actual cost?

Mr. Parker. Fifty percent is material and 50 percent labor.

Senator Bone. Do you find yourself in agreement with the statement that 85 percent of the cost of a ship goes to labor?

Mr. Parker. On the work required in connection with it, that is, the materials.

Senator Bone. That is a blanket statement made by the Navy and others, that 85 percent of the cost of the ship goes to labor.

Mr. Parker. I think that is true.

Senator Bone. If that is true, can you tell us the reason for the 100-percent increase in cost of vessels, as compared to a lesser increase in the cost of labor?

Mr. Parker. I cannot agree at all, sir, to 100 percent. I can tell very well where it comes in.

Senator Bone. The Government has an interest when we appropriate money for the ships.

Mr. Parker. In our bid?

Senator Bone. That is one of the "Big Three."

Mr. Parker. Our bids were $10,815,000 for the *Chester*, $10,903,200 for the *Indianapolis*, $10,450,000 for the *Tuscaloosa*, and $10,677,000 for 1933.

Senator BONE. There was a bid of $8,000,000 in 1932 which rose to $16,000,000 less than 2 years later, Mr. Parker.

Mr. PARKER. If someone has raised the bid 100 percent, let them defend it.

Senator BONE. You are not aware of that?

Mr. PARKER. No, sir.

Senator BONE. You have not heard that?

Mr. PARKER. I have heard it, but I am not aware of it.

Senator BONE. Those of us who have to appropriate the money are painfully aware of it, and the people who have to pay the bills are painfully aware of it.

Mr. PARKER. I can only speak for our own bids.

Senator BONE. I am interested in knowing whether labor is getting any of this overplus or surplus, or whether you fellows are getting it. If it goes into wage envelops, it would not be quite so bad.

Mr. PARKER. If the contract for the *Indianapolis* in 1929, which was $10,903,200, is compared with the contract for the cruisers in 1933 of $11,677,000, or $700,000 increase, notwithstanding an increased minimum under the code of 11.11, and notwithstanding certain material increases, notwithstanding the increase in the overhead and the limitation of hours and the working of extra forces, a $700,000 increase, 1933 over 1929, is a very small increase.

Senator BONE. It may be wholly justified. That may be entirely and wholly justified, but I am talking about the increase in bid prices of cruisers, which have been described here by Senator Clark.

Mr. RAUSHENBUSH. Senator, the transcript shows the official Navy information on bids, and that has been sent for and will be here very shortly.

REPLIES OF NEW YORK SHIPBUILDING CO. TO COMMITTEE REQUESTS

Mr. RAUSHENBUSH. While you are still here, Mr. Parker, we will ask you to identify some of this information which was given to the committee. In reply to question no. 10,[1] on ownership of bonds in blocks of 5 percent or over, is this a reply prepared by you and a correct reply? [Handing paper to witness.]

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. I will ask one question in regard to it. It lists as being owned by domestic corporations $2,500,700 worth of bonds. Can you identify those corporations which hold those bonds?

Mr. PARKER. The coupon and certificates attached are returned to us from various banks as being owned by domestic corporations. There is no identification that is possible for those particular bonds by us.

Mr. RAUSHENBUSH. You do not know at all what domestic corporations own those bonds?

Mr. PARKER. The only thing I know is the original issue of those bonds, to whom those bonds were originally issued.

Mr. RAUSHENBUSH. I offer that statement as " Exhibit No. 1536."

(The statement referred to was marked " Exhibit No. 1536 ", and is included in the appendix on p. 5259.

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[1] See Hearings, Part XVIII, p. 4526.

Mr. RAUSHENBUSH. Mr. Parker, I ask you to identify the reply of your company for information concerning the income taxes of the company during the period 1915 to 1920, inclusive. I do not want to offer this for the record but want to mark it "Committee's Exhibit No. 2 (New York Ship)."

(The document referred to was marked for identification "Committee Exhibit (New York Ship) No. 2" and is on file with the committee.)

Mr. RAUSHENBUSH. I ask you to identify your reply to inquiries 18 and 19,[1] the fees or commissions paid on United States governmental business for the years 1920 to 1934, inclusive, and all fees for legal services, including retainers and other expenses, 1920 to 1934. Is that the complete information? [Handing papers to witness.]

Mr. PARKER. That has not been completed as to item 19. That is being completed and will be furnished the committee on completion.

Mr. RAUSHENBUSH. It will be furnished the committee upon completion?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. Was there a change in the attorneys of the company when the Cord Corporation went in and took control?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH. Who were the new attorneys appointed?

Mr. PARKER. Pruitt & Grealis, in place of White & Case, general counsel.

Mr. RAUSHENBUSH. Were there any other changes?

Mr. PARKER. Goldwater & Flynn were appointed New York counsel, since Pruitt & Grealis were in Chicago, and Shepard, Porter, Foulkard & Alexander were named as local counsel in Philadelphia.

Mr. RAUSHENBUSH. What work has Mr. Flynn done for the shipbuilding company since he was appointed attorney?

Mr. PARKER. He works under the direction of the general counsel, and I have no connection with him.

Mr. RAUSHENBUSH. The general counsel?

Mr. PARKER. Mr. Pruitt.

Mr. RAUSHENBUSH. Your general counsel?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. I offer this for the record as "Exhibit No. 1537."

(The documents referred to were marked "Exhibit No. 1537", and are included in the appendix on p. 5262.)

Mr. RAUSHENBUSH. That is offered as a combined exhibit. You have furnished us, in reply to questions 16 and 17,[2] all company contributions, dues, entrance fees, loans, and so forth, to all National or State associations or individuals; a summary of all publicity and/or propaganda expenses disbursed by the company and/or its officials for magazines, press, radio, or for publicity consultation and assistance, 1920 to 1934, inclusive [handing papers to witness].

Mr. PARKER. As far as 1917 publicity is concerned, that is as much as we now know. The other item was incomplete, and is being prepared and will be submitted to the committee, and if any further publicity should be disclosed in the examination of the accounts, that will be shown also.

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[1] Hearings, Part XVIII, p. 4529.
[2] Ibid., p. 4528.

Mr. RAUSHENBUSH. But you are examining the accounts to get that?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. I offer that for the record as "Exhibit No. 1538."

(The statement referred to was marked "Exhibit No. 1538", and is included in the appendix on p. 5264.)

Mr. RAUSHENBUSH. And the names of all representatives or agents of the company in the United States or abroad, together with their salaries, the expense itemized by individuals for the years 1920 to 1934, inclusive.[1] You furnished this?

Mr. PARKER. And supplemented that with further detail.

Mr. RAUSHENBUSH. And supplemented that with further detail, which has been already entered, and I ask that this be entered as "Exhibit No. 1539."[2]

(The letter referred to was marked "Exhibit No. 1539", and is included in the appendix on p. 5266.)

Mr. RAUSHENBUSH. Will you identify information supplied to the committee in reply to questions 12 and 25,[3] obtaining copies of the minutes of the board of directors and/or any executive committee of such board from 1915 to 1934, inclusive?

Mr. PARKER. You have the matter; yes, sir.

Mr. RAUSHENBUSH. Will you identify these minutes [handing papers to witness]?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. Those are correct?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. I am not offering those, but since they are identified will mark them "Committee's (New York Ship) Exhibit No. 3."

(The document referred to was marked for identification "Committee Exhibit (New York Ship) No. 3", and is on file with the committee.)

Mr. RAUSHENBUSH. We requested, Mr. Parker, the list of campaign contributions[4] made by the company or its officials, and you have handed me various groups of those for various dates. Do you know off-hand how many of the present directors have replied to that questionnaire showing their campaign contributions?

Mr. PARKER. I believe that all the present directors have replied.

Mr. RAUSHENBUSH. Is Mr. Brush a present director?

Mr. PARKER. No, sir.

Mr. RAUSHENBUSH. He has not replied.

Is Mr. Kenny a present director?

Mr. PARKER. No.

Mr. RAUSHENBUSH. He has not replied. Did you, or did Mr. Kaltwasser, send out these requests for this information to these individuals, Mr. Parker?

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[1] Ibid., p. 4523.

[2] Supplementary detail entered as "Exhibit No. 1529." See, infra, p. 5083.

[3] See Hearings, Part XVIII, p. 4529.

[4] Ibid., p. 4523.

Mr. PARKER. I think we both did it. I do not recall. Who signed the letter?

Mr. RAUSHENBUSH. Mr. Kaltwasser signed the letter. Did Mr. Kaltwasser send it out?

Mr. PARKER. I sent part of them out and Mr. Kaltwasser sent part of them out.

Mr. RAUSHENBUSH. But all those signed by Mr. Kaltwasser were sent by him?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. Mr. Kaltwasser, were you trying to be helpful to the committee in getting this information?

Mr. KALTWASSER. Absolutely.

Mr. RAUSHENBUSH. We find that you did not get replies from some of the former directors, Mr. William Findlay Morgan, for example, and we turn over to the envelop you sent to him addressed Mr. William Findlay Morgan, New York, N. Y. Did you expect that letter to be received at New York, N. Y., by Mr. William Findlay Morgan, under that address?

Mr. KALTWASSER. I was depending on Mr. Parker to furnish the address.

Mr. PARKER. Mr: Raushenbush, we used every effort to locate the man's address, telephone books, and through the telephone exchange, and we could not find him, and we took the only chance of the Post office being able to find him.

Mr. RAUSHENBUSH. Charles Stillman is another New York address.

Mr. PARKER. Yes, sir. He is well known in New York, and he may be dead. I have a reply from the wife of one that he was dead, and had been dead for some time.

Mr. RAUSHENBUSH. Mr. Henry M. Wehrhane, New York.

Mr. PARKER. I believe he is dead.

Mr. RAUSHENBUSH. These replies from Mr. Kenny and Mr. Brush, and so forth, which have not come in, were they similarly addressed to New York City?

Mr. PARKER. I think I gave you a reply from Mr. Brush's secretary that he is in the South, and the letter would be put before him on return.

Mr. RAUSHENBUSH. And as to Mr. Kenny, that he was in China?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. You can identify these as correct replies?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. We will mark them as "Committee's (New York Ship) Exhibit No. 4."

(The documents referred to were marked for identification "Committee Exhibit (New York Ship) No. 4", and are on file with the committee.)

Mr. RAUSHENBUSH. I ask you to identify reply to question no. 26, copies of all agreements with foreign companies on sales of patents, including payments made under such agreements.[1] Is that the information [handing paper to witness]?

Mr. PARKER. I listed under this the patents and the agreements with foreign companies and gave you copies that were available.

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[1] Hearings, Part XVIII, p. 4529.

There are some companies in here which I will complete. I will try to get these payments, if you think it necessary, but the payments are so involved, having to do with the electrical business, I am sure it cannot be done. On the shipbuilding business I can give it to you, and will do it.

Mr. RAUSHENBUSH. All right, if you will do that on shipbuilding.

We will mark that as "Committee (New York Ship) Exhibit No. 5."

(The documents referred to were marked for identification "Committee Exhibit (New York Ship) No. 5", and are on file with the committee.)

You supplied us also with the estimates for the merchant marine as well as for the naval vessels?[1]

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. I ask you to identify these [handing papers to witness].

Mr. PARKER. That is correct, sir.

Mr. RAUSHENBUSH. I will ask that that be marked for entry as "Exhibit No. 1540."

(The statement referred to was marked "Exhibit No. 1540" and is included in the appendix on p. 5266.)

Mr. RAUSHENBUSH. Will you identify the reply to request no. 24, copies of all data, memoranda, correspondence, dealing with the enactment and enforcement of the Vinson Act?[2]

Mr. PARKER. You have everything there.

Mr. RAUSHENBUSH. As I understand it, there are some originals which you want back?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. We will mark it "Committee's (New York Ship) No. 6", and we will try to get that back to you in the near future, as soon as we have studied it.

(The documents referred to were marked for identification "Committee Exhibit (New York Ship) No. 6", and are on file with the committee.)

Mr. PARKER. I would like to have this back [handing book to secretary].

Mr. RAUSHENBUSH. The other day a question was asked as to an investigation made by the Cord Corporation before taking over New York Ship, and you hand me herewith a volume entitled "New York Shipbuilding Corporation and Subsidiaries, Report on Investigation", dated August 12, 1933, by Arthur Young & Co.[3] Is that correct?

Mr. PARKER. This is a report made by them after the taking over. There was no examination made before the taking over by the Cord interests.

Mr. RAUSHENBUSH. You mean the Cord Corporation bought the company without examination?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. And this is the only report available?

Mr. PARKER. Yes, sir.

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[1] Ibid., p. 4523.
[2] Ibid., p. 4529.
[3] See text, supra, p. 4999.

Mr. Raushenbush. That will be returned to you and marked Committee Exhibit No. 7 (New York Ship)."

(The document referred to was marked for identification "Committee Exhibit (New York Ship) No. 7", and is on file with the committee.)

PERCENTAGE OF LABOR IN SHIP CONSTRUCTION [1]

Senator Bone. I want to ask one question, to see if you can give me some information as to this, Mr. Parker: As between the present time, 1935 and 1927, can you tell us whether your actual labor costs in the yard, that is, the actual costs for labor reflected in a completed ship, are more or less now than in 1927? In other words, if it was 50 percent of the total cost of a vessel, properly chargeable to labor, in 1927, what would that be now? What is the variance or variation, if any?

Mr. Parker. The actual cost of labor in the yard is higher now than it was in 1927.

Senator Bone. Measured in percentage, you would say, then, that a greater proportion of the cost of the ship might properly be charged to labor now than in 1927?

Mr. Parker. Yes, sir; approximately it was 45 percent labor and 55 percent material.

Senator Bone. Now, you think it is about 50-50?

Mr. Parker. Now, I think it is about 50-50. That is due entirely to increases in labor rates.

Senator Bone. What part of that, if any, is attributable to the adoption of the codes, and, if it is not to be attributed to that, to what do you attribute it?

You do not recognize the A. F. of L. unions.

Senator Clark. How much of it would you attribute to the strike which you had over there?

Senator Bone. You do not recognize organized labor, do you?

Mr. Parker. You are arriving at another factor when you say 45-55 in 1927 and 50-50 in 1935. The factors of importance, of course, are the increase in rate of approximately 25 percent due to the code.

Senator Bone. I do not expect you to be hairlined in your accuracy on anything.

Mr. Parker. And it is also due to limitation of hours and increase in the number to perform the work in a limited number of hours and get the work done in time, and adding more men to the pay roll. But that is off-set, of course, by one very important item, and that is that the men themselves are working at a higher degree of efficiency now than they were in 1927. To that extent Mr. Bardo's report is quite true, that in 1927 they were at a very low spirit. The efficiency of the yard in man-hours is higher.

Senator Bone. Does that mean that the actual worker is now getting any more money in his pay envelop than he got before, but that a readjustment of the hours and a stepping up in the tempo of efficiency has resulted in this increase in labor costs, together with changes that the code required?

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[1] See chart "Costs of naval construction", appendix, facing p. 5274.

Now, what is the truth about the picture? Does the actual worker in your yard get more in dollars and cents in his pay envelop than before, or less?

Mr. PARKER. He gets more in dollars and cents per week.

Senator CLARK. That is due to the strike, is it not?

Mr. PARKER. I do not believe it was necessary to strike.

Senator CLARK. They did have a strike immediately preceding the increase in wages, did they not?

Mr. PARKER. Strikes are like mumps, and they are going to come out with the germ.

Senator CLARK. You had a strike immediately preceding the new wage adjustment, did you not?

Mr. PARKER. I think the men could have obtained the same without the strike, but the psychology was such that they had to have it.

Senator CLARK. You had a strike immediately preceding the new wage adjustment, did you not?

Mr. PARKER. No; we increased the wages not only to the code minimum but beyond the code minimum.

Senator CLARK. What was the strike about?

Mr. PARKER. About the same things which caused every other strike in the United States.

Senator CLARK. What were the things?

Mr. PARKER. The idea that " if we can get them on the hip, we can get a lot from them."

Senator CLARK. Was not the strike about an increase in wages, as a matter of fact?

Mr. PARKER. Not one-half as much as recognition under clause 7 (a).

Senator BONE. If, under the code, the shipping companies of the country had managed to freeze the building of new yards, any more yards, or the expanding of the yards, with any kind of combination at all between the " big three ", you sort of had poor Uncle Sam on the run, did you not? You see, we have got to credit the unions for being just as smart as business men. They see you fellows putting Uncle Sam in a tough spot with the code, and maybe they figured they could put you in a tough spot. I just wondered if that thought ever occurred to you.

Mr. PARKER. We can imagine them thinking of most everything.

Senator BONE. They saw the shipbuilding companies tilt the ante from $8,000,000 to $16,000,000, and they saw an opportunity for a lot of easy money, and they thought if you fellows could put Uncle Sam on the spot and freeze out any more yards, and keep the Government from building any more yards, they would have Uncle Sam where the hair is short.

Mr. PARKER. We did not freeze out any yards. Yards are building naval ships which never did before.

Senator BONE. Which ones?

Mr. PARKER. Federal and United Drydocks.

Senator CLARK. Did you hear Mr. Bardo's testimony yesterday?

Mr. PARKER. No, sir.

Senator CLARK. Did not Mr. Bardo testify that New York Ship did everything to obtain the insertion in the code of a provision against the construction of any additional shipyards?

Mr. PARKER. That is quite true.

Senator CLARK. And also undertook to influence various political functionaries, among them the R.F.C., against any loans for shipbuilding yards?

Mr. PARKER. That is new yards.

Senator CLARK. That is what I said.

Mr. PARKER. There were enough yards already. The New York district has enough yards to build all the ships the Navy is going to build. There are enough shipbuilding facilities now, without constructing new yards, to build five times what the Navy contemplates building.

Senator CLARK. That does not seem to be in harmony with Admiral Land, that the whole naval construction program had been held up because the New York Ship could not turn out the plans for the vessels. It seems that there were not enough facilities.

Mr. PARKER. I do not believe that is a true assertion.

Senator CLARK. The committee will be in recess until 10 o'clock tomorrow morning.

(Thereupon, at 12:05 p. m., the committee was recessed until tomorrow, Thursday, Feb. 7, 1935, at 10 a. m.)

INVESTIGATION OF MUNITIONS INDUSTRY

THURSDAY, FEBRUARY 7, 1935

United States Senate,
Special Committee to Investigate the
Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m., in room 357, Senate Office Building, pursuant to recess, Senator Arthur H. Vandenberg presiding.

Present: Senators Clark, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee; and F. W. LaRouche, investigator.

Senator Vandenberg. The hearing will come to order. Mr. Chappell.

TESTIMONY OF PHILIP W. CHAPPELL

1934 STRIKE IN NEW YORK SHIPBUILDING CORPORATION'S YARDS

(The witness was duly sworn by Senator Vandenberg.)

Senator Vandenberg. Give the reporter your full name, Mr. Chappell.

Mr. Chappell. Philip W. Chappell.

Senator Vandenberg. What is your position?

Mr. Chappell. Commissioner of Conciliation.

Senator Vandenberg. Very well, Mr. Raushenbush.

Mr. Raushenbush. Mr. Chappell, in the course of your duties as Commissioner of Conciliation you were assigned to the labor disturbances at the New York shipyards at Camden, were you not?

Mr. Chappell. Yes, sir.

Mr. Raushenbush. Will you relate the history of your negotiations there to the committee?

Mr. Chappell. I was assigned there on April 5, 1934. The strike had been in progress since about March 28, as I recall it. We immediately went into conference that day, but both sides seemed rather adamant, and it was several weeks before any suggestion of an agreement could be reached, and Mr. Bardo finally offered a 6-percent wage increase, without any recognition of the union.

This union was not affiliated with the A. F. of L. It was a union that had started as a sort of employee-representation plan, group in the plant, and as I understood the story, the president of the union had been taken sick and sent to the hospital, and while he was gone the vice president took control of the union and sort of kicked it over the fence, and the strike was pulled.

Along about 10 days or 2 weeks after my arrival there, Mr. Bardo made this proposition of 6 percent, and insisted the matter be put to a secret vote of the union. At the same time, as I recall, there was quite a broadcast come out from both sides in the newspapers in Camden. You see, at that time we also had several other strikes. There were something like 7,000 people on strike in Camden at one time, all more or less associated with the Socialist group there, under Socialist leadership.

And at the meeting of the men in the union, which I attended, when the vote was taken, they did not take a secret vote. They voted that down, but they overwhelmingly voted against the proposition.

Then Mr. Bardo, who conducted practically all the negotiations for the company, endeavored to refer it first to another board. He wanted to refer it to the New Jersey Regional Board, of which, I think, he was then a member. He tried to inject the industrial relations board of the shipbuilding code into it, although that board had never been completed. He threatened to turn it over to the Philadelphia Regional Labor Board. But the men, not being affiliated with the A. F. of L., objected to turning their case over to any board on which the only labor representation was A. F. of L. representation.

So, finally, the secretary, or, rather, Mr. Kerwin, who was head of the conciliation service, made an investigation here in Washington, and he wired me along the latter part of April that at that time I was the only Government agency authorized to have any contact with the strike.

Mr. LaRouche. Mr. Chappell, excuse me, but right at that point, what was the reason for that wire?

Mr. Chappell. Because there had been so much bickering back and forth as to whom was to have jurisdiction.

Mr. LaRouche. Bickering between whom?

Mr. Chappell. Between the men, Mr. Bardo, and myself, you might say. We would get into a conference and Mr. Bardo would say, " Well, we cannot get anywhere. We will have to turn this over to some other board."

And as a result of that, we were not getting anywhere in our conferences.

Mr. LaRouche. You did not feel that that was deliberate on Mr. Bardo's part, did you?

Mr. Chappell. Well, I think it was the position almost any employer would take under those conditions.

Mr. LaRouche. You mean, stall the situation along?

Mr. Chappell. Well, to stall along, yes; because one way to win a strike is to starve them out.

Mr. LaRouche. Starve them out. Do you think he was trying to do that?

Mr. Chappell. That is what I would have done if I had been in his place.

So, right after that another meeting was scheduled, and, in fact, I had arranged a meeting, and when I arrived at the office of the company I found the committee assembled in the outer office, and I went in to Mr. Bardo's private office and was introduced to two gentlemen who had been brought up from Washington, and I inquired if they were to participate in the meeting or expected to, and Mr. Bardo made the remark to me that he had told me that if we could not settle this dispute, that they would have to turn it over to someone who could.

Mr. LaRouche. Who were those two men?

Mr. Chappell. One of them was Mr. Weaver—I think he was administrator of the shipbuilding code.

Senator Clark. He was formerly connected with the Newport News Shipbuilding Co., was he not?

Mr. Chappell. Yes; I think he was. I know that he was. And the other was a Captain Williams, of the Navy.

Mr. LaRouche. What was Captain Williams' job?

Mr. Chappell. At that time I think he was associated in some way with the Shipbuilding Code Authority. I am not sure of that.

I told the two gentlemen and Mr. Bardo—and I showed them this telegram which had been sent to me from Washington—and told them that if they cared to sit in in the conference as observers, it was all right, but that if they were going to participate, that I would not go on with the conference; that I had arranged with the men for a conference between the company officials and myself the afternoon before, and that Mr. Bardo evidently knew the afternoon before that these two men were to be there, and that it was no more than fair to the men and myself that he should have notified us.

Mr. Weaver made the statement that they should have no objection, as the President had discussed the matter with General Johnson, and the general had suggested that he come up, and that as he was the representative of General Johnson there should be no objection to his being there; and that as Captain Williams was connected with the Navy, and the Navy was very much interested because of the *Tuscaloosa* being in the yards, that they should not object to him.

However, they agreed not to enter into the discussion. When we went out with the group from the union, the chairman of the union committee made the same inquiry as I had made, and they were assured by both Mr. Weaver and Captain Williams that they were simply there as observers.

However, as the meeting progressed, Mr. Weaver was brought into the discussion in sort of an informal way.

Senator Clark. Who brought him in?

Mr. Chappell. If I am not mistaken, I did, by asking a few questions in regard to wage rates at Newport News.

Mr. LaRouche. Excuse me. What sort of questions do you mean, Mr. Chappell?

Mr. Chappell. Well, we had never been able to get from Mr. Bardo any competitive rates, although I felt very confident that he had on file there the rates in the other yards. Mr. Bardo kept contending that his rates were higher than they were in any other yard in the industry, with the possible exception of some of those around New York which were more or less repair yards.

But I think, as I recall, that was the way that Mr. Weaver was injected into it at that time.

Later in the morning, however, Mr. Bardo said that he thought that Captain Williams had something he would like to say, and the captain started by asking some of the men who had been down here in Washington, a committee which had been down here several times, questions as to what they found out while they were down here. And finally he intimated very strongly that unless these men went back to work, that the Navy would take the *Tuscaloosa* out of the yard in an unfinished condition.

Mr. LaRouche. Who did that?

Mr. Chappell. Captain Williams.

Mr. LaRouche. He said that, unless the men took Mr. Bardo's terms, the Navy would take the *Tuscaloosa* away?

Mr. Chappell. It practically amounted to that. I objected on the grounds as a representative of the secretary, that I did not feel that any Government agency had a right to come into a meeting of that character and threaten the men that the Government would take that vessel out unless they met the company's terms.

During the meeting Mr. Weaver sat right next to John Green, who was president of the union, and I noticed they had quite a little conversation together. After the meeting adjourned, I went on back to Philadelphia, where I was staying, and that afternoon I had occasion to call up Green, and he seemed very much surprised that I was in Philadelphia because, as he said, Mr. Weaver had explained to him that Mr. Weaver and myself would meet with Mr. Bardo that afternoon and try to get him to come up on his rates to a point where the strike could be settled. And he made an engagement with Green to meet the union committee at the union headquarters that night at 6 o'clock.

Senator Clark. Weaver made that engagement?

Mr. Chappell. Yes.

Mr. LaRouche. Unknown to you?

Mr. Chappell. Unknown to me, although I was supposed to be a party to the afternoon meeting.

I told Green to go ahead to the meeting with Mr. Weaver that night, but that I would be there. And I suggested to him that in dealing with Mr. Weaver he deal with him as a representative of Mr. Bardo rather than a representative of the Government.

Mr. LaRouche. What was that again? Would you mind repeating that statement?

Mr. Chappell. I suggested to Green that he go ahead with the meeting with Mr. Weaver but suggested to him that in dealing with him he deal with him as a representative of Mr. Bardo rather than a representative of the Government, because officially I was the only representative of the Government there.

Mr. LaRouche. Were you trying to imply that Mr. Weaver was not interested in an impartial settlement? Was that the idea you wanted to convey to the men?

Mr. Chappell. To the men? I was trying to convey to them that it was not necessary for them to deal with him as a Government representative at that time.

Senator Clark. As a matter of fact, it is true, is it not, Mr. Chappell, that you had sole jurisdiction of the matter on behalf of the Government?

Mr. Chappell. Yes.

Senator CLARK. And this intervention on the part of the deputy administrator of the N. R. A. and the Navy Department, to try to coerce the men, was purely gratuitous on their part?

Mr. CHAPPELL. That is the way I figured it at that time; yes, sir.

At any rate, we met at 6 o'clock at union headquarters, with the committee of the union, and their attorney and myself and Mr. Weaver and Captain Williams and a minister from Camden—I do not recall his name right now—who injected himself into the picture——

Mr. LAROUCHE. A minister, did you say?

Mr. CHAPPELL. Yes, sir.

Mr. LAROUCHE. Would you know his name if you heard it?

Mr. CHAPPELL. I have it in my notes, I think.

Mr. LAROUCHE. Did you say he injected himself into the case?

Mr. CHAPPELL. The ministerial alliance sort of injected themselves into the picture over there several times on several different strikes.

Mr. LAROUCHE. It was not Dr. Harold Paul Sloan?

Mr. CHAPPELL. Yes; that is the man. Mr. Weaver, when he came in, told the men that he had spent part of the afternoon with Mr. Bardo and had gone over the whole situation with him, and had gone over Mr. Bardo's figures, and he submitted a list of rates that he considered fair, and he told the men that in his opinion the only thing to do was for them to take that proposition; that if they did not do it, the only course he saw open to himself was to return to Washington and to tell General Johnson and President Roosevelt that they had refused to accept a very fair proposition.

He asked me if I did not concur in that. I told him that, so far as I was concerned, he seemed to have tried to eliminate me from the picture, and that, as a representative of the Secretary, I did not feel that I could make any statement of any kind at that time. The men turned the proposition down entirely.

Senator CLARK. Did this man Weaver give any explanation of telling the men you would be in the conference when, as a matter of fact, you knew nothing about it?

Mr. CHAPPELL. No. At that particular time Mr. Weaver was rather arrogant in his attitude toward the men, and he made no explanation further than that he had been sent there by General Johnson and that he represented the President of the United States.

My recollection is that on one occasion that morning Mr. Bardo had told me that he invited Mr. Weaver and Captain Williams to come up. Another time Mr. Weaver stated that it was at his invitation that Captain Williams had come up. Mr. Weaver himself, in talking to the men, told them that he had definitely been asked to come up there by General Johnson.

A few days after that Mr. Bardo came down to Washington and had a conference with General Johnson in the general's office in the Commerce Building. Thinking perhaps that they might want the committee and myself there, I had suggested to the union that they have a committee here, so that I was here at that time and saw the ommittee, but no one of us was taken in on that conference.

Mr. LAROUCHE. You were not invited there either, were you?

Mr. CHAPPELL. Not officially.

Within a week after Mr. Weaver's visit to Camden, the strike was settled on the basis that I had suggested to both sides along early in April, almost 5 weeks before the settlement was made.

I think that is all, Mr. LaRouche.

Mr. LaRouche. I have here a letter which was taken from the files of the Department of Labor, and it is dated April 18, 1934, written from Philadelphia.

The letter reads [reading "Exhibit No. 1541"]:

United States Conciliation Service,
Philadelphia, Pa., April 18, 1934.

Re New York Shipbuilding Co., Camden, N. J.

To: Hon. H. L. Kerwin.
From: P. W. Chappell.

The conference between the management and the committee of the strikers of the above company was not resumed today. After we had assembled Mr. Bardo of the company, read aloud a news dispatch in the Camden Post covering the activities of the strikers' committee in Washington. He then announced he would refuse to negotiate further while that committee remained in Washington endeavoring to reopen his contracts with the Government. Those contracts were his business and concerned no one else. Later he modified his stand to one that it was impossible to negotiate one question in two different places at the same time. I agree his last position is well taken but feel had he been less belligerent and more willing to grant and accept compromise the conference would have resulted in the committee being recalled from Washington. For a time I hoped I could accomplish this but finally realized the atmosphere was too clouded for further negotiations at this time. I still have hopes I may be able to get them together when Mr. Bardo returns on Friday.

Frankly I feel the strike committee are using the Washington situation, and the flood of rumors that are coming in from there to rebolster the morale of their ranks. Mr. Bardo's action has played into their hands for they now frankly accuse him of being afraid of what an investigation may disclose.

Does that mean an investigation of his contracts with the Navy?

Mr. Chappell. You see, one of the main things which caused this strike was the fact that money was allotted to the Navy Department to build ships in order to give employment. It was taken, as I understand, from the P. W. A. funds. The men felt very bitter that the skilled mechanics were receiving from 65 cents to 75 cents an hour in the ship yards, whereas men out on other Government jobs, where the money was taken from the same funds, were receiving from $1 to $1.25 an hour for practically the same kind of work.

That was something that caused the strike and caused the bitterness of feeling among the workers.

And the committee came down here in an effort to have these contracts reopened to see if something could not be done to get that changed.

Mr. LaRouche. In other words, they felt, the men felt, that this emergency money, money that had been allotted on the basis of an emergency, was not being spent in the same way that other emergency funds were being spent?

Mr. Chappell. They felt that the same wage did not apply, as it did not.

Mr. LaRouche. The same wage did not apply?

Mr. Chappell. Oh, it did not.

Mr. LaRouche. Did you ever discuss that question with Miss Perkins, the Secretary of Labor?

Mr. CHAPPELL. I do not believe that I discussed it personally with her, but I was present at a conference between the men from the union and Camden and Miss Perkins, where that question was brought up.

Mr. LAROUCHE. Did she ever express an opinion, or did she ever commit herself as to the justness of the attitude of the men with regard to the pay they were receiving?

Mr. CHAPPELL. That I cannot say definitely, although I understood that she felt that way. I do not recall whether she made such a statement at that time or not.

Mr. LAROUCHE. You just understood that she felt that their claim was just?

Mr. CHAPPELL. Yes; that something should be done to equalize those rates.

Mr. LAROUCHE. I will continue reading from your letter written from Philadelphia on April 18, 1934 [reading "Exhibit No. 1541"]:

> One trouble at this plant is that they have maintained a low wage by introducing a large number of individual rates. This results in a wide spread of classifications. Te reclassify these so as to make them comparable with Chester would increase the yard pay roll about 6 percent. Chester is going to increase their rates 10 percent.

Do you mean the Sun Shipbuilding Co.?

Mr. CHAPPELL. Yes.

Mr. LAROUCHE (continuing reading "Exhibit No. 1541"):

> To equal their wage, which is what the strike committee is aiming at, would mean an increase of 16 percent in the Camden pay roll. Mr. Bardo claims his rates are the same as at Chester, but his own staff admit that due to classification they are not and that the figures given above are about correct.
>
> However, I still feel confident that had we been able to continue negotiations along the line they were proceeding when we adjourned yesterday the wage question would have taken care of itself. Perhaps Mr. Bardo welcomed the opportunity for a hitch.
>
> P. W. CHAPPELL.

(The letter referred to was marked "Exhibit No. 1541" and appears in full in the text.)

Mr. RAUSHENBUSH. Now Mr. Chappell, I would like to ask a few questions in that connection. In the course of your negotiations down there did you find out how much delay there had been on the *Tuscaloosa* before the strike started? Did that piece of information come to you?

Mr. CHAPPELL. No, sir.

Mr. RAUSHENBUSH. Another question: How much increase did the men get as a result of the settlement? How much did it amount to in percentage?

Mr. CHAPPELL. Between 14 and 15 percent on the average. The greatest amount was in the lower brackets, as I recall, and there was one group of machinists or metal workers, quite a large group, who through a reclassification of their wage received a larger percentage.

Mr. RAUSHENBUSH. Larger than 14 or 15?

Mr. CHAPPELL. The fourteen and a half was the average increase to the pay roll.

Mr. RAUSHENBUSH. Yes. The third question is, Can you identify Mr. Weaver? Was he the same man who was later appointed to investigate the *Morro Castle* disaster?

Mr. CHAPPELL. That I do not know.

Mr. RAUSHENBUSH. What was his first name?

Mr. CHAPPELL. I do not recall now.

Mr. RAUSHENBUSH. You do not have that in your records?

Mr. CHAPPELL. I do not believe I have; I may. [Examining papers.] No.

Mr. RAUSHENBUSH. That is all I have.

Mr. LAROUCHE. I have some letters here which I would like to put in the record at this point. I will read one of them. This was written on May 16, 1934, by Mr. Bardo to Dr. Harold Paul Sloan, Woodbury, N. J. It reads:

> MY DEAR DR. SLOAN: I beg to apologize for not having communicated with you earlier expressing on behalf of both the company and myself our very great appreciation for the helpful and constructive aid which you rendered in the final settlement of our labor situation.
>
> The men returned to work in full force on Monday and apparently are happy and exceedingly well pleased with the outcome.
>
> As a more substantial token of our appreciation I beg to enclose herewith check for $250, which I hope you will accept in the spirit in which it is sent. This is intended for your personal use.
>
> Thanking you, and with high personal regards, I am,
>
> Very sincerely yours,
>
> C. L. BARDO.

(The letter referred to was marked "Exhibit No. 1542" and appears in full in the text.)

Mr. LAROUCHE. That was the Dr. Harold Paul Sloan who you said injected himself into this case?

Mr. CHAPPELL. I imagine it is the same man; yes, sir.

Mr. LAROUCHE. Did you ever hear, Mr. Chappell, of Rev. John Pemberton, Jr.?

Mr. CHAPPELL. I do not recall. There were three ministers mixing up in that committee from the ministerial alliance.

Mr. LAROUCHE. I will introduce, without reading, a similar letter sent on the same day by Mr. Bardo to Rev. John Pemberton, Jr.

(The letter referred to was marked "Exhibit No. 1543" and is included in the appendix on p. 5267.)

Mr. RAUSHENBUSH. Does that also mention a check?

Mr. LAROUCHE. I will read that paragraph.

> As a more substantial token of our appreciation I beg to enclose herewith check for $250 which I hope you will accept in the spirit in which it is sent. This is intended for your personal use.

That paragraph was included in the letter to Rev. John Pemberton, as it was to Dr. Harold Paul Sloan.

I will also introduce a letter, without reading, from Rev. John Pemberton to Mr. Bardo, dated May 17, 1934, with the appropriate number, acknowledging the receipt of the "token."

(The letter referred to was marked "Exhibit No. 1544" and is included in the appendix on p. 5268.)

Mr. LAROUCHE. One more thing. Did you investigate, while you were at New York Ship—by the way, did you know about these "tokens" while you were up there?

Mr. CHAPPELL. You mean the checks?

Mr. LAROUCHE. Yes.

Mr. Chappell. No; I am wondering why I did not get one.

Senator Vandenberg. Do you know, Mr. LaRouche, whether these were personal checks or company checks?

Mr. LaRouche. We have that information. I do not have it at the moment.

Senator Vandenberg. Do you know which they were?

Mr. LaRouche. My memory is that they were personal checks but I would rather not stand on that.

Senator Barbour. I think it might be well, since the interjection of this to have it appear in the record now, and not way down some other day, so that the record will be complete in that regard.

Senator Vandenberg. You mean you want Mr. LaRouche to confirm his testimony or otherwise?

Senator Barbour. Yes, exactly. I think right at this point that should be settled one way or the other in the record, if he can.[1]

Mr. Raushenbush. We might get it by calling Mr. Parker for a moment. He might remember the checks, if they were company checks.

Senator Vandenberg. Do you remember, Mr. Parker, whether they were company or personal checks?

Mr. Parker. They were checks on the corporation.

Senator Vandenberg. They were company checks?

Mr. Parker. Yes, sir.

Mr. LaRouche. Did you ever hear or investigate, while you were there, any report that one of the issues in this strike was in connection with the *Indianapolis?*

Mr. Chappell. No.

Mr. LaRouche. I have nothing further.

Senator Vandenberg. That is all, Mr. Chappell. Thank you.

Senator Vandenberg. Mr. Manning.

TESTIMONY OF L. B. MANNING

(The witness was duly sworn by Senator Vandenberg.)

Senator Vandenberg. Mr. Manning, will you state your full name to the reporter?

Mr. Manning. L. B. Manning.

Senator Vandenberg. Your address?

Mr. Manning. 105 West Adams Street, Chicago.

Senator Vandenberg. And your position at present?

Mr. Manning. Chairman of the board of New York Ship.

Senator Vandenberg. Mr. Manning, the committee requested certain information from Mr. E. L. Cord. Mr. Cord preceded you as chairman of the board, did he not?

Mr. Manning. Yes, sir.

Senator Vandenberg. And Mr. Pruitt, your counsel, assured us that you could and would supply all the information asked of Mr. Cord by the committee. I want to check first to see to what extent this information is now available to the committee, and what still remains to be furnished, so that you can be advised accordingly.

Mr. Raushenbush, will you follow me as I read you the requests?

Mr. Raushenbush. Yes, sir.

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[1] See appendix, p. 5276, for copies of checks.

Senator VANDENBERG. The first request made of Mr. Cord was for all reports, records, diaries, notes, and other data relating to bidding on naval vessels by the New York Shipbuilding Corporation in 1933 and 1934.

To what extent is that information available, Mr. Raushenbush?

Mr. RAUSHENBUSH. That has not been received at all, and, Mr. Chairman, the same request was addressed to Mr. Manning direct, in a letter of the same day.

Senator VANDENBERG. May we have that information, Mr. Manning?

Mr. MANNING. I have part of it with me and the other part we furnished to the company. I believe the same request was made to the company, and they, in turn, asked us for it, and we submitted it to them on the assumption that they would furnish it to Mr. Raushenbush.

Senator VANDENBERG. And you have additional information with you now?

Mr. MANNING. Yes, sir.

Senator VANDENBERG. That can be canvassed, too, Mr. Raushenbush.

Mr. MANNING. I have no information about bidding; no, sir. I have information further along in that letter, however.

Senator VANDENBERG. What is lacking, Mr. Raushenbush, that the committee wants?

Mr. RAUSHENBUSH. Under the heading no. 1, addressed to Mr. Cord, which you have just read, all reports, records, diaries, notes, and other data relating to bidding on naval vessels in 1933 and 1934, we have received nothing from the company, from either Mr. Cord's or Mr. Manning's files.

Mr. MANNING. Neither Mr. Cord nor myself had any information.

Senator VANDENBERG. In other words, you would refer us to whom for that information?

Mr. MANNING. Mr. Bardo or——

Senator VANDENBERG. Mr. Bardo is no longer connected with the corporation, is he?

Mr. MANNING. No; but he had the information at the time.

Senator VANDENBERG. He could not furnish us with any document from the New York Shipbuilding Corporation's files at present, could he?

Mr. MANNING. The New York Ship would be very glad, as a corporation, to furnish the documents, Mr. Chairman.

Senator VANDENBERG. To whom should we apply in New York Ship?

Mr. MANNING. To Mr. Metten.

Senator VANDENBERG. Mr. Metten?

Mr. MANNING. Yes, sir.

Senator VANDENBERG. The second request was for all evidences of ownership of the stock of the corporation in your possession, together with a statement of all outstanding loans, notes, or other obligations outstanding against that stock. To what extent is that information available, Mr. Raushenbush?

Mr. RAUSHENBUSH. As far as all evidences of ownership of stock of the corporation in the possession Mr. Manning or Mr. Cord is concerned, that has not been received.

Senator VANDENBERG. Have you any evidence on that here?

Mr. MANNING. I have that here.

Mr. PRUITT. We furnished a record of all of Mr. Cord's stockholdings to Mr. Raushenbush the first day I was here.

Mr. RAUSHENBUSH. Yes; that was put in the record the other day, showing that Mr. Cord owned 4,200 shares in his own name.

Senator VANDENBERG. Four thousand two hundred shares out of a total of how many shares?

Mr. MANNING. That is right.

Senator VANDENBERG. What is the total number of shares, Mr. Manning?

Mr. MANNING. One hundred and seventy-five thousand founders and 325,000 participating. Is that correct?

Mr. PRUITT. That is right; and the preferred.

Senator VANDENBERG. Which class of stock did Mr. Cord own?

Mr. MANNING. Founders. That is right.

Mr. RAUSHENBUSH. We have also, Mr. Chairman, a reply from Mr. Manning showing the ownership of his stock in corporations and it seems to indicate no ownership. Is that right?

Mr. MANNING. That is correct.

Mr. RAUSHENBUSH. No ownership of New York Ship stock.

Senator VANDENBERG. And you are furnishing additional information to Mr. Raushenbush this morning?

Mr. MANNING. It has already been furnished, Mr. Chairman. Here is a letter about Mr. Cord [presenting letter].

Senator VANDENBERG. This letter, in a moment, will be entered in the record, after we have completed this survey.

The third request was for a full record of any options taken or given on New York Shipbuilding Corporation's stock for the years 1928 to 1934, inclusive.

Mr. Cord's secretary responds—and I am reading from the letter you have just handed me:

> No record of any options taken or given * * *.

Mr. MANNING. There were no options of any kind.

Senator VANDENBERG. The fourth request is copies of all analyses, surveys, or other data in your possession concerning New York Shipbuilding Corporation received prior to August 1933.

The answer from Mr. Cord's secretary is: "No copies of analyses" and so forth "received prior to August 1933."

The fifth and final request was a record of all contributions or loans to political parties or individuals prominently connected with political parties for the years 1928 to 1934, inclusive, made either directly or through agents.

Mr. Cord's secretary replies:

> No contributions or loans to political parties or individuals prominently connected with political parties, made either directly or through agents, since he became interested, either as a stockholder or director, in New York Shipbuilding Corporation.

That response, Mr. Manning, would seem to be limited to the period since Mr. Cord became a stockholder or director in New York Ship. When was it that he became a stockholder or director?

Mr. MANNING. Mr. Cord, to my best knowledge, did not become a stockholder in his own name until later on in 1933. However, the controlling block of stock was purchased on or about August 2, 1933.

Senator VANDENBERG. So that this answer, then, would mean that no contributions or loans to political parties or individuals prominently connected with political parties, made either directly or through agents, have been made since August 2, 1933. The committee's request goes back to 1928. Will you communicate with Mr. Cord's secretary and suggest that the information under this heading is incomplete and should be carried back to 1928? [1]

Mr. MANNING. Yes, sir. I might say that that information was furnished the Black committee in full last year in its investigation, and it is available here.

(The letter referred to was marked "Exhibit No. 1545" and is included in the appendix on p. 5268.)

Senator VANDENBERG. Mr. Raushenbush seems to think that there is some distinction between our request and the Black committee's request, inasmuch as ours includes contributions through agents. That can be determined later.

This same request for information was addressed to you, Mr. Manning, under date of January 4. Have you furnished a response to the four requests that were made to you?

Mr. MANNING. I thought I had.

Senator VANDENBERG. What do you find lacking, Mr. Raushenbush?

Mr. RAUSHENBUSH. Under the first heading, "A record of all contributions or loans to political parties or individuals prominently connected with political parties for the years 1928 to 1934," we have only a reply from Mr. Manning, in the form of a letter to Mr. Kaltwasser, dated January 17, acknowledging your letter of January 11, in which he says:

> Acknowledging your letter of January 11, I was elected an officer and director of New York Shipbuilding Corporation on August 2, 1933. Since that time I have made no campaign contributions.

That is in the same class as the response from Mr. Cord. It does not cover the years in question.

Senator VANDENBERG. In other words, the response should be supplemented back to 1928?

Mr. RAUSHENBUSH. Yes.

The second question is, "Full record of any options taken or given on New York Shipbuilding Corporation stock for the years 1928 to 1934, inclusive." I understood Mr. Manning was answering for Mr. Cord on the previous request.

Mr. MANNING. That goes for myself also.

Mr. RAUSHENBUSH. That goes for yourself also, that you have no records of that kind.

The third question, I believe, has also been answered—you have no surveys of the kind.

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[1] In hearings of March 12, 1935, the reply to this request was entered into Record as "Exhibit No. 1671." This exhibit is included in the appendix to this part on p. 5274.

The fourth question is a little different than the one addressed to Mr. Cord, Mr. Chairman, and it is a little more inclusive: "All reports, records, diaries, notes, and other data relating to bids on naval vessels by the New York Shipbuilding Corporation in 1933 and 1934."

You say you have no such records, reports, diaries, or notes?

Mr. MANNING. No, sir.

Mr. RAUSHENBUSH. It goes on also: "All records, all correspondence or interviews with naval officials or officers or other Government officials involved directly or indirectly with the bidding and awards on naval vessels for the years 1932, 1933, and 1934."

Mr. MANNING. No record.

Mr. RAUSHENBUSH. Did you have any conversations with naval officers in connection with company affairs during the years 1933 and 1934?

Mr. MANNING. No, sir.

Mr. RAUSHENBUSH. No conversations at all?

Mr. MANNING. No, sir. Mr. Raushenbush, did I understand your question to mean as relating directly to bids and awarding of contracts?

Mr. RAUSHENBUSH. Presumably there would be very little company business that would not deal in some way with those two questions.

Mr. MANNING. There was one other important conference I had later, but not in connection, in any way connected, with the actual bidding or awarding of the contracts.

Mr. RAUSHENBUSH. Or the carrying out of the awards of the contracts?

Mr. MANNING. I did not understand that question that way. I am perfectly willing to tell you about that later conference.

Mr. RAUSHENBUSH. Yes, sir.

Mr. MANNING. But I did not have anything to talk to them about before the bids were made.

Mr. RAUSHENBUSH. Then with those statements, Mr. Chairman, the incompleteness lies in the first paragraph.

Senator VANDENBERG. Very well. Mr. Manning says he will furnish that information.

STOCKHOLDERS OF NEW YORK SHIPBUILDING CORPORATION—ACQUISITION OF CONTROL BY CORD INTERESTS

Senator VANDENBERG. Mr. Manning, as I understand it, Mr. Cord's interest formally took possession of New York Ship on August 2, 1933. Is that correct?

Mr. MANNING. I believe that was the date; yes, sir.

Senator VANDENBERG. That is the date you gave us before. You said that that was the first time, using your language, that he became a stockholder in his own name. Was he a stockholder in the names of others prior thereto?

Mr. MANNING. No; I meant by that that the Cord Corporation bought its interest on or about August 1 or 2, but that later on in 1933 he bought some more stock, which he reported. That is the 4,200 shares which were reported there. The stock in the Cord Corporation records was not in his own name. It belonged to the corporation.

Senator VANDENBERG. Who operated with Mr. Cord in the acquisition of New York Ship stock?

Mr. MANNING. Do you mean who were the other partners involved, if any?

Senator VANDENBERG. Yes; who were related to the stock acquisition of New York Ship?

Mr. MANNING. I made the transaction, and the other parties were B. E. Smith and T. E. Bragg, of New York.

Senator VANDENBERG. B. E. Smith is Mr. Ben Smith?

Mr. MANNING. That is right.

Senator VANDENBERG. Did Mr. Matthew Brush participate?

Mr. MANNING. Not that I know of.

Senator VANDENBERG. Who was the other gentleman you named?

Mr. MANNING. T. E. Bragg.

Senator VANDENBERG. To what extent was Mr. Ben Smith interested in that venture?

Mr. MANNING. He and Mr. Bragg purchased this stock with the understanding that we would take a half interest in it and provide the management for the company.

Senator VANDENBERG. Mr. Smith purchased the stock?

Mr. MANNING. He and Mr. Bragg purchased it, but they did not purchase it until after they had gotten a commitment from us to take a half interest in the stock and then provide the management for the company.

Senator VANDENBERG. Do you recall, Mr. Manning, whether this is the same Mr. Smith and Mr. Bragg who were prominent in the investigation of the New York Stock Exchange situation recently? Have you any recollection in respect to that?

Mr. MANNING. No; I have no information on that.

Senator VANDENBERG. Do you know who Mr. Ben Smith's statistician and confidence man, so to speak, has been in all these transactions?

Mr. MANNING. No; I do not.

Senator VANDENBERG. I should like to present for the record the data respecting the rise in stock prices of New York Ship, beginning in March 1933 and continuing to August 1933 when the Cord Corporation announcement respecting control was made. Do you remember what the stock prices were in March 1933, Mr. Manning?

Mr. MANNING. No, sir.

Senator VANDENBERG. Have you the records, Mr. Raushenbush?

Mr. RAUSHENBUSH. Yes; I think so. In March 1933 the low was 3¼ and the high was 6¼.

Senator VANDENBEGG. Three and a quarter to six and a quarter in March 1933?

Mr. RAUSHENBUSH. Yes, sir.

Senator VANDENBERG. What was it in April?

Mr. RAUSHENBUSH. April, 5¾ low, high 8⅛.

Senator VANDENBERG. What was it in May?

Mr. RAUSHENBUSH. May 6½ low; 8 high.

Senator VANDENBERG. And June?

Mr. RAUSHENBUSH. Six and five-eighths low, 18¾ high.

Senator VANDENBERG. July?

Mr. RAUSHENBUSH. Twelve low, 21⅜ high.

Senator VANDENBERG. August?

Mr. RAUSHENBUSH. Sixteen and a half low, 22½ high.

Senator VANDENBERG. In other words, this is a rise, as I understand it, from March 1933 to August 1933 from 3¼ low to 21½ high. Is that correct?

Mr. RAUSHENBUSH. Yes, sir.

Senator VANDENBERG. Since that time have you the record to indicate what market price the stock has maintained, on the average?

Mr. RAUSHENBUSH. The low in October, November, and December was 9 and a fraction, after which, in 1934, the stock fluctuated between 11¼ on the low side and 17⅞ high, and on the high side in 1934 between 13¼ and 22⅞.

Senator VANDENBERG. In other words, it maintained a consistent relationship even on the low side of 3 or 4 times the figure in March 1933? Is that correct?

Mr. RAUSHENBUSH. Three or four or five times as high; yes.

Senator VANDENBERG. Mr. Manning, what caused that stock to rise from 3¼ to 21½ in 5 months?

Mr. MANNING. I am sure I could not tell you, sir.

Senator VANDENBERG. Was there anything about the prosperity of the company which would have produced that result?

Mr. MANNING. Nothing, unless the market of the stock had something to do with the sympathetic rise—I mean in sympathy with the rise in all the rest of the markets at that time.

Senator VANDENBERG. Would you say that an increase from March to August in 1933 from 3¼ to 22½ was about the average rise of all stocks during that period?

Mr. MANNING. No, sir.

Senator VANDENBERG. This is more pronounced, is it not?

Mr. MANNING. I would say so. I did not know a thing about New York Ship at that time.

Senator VANDENBERG. Were you related to the Cord acquisition of stock in any active way during this period?

Mr. MANNING. What period, sir?

Senator VANDENBERG. March to August 1933.

Mr. MANNING. No, sir; we bought our stock sometime between the 20th and 30th of July 1933. Never owned a share of it or traded in a share of it prior to that time.

Mr. RAUSHENBUSH. When you say " we ", Mr. Manning, do you mean the Cord Corporation?

Mr. MANNING. I mean Mr. Cord, the Cord Corporation, and myself personally.

Mr. RAUSHENBUSH. But that does not include in the case these gentlemen, Mr. Ben Smith and Mr. Bragg, who may have been purchasing it on the market before that time?

Mr. MANNING. I would not know anything about what they did.

Senator VANDENBERG. Please tell me again, when was it that Mr. Smith and Mr. Bragg made their proposal to the Cord interests?

Mr. MANNING. I did not get the question.

(The pending question, as above recorded, was read by the reporter.)

Mr. MANNING. Some time between the 20th and 30th of July 1933.

Senator VANDENBERG. When they made that proposal, they were in possession of a substantial amount of this stock?

Mr. MANNING. If you will allow me to explain, I will tell you exactly how it happened.

Senator VANDENBERG. I will be very happy to have you.

Mr. MANNING. The Chase National Bank had 50,000 shares on a loan, which was the result of the Pynchon & Co. failure, and they were the firm that originally underwrote or financed American Brown Boveri Co. Another bank in New York had 40,000 shares from another source. And the two blocks were put together and made 90,000 shares, and that is the first and only—I mean that is the only block that is mentioned, the only block in which we were interested and finally bought.

Senator VANDENBERG. You did not buy out Ben Smith and Tom Bragg, as I understand it?

Mr. MANNING. No, sir.

Senator VANDENBERG. Do you recall how much stock Smith and Bragg had in August 1933?

Mr. MANNING. They had half of 90,000 shares.

Senator VANDENBERG. Do they appear on the list of stockholders?

Mr. MANNING. I do not believe so.

Mr. RAUSHENBUSH. Mr. Chairman, the list of stockholders, which was not identified yesterday, because Mr. Parker could not identify it and said Mr. Pruitt furnished it and could identify it, is here. May we have that identified now?

Senator VANDENBERG. Yes, sir.

Mr. RAUSHENBUSH. Mr. Pruitt, Mr. Parker said you could identify this. Can you do that?

Mr. PRUITT. That stock was in brokers' names. Your question calls for the names of stock by individuals.

Mr. RAUSHENBUSH. But you do identify this information as correct, insofar as individual holdings go?

Mr. PRUITT. That is correct, insofar as it is shown by the records of the transfer office.

Senator VANDENBERG. Now, the Smith and Bragg stock, then, would not be in their own names, but would be in some other's name?

Mr. MANNING. Probably in some broker's name; yes.

Senator VANDENBERG. What is the situation today in that respect? Do they appear in their own names as stockholders?

Mr. MANNING. No, sir; they do not; do they, Mr. Pruitt?

Senator VANDENBERG. But they still have the same ownership, so far as you know?

Mr. MANNING. Yes, sir.

Senator VANDENBERG. Do they have any increased ownership, so far as you know?

Mr. MANNING. I could not say as to that.

Senator VANDENBERG. How much stock does Mr. Cord himself own, or the Cord Corporation?

Mr. MANNING. So far as I know, he owns the amount that was given on his report there.

Mr. RAUSHENBUSH. Four thousand two hundred shares of Founders.

Mr. MANNING. And the Cord Corporation owns a little more than 45,000; it is 46,200 shares.

Senator VANDENBERG. Is that clear on the record, Mr. Raushenbush?

Mr. RAUSHENBUSH. The names of certain nominees of the Cord Corporation—Dean, Friese, Grant, and Reyelt—are shown as holding here 32,600 shares as of December 22, 1934.

Mr. MANNING. That is not right.

Senator VANDENBERG. The present directors of New York Ship and their stockholdings would seem to indicate that they have only relatively nominal interest in the company. Is it a fair interpretation that they represent stock which has not been transferred, or that they represent Mr. Smith and Mr. Bragg? That is a pretty broad question

Mr. MANNING. It is quite a long question, Senator.

Senator VANDENBERG. Let us take them individually, Mr. Raushenbush; let us have the list of directors. Whose name is first on the list?

Mr. RAUSHENBUSH. At a meeting December 6, 1934, its lists present Manning, Metten, Kaltwasser, Gene Tunney, Beal, Pruitt, and Leibenderfer, and says "Also Ben Smith, Tom Bragg." Those are not directors, are they?

Mr. MANNING. No, sir.

Mr. RAUSHENBUSH. They were just present.

Senator VANDENBERG. How much stock has Mr. Metten, according to the record?

Mr. RAUSHENBUSH. The statement of individual holdings does not show his name. Mr. Parker was asked that question the other day, Mr. Chairman, and could not identify any of the board of directors as holding stock, according to this list of individuals holding stock.

Mr. MANNING. I am unable to say. I do not know how much stock he has. He may have some stock in brokers' names, too, but I have no information on that.

Senator VANDENBERG. Is Mr. Gene Tunney listed as a stockholder?

Mr. MANNING. No; I do not believe so.

Senator VANDENBERG. How can they be directors without any stockholdings?

Mr. MANNING. I am under the impression that he has some stock, but I do not know whose name it is in.

Mr. RAUSHENBUSH. Mr. Chairman, it might clarify things a little bit for me to state that we asked for individuals holding considerable blocks, 1 percent of the stock or over. He might have less than that.

Senator VANDENBERG. Oh, yes. What I am trying to get at, Mr. Manning, and what the committee is interested in, is to know the extent of interest still maintained by Mr. Ben Smith and by Mr. Tom Bragg, to begin with. Can you enlighten us at all on that?

Mr. MANNING. What you would like to know, if I may put it this way, is that you would like to know who represents the real owners? Is that right?

Senator VANDENBERG. Precisely. I would like to know where the actual ownership is, and who speaks for it.

Mr. MANNING. I represent the Cord Corporation, and Mr. Tunney represents the Bragg-Smith interests. Mr. Kaltwasser also represents the Cord interests, as do Mr. Leibenderger and Pruitt.

Senator VANDENBERG. Beal?

Mr. MANNING. And Beal.

Senator VANDENBERG. They represent whom?

Mr. MANNING. The Cord Corporation.

Senator VANDENBERG. Metten?

Mr. MANNING. I would rather say that Mr. Metten represents himself. We asked him to become the president of that corporation, and he accepted the position, and I know we feel very friendly toward him, and he does toward us, but I would rather have him answer that question.

Senator VANDENBERG. That is fair.

Mr. RAUSHENBUSH. Is Mr. Slater on the board still?

Mr. MANNING. No, sir.

Mr. RAUSHENBUSH. Are there any other directors you have not mentioned?

Mr. MANNING. I think that takes in all of them.

Mr. RAUSHENBUSH. Do we then have the situation that the Bragg-Smith interests own about 50 percent of the stock and have only one of their own men on the board, Mr. Tunney?

Mr. MANNING. That appears to be the situation.

Senator VANDENBERG. The public record of stock ownership means absolutely nothing, does it, by way of identifying the actual ownership?

Mr. MANNING. No, sir.

Senator VANDENBERG. When Smith and Bragg were putting up this deal to the Cord interests, in contemplation of New York Ship prosperity, did they indicate that new naval building programs were in prospect, and that this made the opportunity more inviting for a successful operation?

Mr. MANNING. They did not necessarily have to point out that to us, Mr. Chairman. The newspapers were full of it.

Senator VANDENBERG. And the enterprise was based, to some extent, on those aspirations, at least upon that prospect? You say it was in the newspapers. Was not that one of the reasons why the stock went up so rapidly?

Mr. MANNING. I would not say as to that—that is, directly in regard to the stock—what the stock did, but it would seem a little foolish for any organization that wanted to go into another industrial business, that if there was not some business in prospect for the future, they would just head along and go on into it anyway.

Senator VANDENBERG. I agree with you. We at least argue ourselves to the same conclusion. Now, I would like to go another step in that direction and see if we can argue ourselves into another agreement. Would it not be quite important to know before a rather substantial investment of this character was undertaken, would it not be rather important to know that the new organization was going to have acceptable contracts in Washington, so that some of these contracts could be reasonably expected, and was not that specifically discussed between the Cord interests and Mr. Ben Smith and Tom Bragg?

Mr. MANNING. No, sir.

Senator VANDENBERG. No discussion of that whatever?

Mr. MANNING. No, sir.

Senator VANDENBERG. There was no discussion by Mr. Ben Smith that he thought he could, let us say, encourage sympathetic consideration for the New York Ship bids?

Mr. MANNING. No such discussion, Mr. Chairman.

Senator VANDENBERG. Mr. Ben Smith did have some rather potential political connections, did he not?

Mr. MANNING. I would not know as to that.

Senator VANDENBERG. At any rate, I understand from you that so far as any information that came to you in connection with the partnership between Ben Smith and Bragg to acquire New York Ship, there were no presentations that Smith and Bragg could help you get business from the Government?

Mr. MANNING. The only presentations that were made at any time were those having to do with the yard's ability to design and build good ships. And we felt that if the amount of business that was going to be released under the P.W.A. program was right, that New York Ship could not help but get part of that business, if it did a good job of designing and manufacturing.

Senator VANDENBERG. The Cord people are not shipbuilders in any sense, are they?

Mr. MANNING. Not by original trade; no, sir. We are manufacturers.

Senator VANDENBERG. They were interested in this particular transaction as an industrial speculation?

Mr. MANNING. All industrial businesses are speculations.

Senator VANDENBERG. Particularly now?

Mr. MANNING. Yes, sir.

Senator VANDENBERG. You can see what interests the committee. We are wondering to what extent this was a speculation and whether or not the element of speculation had been somewhat eliminated by the prospect of these naval contracts and the prospect that Ben Smith and Tom Bragg could help you get your naval contracts, and you have not any information, directly or indirectly, which would confirm any such hypothesis?

Mr. MANNING. I can assure you that that is still a considerable speculation.

Senator VANDENBERG. That is hardly responsive. You have no information about any representations of this character, including the Cord interests to make this arrangement with Ben Smith and Tom Bragg?

Mr. MANNING. No; it would have been just the same, Mr. Chairman, if it had been with John Brown or anybody else.

Senator CLARK. Was anything said prior to the purchase of the Cord interests of the relationship existing between the New York Shipbuilding Co. and Newport News and Bethlehem Shipbuilding Co.?

Mr. MANNING. No, sir.

Senator CLARK. Nothing whatever was said as to the general conditions of competition or lack of competition in the trade?

Mr. MANNING. No, sir; not a bit.

Senator VANDENBERG. Do you know Mr. Flynn, of New York? What is his full name?

Mr. RAUSHENBUSH. The attorney.

Mr. MANNING. Goldwater & Flynn? Yes, sir; I know them.

Senator VANDENBERG. Why was he hired as soon as Cord took over New York Ship?

Mr. MANNING. I do not recall that he was hired as soon as the Cord Corporation took it over; but he was hired, at any rate, for the reason that our headquarters are in Chicago; and Mr. Pruitt is our general counsel and employs a great many attorneys all over America for handling specific things in their territory, and we felt it desirable to have a New York attorney on this matter, so that he was employed there.

Senator VANDENBERG. Is this the Mr. Flynn who is the Bronx Democratic leader? I am trying to identify him.

Mr. MANNING. I do not know as to that. I know that he is quite a prominent man up there.

Senator VANDENBERG. Is he secretary of state for New York?

Mr. MANNING. I could not answer these things, Mr. Chairman, as far as the politics of the men are concerned.

Senator VANDENBERG. Who looks after the politics? Whom could we inquire of about the politics?

Mr. MANNING. Perhaps Mr. Pruitt here knows something about his politics, but I am sure I do not.

Senator VANDENBERG. I mean the politics of the New York Shipbuilding Corporation. I thought that was what you had been referring to.

Mr. MANNING. One of the things I have been trying to do is take it out of politics.

Senator VANDENBERG. Has it been quite a job to take it out of politics?

Mr. MANNING. It is always quite a job to take any business out of politics that sells anything to the Government.

Senator VANDENBERG. Were you taking it out of politics when you hired the Democratic secretary of state of New York just as soon as you took over?

Mr. MANNING. That did not have anything to do with it.

Senator VANDENBERG. Have you anything else, Mr. Raushenbush?

Mr. RAUSHENBUSH. Yes. At this time I would like to offer as "Exhibit No. 1546" a statement showing the fluctuation in the price of stock of the New York Shipbuilding Corporation for 1932, 1933, and 1934.

(The statement referred to was marked "Exhibit No. 1546" and is included in the appendix on p. 5269.)

Mr. RAUSHENBUSH. I would also like to offer the information furnished by the company regarding stockholders having 1 percent or more stock in New York Shipbuilding Corporation as of December 22, 1934, as "Exhibit No. 1547."

(The statement referred to was marked "Exhibit No. 1547" and is included in the appendix on p. 5269.)

Mr. RAUSHENBUSH. Mr. Manning, the rise in stock prices seems to have taken place beginning about March; and as has been brought out, the great jump from a high of 8 in May to a high of 18¾, more than 100-percent jump, took place between May and June. Now, if there was purchasing of that stock, it would seem that that was the time when the bulk of it took place, or when it became known that the stock was being actively bought. Would not that seem a reasonable conclusion?

Mr. MANNING. It would, providing the records showed that there was a large volume of stock changing hands.

Mr. RAUSHENBUSH. Then the stock starts up at that point. Through July it rises to 21⅜ high; and in August, at the time the Cord Corporation formally took over, it is twenty-two and a half, the high, I suppose, for many years.

The surface indication there, including the rise all the way from March, is that the purchasing was going on fairly steadily at that time; and you do know, and I think here have testified, that before Mr. Bragg and Mr. Smith got into the picture, the stock was held in the Bano America Blair hands, was it not?

Mr. MANNING. No, sir; it was the Chase Bank.

Mr. RAUSHENBUSH. Chase hands.

Mr. MANNING. It says right in that report where it was.

Mr. RAUSHENBUSH. We have here the report, identified yesterday by Mr. Parker, being made by Arthur Young & Co., dated August 12, 1933, after the company had changed hands, and it lists the board of directors at June 30, 1933, giving the name, and then the principal reason for being on the board.[1]

It starts off:

> Clinton L. Bardo—principal reason for being on board, president of the corporation.
>
> Allen Curtis, William F. Ingold—the underwriting of American Brown Boveri Electric Corporation (New York Shipbuilding Corporation) stock was by Curtis & Sanger (Boston) and Pynchon & Co. (New York). Mr. Curtis was a member of the firm of Curtis & Sanger and Mr. Ingold a member of the firm of Pynchon & Co.

Then it lists "William M. Flook, William V. Griffin, and William F. Kenny", and says:

> Were the Brady estate representatives, which estate was interested in public-utility projects.

Do you understand that Mr. Flook, Mr. Griffin, and Mr. Kenny were Brady estate representatives? Is that correct, so far as you know?

Mr. MANNING. The report was made to us exactly as it should have been made, in an effort to get the information for our associates to know something about the history of this company. We bought the company on the income account, the balance sheet, and made a quick spot check that the assets as represented were there.

Then we immediately had this report made by Arthur Young & Co., in order to get some of the history of the situation.

Mr. RAUSHENBUSH. You have no reason to believe that that is inaccurate, do you?

Mr. MANNING. No, sir.

Mr. RAUSHENBUSH. They say here:

> Were the Brady estate representatives, which estate was interested in public-utility projects.

Mr. MANNING. I just took that report as being their findings and being accurate.

Mr. RAUSHENBUSH. The Brady estate held Consolidated Gas of New York one time, did they not?

Mr. MANNING. I do not know a thing about it.

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[1] Report of Arthur Young & Co. was marked for identification as "Committee Exhibit No. 7" and is on file with the committee. See infra, p. 5113.

Mr. RAUSHENBUSH. Then Theodore G. Smith:

> Vice president of Central Hanover Bank & Trust Co. Came on the board to protect the bank's interest following a loan of $2,000,000 to the corporation.
>
> Edward F. Hayes, Henry Lockhart, Jr., represented Blair & Co., which acquired the ownership of approximately 40,000 shares of Founders stock through default on loan by Lawrence R. Wilder (owner of the stock).
>
> Earle G. Hines—represented the former Chase Securities Corporation which acquired approximately 50,000 shares of Founders stock through the failure of Pynchon & Co.

That is 50,000 shares in Chase Securities, and more than that must have been picked up by Mr. Bragg and Mr. Smith because, as I got your testimony, if I got it correctly, they had more than this, did they not? They had the whole 90,000?

Mr. MANNING. I said before that they had this 90,000 shares under option, providing we would take half of it.

Mr. RAUSHENBUSH. I see. It was under option.

Mr. MANNING. So that I naturally assume it was those two blocks, one of 50,000 and one of 40,000 shares.

Mr. RAUSHENBUSH. Both the Blair and Chase?

Mr. MANNING. Yes, sir.

Mr. RAUSHENBUSH. That would total up. The other question in that connection was that a moment ago you testified that this was not exactly a speculation, although this report was not made until after the acquisition of the company, because you understood that with the P. W. A. money being handed out to the Navy there would be an expectation of reasonable business.

Now, take that together with this rise in the prices of the stock from May on, and notably May and June, and we may presume, may we not, that those factors, not only what you testified to, the P. W. A., but also the oncoming bidding for cruisers, destroyers, and aircraft carriers in July 1933 was also an item that a business man would consider in saying whether or not this was a speculation or an investment. Is it not true that those factors may have played some part in that purchase of stock by your associates?

Mr. MANNING. Mr. Raushenbush, in one case you asked me about the rise in the stock in March, as related to the P. W. A. funds, that were advertised in the paper, and in the same breath you asked me if that had anything to do with us purchasing the stock.

Mr. RAUSHENBUSH. That was not asked about. That you testified to a few moments ago, that that was one of the factors. I was asking whether that and the other factors, including the new one I mentioned, that of the bidding coming on, a very large Navy bidding coming on in July 1933 did not presumably have some influence on your decision to invest in this company, to take over this company?

Let me make the question even simpler, Mr. Manning, if I may. I may be involving you unnecessarily.

Mr. MANNING. I understand your question, and I think the proper answer to that is that, knowing that the American Navy was far below treaty strength, and knowing that the administration was at least favorable toward building the Navy up to treaty strength, that regardless of whether the P.W.A. money had been appropriated to be allotted to this purpose or not, it was perfectly evident, on the surface, that the shipbuilding business over a period of years should be a good industrial speculation, as the chairman just said, providing—and this is an all-important thing—that the company not only had the facilities to do the work but primarily had an organization to do it.

Mr. Raushenbush. Was there any question in your mind at that time, when the company had been getting a steady share, in fact a little more than some of the other companies, a steady share of the naval business, that it did not have an organization capable of doing the work?

Mr. Manning. If we had thought that it did not, we would not have bought the company, no matter how many millions of dollars may have been involved.

Mr. Raushenbush. So that the question of an organization was not one of the major elements really coming into the situation as a new matter, was it? What I am trying to get at is this, Mr. Manning: There were about $200,000,000 of Public Works money being allocated in 1933 and 1934 to the Navy, and that changed the picture very definitely, did it not? That made anybody thinking of buying a company see a prospective business, which certainly had not been there before this $200,000,000 was allocated.

Mr. Manning. Yes; it was perfectly evident if it was allocated, it was going to be spent.

Mr. Raushenbush. Yes. Now, coming back to the question of bidding in July 1926 you know, of course, that the bids had been called for for some time before?

Mr. Manning. I do not know anything about 1926.

Mr. Raushenbush. I am sorry. I am talking about July 26, 1933, at the time when the bids were opened on the 1933 building program. That was known to the trade generally quite a while before, that the shipbuilding bids were being called for, and the extent of the whole program was known some months ahead, was it not?

Mr. Manning. It was known to the shipbuilding trade. We did not know anything about it.

Mr. Raushenbush. You mean, when you went into this arrangement to take over the stock that you did not know that that was on the boards?

Mr. Manning. The bids were already in. They were placed on July 26, as I recall it.

Mr. Raushenbush. Yes; they were.

Mr. Manning. But they were not opened until about August 3 or 4.

Mr. Raushenbush. August 3, I believe.

Mr. Manning. And it was about that time—in other words, we could not have had anything to do with the bids if we had wanted to, because they were all in there before we knew anything about going into this business. We did not buy, sell, or trade in any way, shape, or manner 1 share of New York Shipbuilding stock of any class or description until we bought half interest in the 90,000 shares.

Mr. Raushenbush. The trading was done by somebody else. You have established that.

Mr. Manning. I do not know anything about that.

Mr. Raushenbush. Perhaps my confusion comes from the fact that Mr. Bardo the other day, when he was asked when the Cord Corporation first took over, he said formally August 2, and when pressed he said he did not know back in July that they were taking over. Are you establishing August 2 as the first date that you knew that the Cord Co. was going into the shipbuilding business?

Mr. MANNING. No, sir. We paid for our stock, as I recall it—I think our records will show—on July 31, and we knew about it perhaps a week before that—not over a week.

Mr. RAUSHENBUSH. That would bring it to July 14?

Mr. MANNING. No; the 31st back a week.

Mr. RAUSHENBUSH. I am sorry. I thought you said 21st.

Mr. MANNING. No; 31st.

Mr. RAUSHENBUSH. That would bring it to July 24?

Mr. MANNING. That is right. I might also incidentally add that this was a speculation that, as I said before, was not so good. We paid $20 a share for our stock.

Senator VANDENBERG. That is, the Cord interests?

Mr. MANNING. Yes, sir.

Senator VANDENBERG. Do you know what Ben Smith and Tom Bragg paid for theirs?

Mr. MANNING. I presume they paid $20 for theirs.

Mr. RAUSHENBUSH. Why do you presume that? Do you know about the arrangements, these options that they had from the Bancamerica Blair & Chase?

Mr. MANNING. No; I do not.

Mr. RAUSHENBUSH. How do you arrive at the figure of 20?

Mr. MANNING. If I asked a man to go into a partnership with me on anything on an equal basis, I would expect to give him anything I got at my price.

Mr. RAUSHENBUSH. Yes; but the stock back there in March was as low as 3¼, and the buying seems to have started at that time and slowly gone up. You were asked to bring along all evidences of ownership of stock, and I wondered if you had anything more on that—that is, also all records of options—that would show at what price the stock was actually taken over by Smith and Bragg.

Mr. MANNING. I would not have any of that information, Mr. Raushenbush.

Mr. RAUSHENBUSH. You see very clearly what I am trying to get at. Here it was public knowledge, to say the least, that a very big naval program was being planned in 1933, and the whole question of allotment of P. W. A. money to them was being agitated; and various of the builders were taking credit for it; and someone with inside information about these things might have seen a speculative buy which was very attractive; and what I am trying to get at is something definite on it—as much as possible. The stock market records put it somewhere between March and June very clearly.

You can add nothing to our information there?

Mr. MANNING. We have not any records or any discussions of any kind or description.

Mr. RAUSHENBUSH. And it was not until July 24, the day before the opening of the bids, that you really knew that the Cord Corporation was going into the shipbuilding business?

Mr. MANNING. It was not until when?

Mr. RAUSHENBUSH. July 24, about a week before the 31st, the day before the bids were opened, that you knew that the Cord Corporation was going into the shipbuilding business?

Mr. MANNING. I am trying to remember the dates the best I can, when we first heard of it. We discussed this matter two or three times, and I saw this balance sheet upon which the deal was made, and to my best knowledge and belief it was about the 24th, 25th, or 26th of July. I do not know which. But I know that we paid for our interest within 3 or 4 days after we decided to go in.

Senator VANDENBERG. Who conducted the negotiations between the Cord interests and Smith and Bragg?

Mr. MANNING. I did.

Senator VANDENBERG. And in the course of these negotiations what did Smith and Bragg hold out to you as being the inviting prospect in this investment? They must have had some sales talk.

Mr. MANNING. They had just the sales talk that you would expect to get from anybody that was going to put their own money into a deal with you, and wanted you to represent them and ourselves both in the management. And the idea was that it was going to be a prosperous business.

Senator VANDENBERG. Why was there a prospect of profit at this particular time, when there had been no profit for some time past?

Mr. MANNING. There hardly could be any profit in a shipyard, Mr. Chairman, when there was not any work in the yard. The shipyard was just finishing up the *Tuscaloosa*, and that was that. There was not any more business in sight at the moment.

Senator VANDENBERG. The Cord Corporation is a very successful and substantial business institution, and as far as I am concerned I have great respect for its business judgment, and for yours, and it seems to me that when Bragg and Smith, who were only stock speculators and nothing else, come to you with a deal of this magnitude, they must present you with something tangible in order to interest you in paying $20 a share for a substantial interest.

It seems to me that they must have indicated to you that there was some reasonable assurance that you were going to get some of this naval business, some of this P. W. A. business.

Mr. MANNING. If they had made that kind of assurance, Mr. Chairman, I would not have believed it, and I would not have gone into it on that basis.

Senator VANDENBERG. My question is, once more, whether or not they did make any such assurances?

Mr. MANNING. No, sir; they did not, sir.

Mr. RAUSHENBUSH. Where did this question come up about taking the company out of politics, which you were talking about a few minutes ago, Mr. Manning?

Senator CLARK. Was there any discussion, Mr. Manning, between you and Mr. Smith and Mr. Bragg as to the basis for this remarkable rise in stock from March to August 1933? In other words, before you bought into the company, naturally you wanted some explanation of the fluctuation in the price of the stock, did you not?

Mr. MANNING. We thought it was plenty high, and had gone up.

Senator CLARK. Was anything said about the basis for this rise from March to August 1933?

Mr. MANNING. No; no discussion whatever.

Senator CLARK. As a good sound business man, did not that very remarkable fluctuation attract your attention before you bought into the property?

Mr. MANNING. Yes, sir; it did.

Senator CLARK. In other words, you were paying some six times what it was selling for some 5 or 6 months before. Did not that attract your attention?

Mr. MANNING. It attracted the attention, but it did not seem entirely out of the ordinary, inasmuch as all the rest of the markets had gone up in the same time.

Senator CLARK. But not in the same proportion.

Mr. MANNING. No; but they did not all——

Senator CLARK. Was not that a very unusual increase, from 3¼ to 22½ in 5 or 6 months?

Mr. MANNING. Pretty unusual; yes, sir.

Senator CLARK. Did not that circumstance attract your attention and lead you to investigate before you invested money of your group in such an outlay?

Mr. MANNING. We bought the company on the basis—I mean we bought the stock on the basis of purely a balance-sheet situation.

Senator CLARK. Yes; but they had had approximately a very similar balance sheet in March, when the stock was selling for 3¼, had they not?

Mr. MANNING. Yes, sir; plus the prospect of new business.

Senator CLARK. What was said in these negotiations about the prospect of new business?

Mr. MANNING. Just the general discussion that I have mentioned, that there were prospects of new business. We did not have to discuss that with Bragg or Smith. Anybody who reads the newspapers could see that there were prospects of new business.

Senator CLARK. I understood you to say, Mr. Manning, that the company bought into New York Ship partly on the basis of the organization.

Mr. MANNING. That is right.

Senator CLARK. Was the organization satisfactory to you?

Mr. MANNING. Not entirely, as it turned out later on.

Senator CLARK. Why did you fire Mr. Bardo?

Mr. MANNING. On account of the lack of progress that was going on in the yard.

Senator CLARK. In what way?

Mr. MANNING. Well, in this way: The yard had set up a production curve, and the curve was not being met.

Senator CLARK. How far was it falling short of being met?

Mr. MANNING. I do not recall the percentage, but enough so that I was worried about it.

Senator CLARK. You had placed Mr. Kaltwasser in there as your particular representative?

Mr. MANNING. That is right. And it was reported to me that the curve was down. Not that I want to try to specify any particular reason for it, but I was not satisfied with the situation, and I had been contemplating doing something about it, but before I had the chance to do anything about it the Navy came to Mr. Kaltwasser and said, "There has got to be something done about this delay." That was relayed to me, and I came to Washington and talked to the Assistant Secretary of the Navy Mr. Roosevelt, Admiral Robinson, and Admiral Land, and discussed making this change.

Senator CLARK. Was it only in the matter of delay that the Navy complained?

Mr. MANNING. I believe so; yes, sir. At least that is all I had on that. That was sufficient.

Senator CLARK. What did you say to the Navy?

Mr. MANNING. Sir?

Senator CLARK. What did you say to the officials of the Navy at the time you conferred with them?

Mr. MANNING. What did I what?

Senator CLARK. What did you tell them when you conferred with them about Mr. Bardo?

Mr. MANNING. I think my exact wording was that I had hoped to be able to correct this situation before they insisted that it be corrected. In other words, we recognized it; and we wanted to correct it before we were told to correct it; but in trying to change the top side of an organization to get it corrected, you better be right before you make a change.

Senator CLARK. How long after this conversation did Mr. Bardo leave, Mr. Manning?

Mr. MANNING. Within a few days.

Senator CLARK. As a matter of fact, the investigators of this committee learned from the Navy Department that Mr. Bardo was on his way out before he knew it himself.

Senator VANDENBERG. Mr. Manning, do you remember why Mr. Ben Smith and Tom Bragg were invited to be present at a board meeting of December 6, 1934, as noted in the minutes of the meeting?

Mr. MANNING. Yes. We gave up the New York Ship offices as being an expense that we did not feel warranted in continuing, and for the past several months have held our board meetings at the Waldorf-Astoria Hotel in my suite; and they happened to be in the room when the meeting was called on some other matters, and we invited them to stay.

Mr. RAUSHENBUSH. In these earlier negotiations between Mr. Smith, Mr. Bragg, and the company, about taking it over, was Mr. Hurja there?

Mr. MANNING. Who?

Mr. RAUSHENBUSH. Mr. Hurja. He was Mr. Smith's assistant at the time.

Mr. MANNING. I do not know him.

Mr. RAUSHENBUSH. You never met him in this connection?

Mr. MANNING. No, sir.

Mr. RAUSHENBUSH. Coming back to a question I asked a while ago, Mr. Manning, you made a statement that one of your aims in making a change of management was to take the company out of politics. Certainly you would not have said that unless you had something fairly definite in mind. I wonder if you can explain that a little more fully?

Mr. MANNING. I think that statement had something to do with answering the question which the chairman had just asked me, which was part of a rather long question, and the word "politics" came into it, and I said, "What we have been trying to do is to take it out of politics", meaning if there was any politics in it, we would like to have it out of politics.

Mr. Raushenbush. The politics of the situation was not discussed at all before you took it over, or not?

Mr. Manning. The politics of New York Shipbuilding?

Mr. Raushenbush. Yes.

Mr. Manning. As related to what?

Mr. Raushenbush. The business of New York Ship depends largely on getting governmental business, either directly through the Navy building or through subsidized merchant-marine building. It is sort of in the nature of things in politics.

Mr. Manning. No politics were discussed.

Mr. Raushenbush. The change in management was not made until over a year after the Cord Corporation took it over, was it?

Mr. Manning. That is right.

Mr. Raushenbush. And that followed, as I believe Senator Clark brought out, a letter from the Navy Department censoring New York Ship for delay in its construction program?

Mr. Manning. I do not believe there was any letter. I am not sure as to that point.

Mr. Raushenbush. How did the matter come up?

Mr. Manning. The information came through the resident engineers to Mr. Kaltwasser.

Mr. Raushenbush. It came without letter, so far as you know?

Mr. Manning. I would be glad to find out if there was a letter, but I do not know of any.

Mr. Raushenbush. Is Mr. Kaltwasser here?

Mr. Manning. I believe he is not. He was excused yesterday, I believe.

Mr. Raushenbush. We place the letter as September 1934, and will offer it for the record later. That was very shortly after the awards had been made on the 1934 program, was it not? Those awards were made on August 22, 1934, and very shortly after that the company was censored for delaying the building program. Now, the question we wanted to ask of somebody—and you understand, let me say parenthetically, Mr. Manning, what a dilemma we are in: We find that the president of the company, who was president during all this time, is no longer with the company, and that the man who is president now does not know anything about these things, so that we are in somewhat of a dilemma as to where to get our information from. But the question is: How it would happen that New York Ship would get such a very considerable share of the 1934 program on August 22 and then a very few weeks later receive a censure from the Secretary of the Navy as to the delay in the building programs of 1933 and 1934.

How do those things dovetail?

Mr. Manning. I do not know how it came about.

Senator Vandenberg. Did you know what cruisers New York Ship was going to bid on in 1933, at the time you took over?

Mr. Manning. No, sir.

Senator Clark. You bought sight unseen for future business?

Mr. Manning. I beg your pardon?

Senator Clark. You bought sight unseen as to what they had bids on?

Mr. Manning. That is right.

Senator CLARK. Is there any director of the New York Shipbuilding Corporation at the present time, besides Mr. Metten, who ever had the slightest connection or experience with the shipbuilding business before that connection?

Mr. MANNING. I believe that is right.

Senator VANDENBERG. Now, Mr. Manning, that will be all for today, if you will be good enough to supplement the record with the information we asked you for.

Inasmuch as Secretary Ickes cannot appear tomorrow as planned, the committee will now recess until Monday at 10 o'clock.

Mr. PRUITT. You mean Mr. Manning is excused?

Senator VANDENBERG. Yes.

(Whereupon the hearing was recessed at 11:55 a. m. until Monday. Feb. 11, 1935, at 10 a. m.)

INVESTIGATION OF MUNITIONS INDUSTRY

MONDAY, FEBRUARY 11, 1935

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m., in room 357, Senate Office Building, pursuant to recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Pope, Bone, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary to the committee; and F. W. LaRouche, investigator.

The Chairman. The committee will be in order. Mr. Yard.

TESTIMONY OF GEORGE B. YARD, JR.

SHIPBUILDERS' CONFERENCES ON 1933 BIDDING

(The witness was duly sworn by the chairman.)

The Chairman. Give the committee your full name.

Mr. Yard. George B. Yard, Jr.

The Chairman. What is your residence, Mr. Yard?

Mr. Yard. Woodbury, N. J.

The Chairman. And your present occupation?

Mr. Yard. Insurance business.

Senator Vandenberg. Mr. Yard, what was your business previous to your present occupation?

Mr. Yard. I was connected with the New York Shipbuilding Corporation.

Senator Vandenberg. In what capacity?

Mr. Yard. As office and personnel manager and assistant to Mr. Bardo, the president. I sat in his office for 7 or 8 years—office of the president.

Senator Vandenberg. You say you sat in his office?

Mr. Yard. Yes, sir; right in his office.

Senator Vandenberg. That was a pretty close relationship, was it not?

Mr. Yard. Yes; it was.

Senator Vandenberg. You were in a position, were you not, to know pretty much what was going on in New York Ship during that time?

Mr. Yard. I should have been, sir.

Senator Vandenberg. How long were you in that capacity?

Mr. YARD. Well, all the time that Mr. Bardo was president. He was president, I think, for about 6 years, and before that he was vice president for a year or two.

Senator VANDENBERG. State it in terms of years, please.

Mr. YARD. I would say, to be exact, about eight and a half years, all told.

Senator VANDENBERG. That would include from 1927 to 1934?

Mr. YARD. Yes, sir.

Senator VANDENBERG. During those years Mr. Bardo and New York Ship were very much interested in naval contracts, were they not?

Mr. YARD. Yes; that was their business—part of it—that and merchant work.

Senator VANDENBERG. Were you somewhat familiar with the preparation of New York Ship bids in connection with naval work?

Mr. YARD. Well, I had nothing myself to do with the preparation of the bids, but I was familiar with how they were prepared, as to the routine of their direction through the organization, and so forth, if that is what you mean.

Senator VANDENBERG. How do you happen to be here testifying, Mr. Yard?

Mr. YARD. I am inclined to think that a lot of your people finally caught up with me. That is the only way I know.

Senator VANDENBERG. You came in response to a subpena?

Mr. YARD. That is the only way, sir.

Senator VANDENBERG. In connection with the letting of these various naval contracts from time to time—and subsequently I want to go into each year with you—what other shipbuilding corporations in the country were particularly interested in these same contracts along with New York Ship?

Mr. YARD. You mean the main competitors of New York Ship—these so-called "competitors"? It would be—Newport News, Bethlehem Shipbuilding Corporation, Sun Ship, and Federal would probably be the main ones.

Senator VANDENBERG. Did you say they were the so-called "competitors"?

Mr. YARD. They were the competitors of the New York Shipbuilding Co.; yes.

Senator VANDENBERG. When Mr. Bardo was preparing the bids of New York Ship upon these various naval contracts, was he in communication with Bethlehem and Newport at any time?

Mr. YARD. Well, yes; I imagine so.

Senator VANDENBERG. You are pretty sure of that, are you not?

Mr. YARD. Well, yes; he was.

Senator VANDENBERG. Did you ever hear Mr. Bardo communicate, for example, with Mr. Ferguson, of Newport News Ship, regarding bids which were going to be submitted on these contracts?

Mr. YARD. Well, of course, the shipbuilders were all bidding on the same class of work, and they had their shipbuilders' association, and they probably talked things over, I suppose, a little bit.

Senator VANDENBERG. What was this association they had? Let us start at that point. What was the nature of this association?

Mr. YARD. That was an association of shipbuilders which was, I imagine, probably formed by the three largest shipyards, namely, New York Ship, Newport News, and Bethlehem. Of course, all the others came into the picture. The association was supported by contributions, I think on a per head basis. In other words, there was a charge; each one contributed an amount in proportion to the number of employees that that particular shipyard had.

Senator VANDENBERG. Now, you sat in Mr. Bardo's office for 8 years, and you know what was going on. Would you say that the members of this association were in more or less constant contact with each other in respect to business of bidding?

Mr. YARD. If I answer that at all—and I am under oath—I will have to say that I think that that is probably so.

Senator VANDENBERG. You are under oath, and the oath runs through the entire series of questions. Let us take, for example, the 1934 contracts. Before New York Ship's proposal was submitted in 1934, do you know whether Mr. Bardo communicated with Mr. Ferguson or Mr. Wakeman of Bethlehem, ahead of the bidding, in connection with what the bidding would be?

Mr. YARD. Well, as I say, through their association et cetera they were in touch with each other quite often.

Senator VANDENBERG. Were they not in touch with each other over the telephone?

Mr. YARD. Yes; they would call each other up over the telephone quite frequently.

Senator VANDENBERG. And would they discuss their bids?

Mr. YARD. They would discuss business in general.

Senator VANDENBERG. Would they discuss their bids?

Mr. YARD. Well, of course, that was their main line of business, Senator.

Senator VANDENBERG. The answer is "yes", is it not?

The CHAIRMAN. They did discuss bids over the telephone, did they not?

Mr. YARD. I believe they did, Senator.

The CHAIRMAN. Do you not know they did?

Mr. YARD. Yes; I know they did.

Senator VANDENBERG. They would discuss bids before the bids were put in. Is that the situation?

Mr. YARD. Oh, yes; yes.

Senator VANDENBERG. Would they indicate to each other what they intended to bid and the particular ships they were going to bid on?

Mr. YARD. Well, I think it was pretty generally understood among themselves as to what they each preferred to receive, and I think there is not very much doubt that they tried to come to some such conclusion; that is, as to what they should want.

Senator VANDENBERG. As a matter of fact, you heard one end of conversations more than once, did you not—I am coming to this conclusion from your testimony—which indicated that Mr. Bardo and Mr. Ferguson and Mr. Wakeman were specifically discussing what portion of each Naval program each was going to have. Is not that a fact?

Mr. YARD. Of course, Senator, I only heard one side of the conversation, and I would not want to testify too specifically about that. That would probably be the answer.

The CHAIRMAN. You can tell us what your impressions were out of hearing one side of that conversation or those conversations, surely.

Mr. Yard. That would be the impression that you would receive, of course.

Senator Clark. Did you ever hear Bardo tell these other fellows what he thought he ought to have out of these bids?

Mr. Yard. Oh, yes; it was very generally understood what each one wanted. There were not any secrets about that.

Senator Clark. There was not any secret between them about anything, was there? Have you not heard them discussing various costs over the telephone?

Mr. Yard. Well, I do not know whether I can exactly recall that or not, Senator.

Senator Clark. Did you ever hear Bardo call up one of these fellows and tell them any conversations he had had with Naval officials?

Mr. Yard. No; I do not recall that.

Senator Clark. Did you ever hear him refer to anything that had gone on in meetings with these other fellows having to do with the allocation of bids?

Mr. Yard. Oh, yes; as I say, that was generally understood. In other words, each yard had its preference for what class of shipbuilding construction they wanted.

Senator Clark. Each yard was better equipped for certain kinds of shipbuilding construction than others, was it not?

Mr. Yard. That is true.

Senator Clark. In other words, one would be better fitted for destroyers and another for cruisers.

Mr. Yard. And another for airplane carriers, et cetera.

Senator Clark. Certainly; and each one was trying to get what it was best equipped for?

Mr. Yard. That is right.

Senator Clark. As a matter of fact, it was the practice in such case for the yards which were not best equipped for that class of ships to lay off or make protective bids, was it not? Did these telephone conversations which you heard indicate that?

Mr. Yard. Well, you might infer that.

Senator Clark. You could not infer anything else from the conversations you heard, could you, Mr. Yard?

Mr. Yard. That would be the natural inference, I suppose.

Senator Vandenberg. Did it usually happen that the New York Ship got the contracts which it preferred to have?

Mr. Yard. It generally worked out pretty close to that, Senator.

Senator Vandenberg. Let me see if I understand this. I want to take one of these years. Here is the naval program for 1934. Prior to the bidding on the ships in 1934, did Mr. Bardo talk with Mr. Ferguson and Mr. Wakeman about the bids which each of these three producers were going to put in?

Mr. Yard. Well, as I say, it was generally the usual practice to confer, I think, among each other.

Senator Vandenberg. You sat right in Mr. Bardo's office all this time?

Mr. Yard. Yes, sir.

Senator Vandenberg. Whenever Mr. Bardo had a conversation with Mr. Ferguson, or Mr. Wakeman on the phone, if you were there you heard it, did you not?

Mr. Yard. Well——

Senator VANDENBERG. You heard what Mr. Bardo had to say?

Mr. YARD. I could not hear it——

Senator VANDENBERG. You did hear it, did you not?

Mr. YARD. I heard some of it; yes, sir.

Senator VANDENBERG. And you heard Mr. Bardo, as I understand it, discuss the ships that he wanted for New York Ship out of a prospective naval program, and you heard him discuss what he was going to bid and what the others were going to bid; is not that true?

Mr. YARD. I heard him say what he wanted out of the naval program. That is absolutely so; yes, sir.

Senator VANDENBERG. Now, in 1933 there was another big naval program, was there not?

Mr. YARD. Yes, sir.

Senator VANDENBERG. And you were in Mr. Bardo's office when they were preparing for that program?

Mr. YARD. Yes, sir.

Senator VANDENBERG. Did Mr. Bardo talk with Ferguson and Wakeman prior to the submission of the bids in connection with the 1933 program?

Mr. YARD. As I say, they did. They conferred together, yes.

Senator VANDENBERG. How often would they talk together on the telephone?

Mr. YARD. I have not any exact idea of that, Senator.

Senator VANDENBERG. Would there be frequent conversations when the Government was going to open bids on one of these jobs?

Mr. YARD. They seemed to keep in pretty close touch with each other.

Senator VANDENBERG. Yes. And, so far as you knew, each one of them knew pretty much what the other one knew. Is not that about right?

Mr. YARD. Most of the time I think that is so.

The CHAIRMAN. Did Mr. Bardo indicate from time to time any knowledge of what his competitor was going to do?

Mr. YARD. It was pretty common knowledge around what each yard was going to get, and it turned out that that was what they did get, almost 100 percent.

Senator CLARK. Mr. Yard, you said a while ago that there had been conversations over the telephone which indicated what each company wanted. But each company was in the habit of submitting bids on all the ships, those they did not want as well as those they wanted, were they not?

Mr. YARD. Yes, sir.

Senator CLARK. For instance, if New York wanted cruisers, they would also submit bids on destroyers and airplane carriers, which would be protective bids for the other companies, would they not? They would be so high they knew they could not get them.

Mr. YARD. If they did not want that class of work, that is probably the procedure.

Senator CLARK. If they did not want the work, they would submit a bid anyhow, but would submit a bid which would be high enough that they knew that they would not compete with the company which actually wanted the work?

Mr. YARD. Either kill that or kill it by a long-time delivery.

Senator CLARK. Do what?

Mr. YARD. Time delivery enters into the bid also.

Senator CLARK. Either as to price or time delivery, or some other condition, but they would make a protective bid, would they not, protecting the other company which was to get the work? Was not that common practice?

Mr. YARD. You might infer that, Senator.

Senator BONE. You could not draw any other inference from that sort of situation, could you? You could only conclude from the facts that that was actualy done. Is not that the case?

Mr. YARD. That would be the inference you would draw.

Senator BONE. It would be a very legitimate inference from the facts, would it not, Mr. Yard?

Mr. YARD. Yes; it would.

POSITION OF CORD REPRESENTATIVE WITH NEW YORK SHIPBUILDING CORPORATION

Senator VANDENBERG. Mr. Yard, when did Mr. Kaltwasser come with New York Ship?

Mr. YARD. I think he came there towards the end of 1933.

Senator VANDENBERG. And in what capacity?

Mr. YARD. Well, he came down there, it was generally understood, as Mr. Cord's direct representative.

Senator VANDENBERG. Did he have a good deal to say about what was going on?

Mr. YARD. We all thought he had a great deal to say.

Senator CLARK. He was regarded throughout the plant as the "power behind the throne", was he not?

Mr. YARD. Absolutely.

Senator CLARK. And Mr. Kaltwasser was known to take it on himself to overrule Mr. Bardo on occasion, was he not?

Mr. YARD. I have seen him do that.

Senator CLARK. In spite of the fact he was supposed to be an assistant to the president?

Mr. YARD. Correct.

Senator VANDENBERG. Mr. Yard, when one of these naval contracts was in contemplation and New York Ship was getting ready to submit its bid, was there some kind of conference usually at which the chief executives of New York Ship went over the general situation before the bid was presented?

Mr. YARD. Yes; the procedure on that, Senator, was in the preparation of bids, of course, the estimating department secured all the details as to actual labor and material. The shops—generally each shop foreman was required to make up an estimate of the number of man-hours which would be required for that shop to do the work on any particular contract. Then all those details were brought in finally to the estimating department, and then the chief estimator would take the situation up with the then vice president and general manager, who was of course the responsible man in the end for the building of the ships.

Senator VANDENBERG. Who was that?

Mr. YARD. If the shipyard got the contracts——

Senator VANDENBERG. Who was that?

Mr. YARD. The man's name at that time was Ernest Cornbrooks.

Senator VANDENBERG. Yes.

Mr. YARD. Then, after the bids were in such shape, insofar as labor and material was concerned, up to that point, then of course they were referred to the topside executives, in addition to Mr. Cornbrooks.

Senator CLARK. What do you mean by "topside executives", Mr. Yard?

Mr. YARD. I mean the president and the treasurer and Mr. Kaltwasser, after he was there.

Senator VANDENBERG. That is what I want to know. The fact is that Mr. Kaltwasser sat in when these bidding problems were discussed. Is that right?

Mr. YARD. He sat in everything that I ever saw anybody sit in down there until I left. I left just before this 1934 bid was finally prepared, but I think it is very, very safe to assume that he sat in on that.

Senator VANDENBERG. Never mind any assumption because I just want what you know about it. During the time that you and Kaltwasser were there together, Mr. Kaltwasser was in on all these conferences. Is that correct?

Mr. YARD. Yes, sir; for instance, during the strike which we had down there, Mr. Kaltwasser sat in in every conference. The conference was right in the room that was my place of abode at the time, in Mr. Bardo's office, and the only time that he ever missed a meeting or was a little bit late, he had been to a dinner, I think over in Philadelphia, and he came back in a dinner coat just as the meeting was breaking up, but to my knowledge on all the labor conferences, that is the only one he ever missed.

Senator VANDENBERG. He was in on the discussion of the contracts too, was he not?

Mr. YARD. Yes.

Senator CLARK. Was Kaltwasser present at the meetings when the bids were under discussion, Mr. Yard?

Mr. YARD. You see, Mr. Kaltwasser was not there during the letting of the 1933 program. He came after that.

Senator CLARK. Yes, and you left before the 1934 letting?

Mr. YARD. I left about a month before it finally took place.

Senator CLARK. Had there been any meetings at which bids for 1934 were discussed before you left?

Mr. YARD. That was going on constantly, Senator.

Senator CLARK. Did you ever see Mr. Kaltwasser at one of these meetings where bids were under discussion?

Mr. YARD. He was continually in and out of Mr. Bardo's office all of that time.

Senator CLARK. Did you ever hear Mr. Kaltwasser take part in one of these discussions as to submission of bids?

Mr. YARD. I would not want to answer it directly, sir.

Senator CLARK. Can you answer it directly? Have you any recollection of ever having seen Kaltwasser at one of these meetings?

Mr. YARD. It is my best belief that these matters were under discussion some time before the actual letting of the bids, and of course Mr. Kaltwasser was in attendance of everything of any importance.

Senator CLARK. So that if Kaltwasser testified here last week or week before last that he was simply engaged on work in improving the "incentive work" in the yard, and had nothing whatever to do with bids, he was not telling the truth, was he?

Mr. YARD. I cannot imagine, Senator, that he would say that he had nothing to do with anything, because he was Cord's direct representative. He hired men and sent them in there, and I know Mr. Bardo did not know some of them, who they were, or what they were going to do, and they came in and they were top-side men, with very important jobs, some of which displaced some of us, and a man who bites in like that, you can use your own judgment.

Senator CLARK. Did you ever see any indication that Mr. Kaltwasser was confining his activities to trying to improve the status of the incentive work in the yard?

Mr. YARD. I would say that the only limit to his activity was the limit of the plant itself.

Senator BONE. What had been his experience prior to coming there?

Mr. YARD. He has been some sort of automobile mechanic—or I mean in some sort of automobile business.

Senator BONE. Then he went in over a lot of chief executives in a plant engaged in Government shipbuilding?

Mr. YARD. Yes, sir; and the men be brought in with him, the first three or four men, had never had any shipbuilding experience.

Senator BONE. That is the type of efficiency that the Navy officials talked to us about with respect to private yards. You know, they boast of the efficiency of the private yards doing work for them. You know that, do you not, sir?

Mr. YARD. Yes sir.

Senator BONE. This is really a demonstration of the efficiency found in the private shipyards.

Mr. YARD. Of course, that last condition is brought about by the change of ownership.

Senator BONE. I understand the Cord interests coming in and buying that plant and putting an automobile mechanic in charge of it.

Mr. YARD. That was just a slip, Senator. I meant he was in the automobile business.

Senator CLARK. He was a prize fighter, so the record shows today.

Mr. YARD. We had a prize fighter on the board.

Senator BONE. A company building battleships for the Government should have a couple of prize fighters on the board.

Mr. YARD. They ought to go on after it was finished and possibly not before.

PRE-BID CONFERENCES OF SHIPBUILDERS

Senator VANDENBERG. We discussed the letting in 1934 and 1933, and you indicated that Wakeman and Ferguson were in constant contact about these bids. In 1931 there was another letting of Government business. Do you remember whether these same conversations between Bardo, Wakeman, and Ferguson occurred in 1931, before the bids were put in?

Mr. YARD. I do not recall exactly about that, Senator.

Senator VANDENBERG. It always occurred whenever there was any letting, did it not?

Mr. YARD. It generally did.

Senator VANDENBERG. Now, for instance, here is a letter from Mr. Bardo to Homer L. Ferguson dated May 28, 1931, marked "personal." It says [reading]:

> MY. DEAR HOMER: I would like to arrange an interview with you at the very earliest practicable moment to discuss a subject of very great mutual interest. I understand you will arrive in New York Friday, and if you will phone me at the yard I will arrange to meet you at any time and place most convenient.

When Mr. Bardo is talking to Mr. Ferguson about a subject of very great mutual interest, just preceding the submission of bids on a naval program, what would be the great mutual interest which would excite such concern at the moment?

Mr. YARD. Well, I suppose there is only one logical inference to draw from that, Senator.

Senator VANDENBERG. In addition to these telephone conversations, were there direct personal meetings between Bardo, Ferguson, and Wakeman or other representatives of the "big three" from time to time?

Mr. YARD. They met each other and communicated quite frequently. Of course, they had an association set up for that purpose. They all supported it. That was the place in New York where——

Senator VANDENBERG. Did you ever hear of a so-called "famous meeting" at the Mayflower Hotel in 1933?

Mr. YARD. I heard about it. I was not there.

Senator VANDENBERG. From whom did you hear about it?

Mr. YARD. It was in a general sort of way, we heard about it.

Senator VANDENBERG. If you were Mr. Bardo's intimate, and there was a meeting of that sort, would not Mr. Bardo be likely to say something to you about it?

Mr. YARD. He did not say anything to me about that.

Senator VANDENBERG. Did Mr. Cornbrooks ever say anything to you about it?

Mr. YARD. No; I think that is the meeting that Mr. Cornbrooks became very ill, Senator.

Senator CLARK. Do you understand that he became very ill at the meeting?

Mr. YARD. I believe so.

Senator CLARK. How long after the meeting did he tell you that?

Mr. YARD. He did not tell me that. We heard it.

Senator VANDENBERG. Was there a meeting at which he was very ill?

Mr. YARD. I believe he had not been feeling well and he had to leave the meeting. As I say, I was not there myself.

Senator VANDENBERG. What did you understand was the reason he had to leave the meeting?

Mr. YARD. I could only guess at that, Senator. I really do not know.

Senator VANDENBERG. I do not want you to guess it. Did anybody ever tell you about it?

Mr. YARD. Not so that I could be exactly specific on that.

Senator VANDENBERG. Have you any recollection about Bardo, Cornbrooks, or Parker talking to you about the meeting in the Mayflower Hotel?

Mr. YARD. As I said, there was some talk about it around the plant, afterwards.

Senator VANDENBERG. You mean there was some talk around the plant which indicated that there was a midnight conference at the Mayflower Hotel?

Mr. YARD. Oh, yes; there is not any doubt about that.

Senator VANDENBERG. There is not any doubt about the fact that there was a conference?

Mr. YARD. I do not think there is.

Senator VANDENBERG. Is there any doubt about what the conference was for?

Mr. YARD. It was in connection with shipbuilding business.

Senator VANDENBERG. Was it the talk around the plant that the purpose of the conference was to divide up these contracts? Is that what the talk around the plant was?

Mr. YARD. I was not there, Senator.

Senator VANDENBERG. You were in the plant. I am talking about what the talk around the plant was.

Mr. YARD. That would be only more or less hearsay.

Senator VANDENBERG. You got the general impression from some source, which, let us say, you cannot recall, or are not willing to recall—you got the impression that there was a conference at which there was an agreement upon what portions of this naval program were to be awarded to each of the "big three." Is that a fact? You got that impression from some source?

Mr. YARD. I may have received that impression, but I would not say from my own knowledge that that is correct.

Senator VANDENBERG. That is all right. I just want to fix the fact that that was your judgment.

Senator CLARK. Did you not say a moment ago, Mr. Yard, that Cornbrooks told you himself he got sick at this conference?

Mr. YARD. No, sir; I did not say that.

Senator CLARK. I understood you to say that.

Mr. YARD. No; I said that Cornbrooks was taken ill at that meeting.

Senator CLARK. But Cornbrooks did not tell you himself?

Mr. YARD. Cornbrooks did not tell me himself; no, sir.

Senator VANDENBERG. Do you know why Bardo left New York Ship?

Mr. YARD. Well, I imagine that he probably felt that the authority had become so divided that he probably came to realize that somebody else was really in control, that he figured he could not live with the situation any longer. That is only my idea.

Senator VANDENBERG. Did he ever talk to you about it?

Mr. YARD. No, sir; he did not say much about those things.

Senator VANDENBERG. Did you notice any change after the Cord interests took possession of New York Ship, any change in management or policy?

Mr. YARD. Well, there were plenty of changes in the personnel and in the change of certain systems, such as the incentive system, and the morale of the plant was very materially affected, in my estimation, but of course that is probably only natural in any change of ownership.

Senator VANDENBERG. Were you familiar with any of the transactions through which the Cord interests and Ben Smith and Tom Bragg obtained control of New York Ship? Do you know anything about that?

Mr. YARD. No; I do not know anything about that. I do not think many people did know much about that part of what was happening.

Senator VANDENBERG. Did you ever hear Mr. Bardo telephone anybody in the Navy Department regarding contracts?

Mr. YARD. Well, he—naturally a lot of our business was with the Navy Department.

Senator VANDENBERG. I mean regarding the letting of bids.

Mr. YARD. I cannot recall anything, sir.

Senator CLARK. Did you ever hear him talk over the telephone to any of the officials of Bethlehem or Newport News about conferences he had had with naval officials?

Mr. YARD. I do not recall any specific item.

Senator CLARK. Do you recall any such conversations in which he told Mr. Ferguson and Mr. Wakeman, of Newport News, he had had talks with naval officials preceding the letting of your contracts. As a matter of fact, there was nothing unusual about that, was there?

Mr. YARD. No; there would not be, but I thought you were trying to ask me to think of some specific one.

Senator CLARK. I did ask you that first, but I am asking you now, whether in the general course of the business, it was customary for Bardo to call up Mr. Wakeman and Ferguson and retail to them any conversations he had had with Naval officials about the letting of bids. Is not that true?

Mr. YARD. Yes, sir.

Senator BONE. Are you acquainted in any way with lists of stockholders of the New York Shipbuilding Co.?

Mr. YARD. No, sir; I really do not know that.

Senator BONE. Are you familiar with the names of any holders of the larger blocks of stock?

Mr. YARD. I really could not say that.

Senator BONE. Do you have any knowledge of the blocks of stock held by Hornblower & Weeks?

Mr. YARD. I believe they did at one time hold a fairly large block of stock.

Senator BONE. Did they hold it at the time you left?

Mr. YARD. I believe so, sir.

Senator BONE. Do you know whether it was their stock or they were holding it for the account of someone?

Mr. YARD. I rather imagine it was for someone else's account.

Senator BONE. Can you inform the committee who that was?

Mr. YARD. I have no first hand information on that.

Senator BONE. Have you any second-hand information, or anything which would give us any light as to the principal for which Hornblower & Weeks was holding this stock?

Mr. YARD. I only heard a rumor as to who held it. Of course everybody was wondering who owned the company, and everybody was guessing here and there, and strictly on absolute knowledge I cannot answer the question.

Senator BONE. Did you discuss among the members on the board of directors or other executives of the company the matter?

Mr. YARD. No; I mean all the members and employees of the organization. There was quite some question in all our minds as to where the control really lay. Nobody seemed to know down the line. I suppose somebody at the top knew about it.

Senator BONE. Did this block of stock have something to do with the control of the company? Was it a factor in the control?

Mr. YARD. It was a very good-sized block, I believe, that that particular firm had.

Senator BONE. Does this rumor which you heard about come from the executives of the company?

Mr. YARD. I do not recall.

Senator BONE. The mechanics in the yard would not be discussing it.

Mr. YARD. No; but you would be surprised as to how much the mechanics in the yard sometimes know. They knew things before we did sometimes.

Mr. LAROUCHE. Did not Parker or Bardo know or say who owned that block of stock?

Mr. YARD. I do not exactly recall that.

Senator VANDENBERG. Mr. Yard, now there were big contracts let in 1927, 1929, 1931, 1933, and 1934, and, as I understand it, you were in a close confidential capacity with Mr. Bardo during each of those five episodes. That is correct is it not?

Mr. YARD. Yes, sir; I was there during that time.

Senator VANDENBERG. During all of those five incidents, when the New York Ship made up its bids, you knew all about it. You sat in at the conferences when the matter was discussed?

Mr. YARD. They were discussed right in the presence of us there, and I was in his office; yes. I had nothing to do with the preparation of the bids, however.

Senator VANDENBERG. I understand that. But, based upon the knowledge that you inevitably gained in that intimate capacity, what is your answer to this question: Did the New York Ship confer with Bethlehem and Newport News in each instance in advance of bidding respecting the classification of ships upon which each was going to bid, which each wanted to get, and how the bidding was to be done to produce that net result?

Mr. YARD. Do I have to answer that question, Mr. Senator?

Senator VANDENBERG. Yes, sir; I find it necessary to ask you to answer it.

Mr. YARD. Well, of course, as I say, they had this association——

Senator VANDENBERG. Never mind the association. That question is susceptible of a yes or no answer.

Mr. YARD. I guess I will have an answer "yes", Senator.

Senator VANDENBERG. That is all so far as I am concerned.

Senator CLARK. Were you working for the New York Shipbuilding Co. prior to the 1927 program?

Mr. YARD. I went there, I think, January 1926.

Senator CLARK. Were you working there when they employed Mr. William B. Shearer to go to Geneva for them?

Mr. YARD. I never came in contact with that particular feature of the thing, I do not think.

Senator CLARK. Did you hear Mr. Shearer's employment discussed in the office?

Mr. YARD. I do not recall anything about that, sir.

Senator CLARK. You do not remember that incident at all?

Mr. YARD. Oh, I remember the fact that Mr. Shearer went to Geneva; yes, of course.

Senator BONE. Now Mr. Yard, I would like to ask one question. I think your answer to Senator Vandenberg's question is not only very revealing, but it is almost conclusive as to why there has been this peculiar increase in the bid price of ships for this Government during the last 2 or 3 years; but I want to ask you one other question in connection with that. How much, if you can tell us, has there been in the way of an increase in actual dollars and cents going to labor in these shipyards between the latter part of 1932 and August or September 1934? In other words, how much did labor benefit by any increase in wages in the by and large? I do not ask you to be specific, but just give a general picture of how much increase labor got out of the yards' bids.

Mr. YARD. Are you referring to the new agreement they got after the settlement of the strike? I think that that increase amounted to about 14.6 percent.

Senator BONE. Fourteen percent. Then there could not be any legitimate connection between that and an increase of 100 percent in the price which is demanded from this Government for the same type of ship in a period of 18 months?

Mr. YARD. Not as far as labor is concerned.

Senator BONE. That is what I am getting at. We have been told—and I have clippings on my desk—or the assertion is made that labor constitutes anywhere from 60 to 85 percent of the cost of one of these vessels.

Mr. YARD. I have often wondered just how that was figured out myself.

Senator BONE. So do we wonder. No one has ever been able to make it clear.

Mr. YARD. Of course, it includes labor in all the auxiliaries and all the other stuff bought.

Senator BONE. I understand that. There has been testimony here that the actual dollars and cents going into one of these vessels in a building yard is about 50 percent, perhaps a little more. But it is your best judgment, is it not, that the increase in this period in the money going to labor, in the pockets of the workers, was something over 14 percent?

Mr. YARD. Fourteen and six-tenths percent; yes, sir.

Senator BONE. During that period has there been a frightful rise in the price of steel, or can you give us some idea how far steel has advanced during this period in price to these yards?

Mr. YARD. I have no statistics.

Senator BONE. I understand; but you are a shipyard executive and know something about the trend of prices.

Mr. YARD. There was a slight increase in the price of material, but of course nothing like that.

Senator BONE. Would that amount to as much as 5 percent?

Mr. Yard. I do not feel competent to testify as to that, Senator.

Senator Bone. You say there was a slight increase?

Mr. Yard. There are a great many different kinds of materials going in there, and what the increase would average over all of them, I have not the slightest idea.

Senator Bone. There is nothing in this picture of the amount flowing to labor or the increase in prices of material that would warrant a 100-percent increase in the bid price of vessels within a period of 18 months?

Mr. Yard. I would not think so.

Senator Bone. You know that, do you not? You can answer frankly to us that that is your idea.

Mr. Yard. That would be my idea.

Senator Bone. That is one phase of the explanation you made to Senator Vandenberg, and that is with regard to collusion.

Senator Clark. I want to ask one more question. When did you first hear about Mr. Shearer's employment by the New York Shipbuilding Co.? Do you recall?

Mr. Yard. I really have not any very definite recollection about that.

Senator Clark. Did you ever hear any discussion about Mr. Bardo's arrangements which had been made with Mr. Shearer; what he was supposed to do?

Mr. Yard. The most I know about was what was in the papers which came out during the investigation.

Senator Clark. Did you hear any discussion of that in Mr. Bardo's office?

Mr. Yard. I do not recall anything along that line; no, sir.

Senator Clark. Did you ever hear any discussion about what the break-up of the Geneva conference would mean to the "big three" shipbuilding companies?

Mr. Yard. Not directly; no, sir.

Senator Vandenberg. Now, Mr. Yard, just in conclusion, if we had had testimony that there were no consultations between the "big three" preceding the bidding in 1927, that testimony is not true; is that correct?

Mr. Yard. Well, as I say, they had their association, Mr. Senator.

Senator Vandenberg. I understand. Never mind the association. But the blunt basic fact, if there is testimony that there was no consultation between New York Ship, Bethlehem, and Newport, respecting the 1927 bidding, prior to the bidding, that testimony is not true? Is that your estimate of it?

Mr. Yard. You are going back to 1927 now?

Senator Vandenberg. I am starting at 1927; yes.

Mr. Yard. That is a long while to remember about that, Senator.

Senator Vandenberg. Do you remember a little better about 1933?

Mr. Yard. That is a little nearer by.

Senator Vandenberg. All right. I will ask you about 1933. If there is any testimony that there were no consultations in 1933 between New York Ship, Newport, and Bethlehem in advance of the bidding, that testimony is incorrect? Is that right?

Mr. Yard. Well, it is very questionable in my mind.

Senator Vandenberg. The answer is that the testimony is incorrect, as you view it?

Mr. YARD. I would say it was very questionable.

Senator VANDENBERG. As as matter of fact, that is a question you can answer yes or no, Mr. Yard, and just choose one or the other, will you?

Mr. YARD. You are forcing me to answer that one?

Senator VANDENBERG. I certainly am.

Mr. YARD. Will you state the question again, please, so that I do not answer it the wrong way?

Senator VANDENBERG. All right; I will state it again. In connection with the 1933 naval contracts, if we have testimony which asserts that there were no consultations respecting bids and allocation of work between New York Ship, Bethlehem, and Newport preceding the bidding, that testimony is incorrect?

Mr. YARD. To the best of my belief; yes.

Senator VANDENBERG. That is all.

Senator CLARK. You know, do you not, Mr. Yard?

Mr. YARD. I am rather sure, Senator, but it is a hard thing.

Senator CLARK. You testified one way here and if these other gentlemen testified directly at variance with your testimony, then they are not telling the truth according to your story. Is not that true?

Mr. YARD. Either that or simply have mental paralysis. I do not know.

The CHAIRMAN. That is all, Mr. Yard.

Mr. RAUSHENBUSH. Mr. Chairman, in view of the circumstances, may we ask that Mr. Yard be kept under subpena?

The CHAIRMAN. You will understand yourself to remain under subpena, Mr. Yard.

Mr. YARD. Yes, sir.

The CHAIRMAN. Mr. Flook.

TESTIMONY OF WILLIAM M. FLOOK

TRANSFER OF CONTROL TO CORD INTERESTS

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Give the committee your full name, Mr. Flook.

Mr. FLOOK. William M. Flook.

The CHAIRMAN. What is your occupation at this time?

Mr. FLOOK. I have none at the moment, sir.

The CHAIRMAN. You have had connection with the New York Shipbuilding yard?

Mr. FLOOK. Yes, sir.

The CHAIRMAN. In what capacity?

Mr. FLOOK. I went with the corporation in January 1927 as chairman of the executive committee. About the summer of 1927 I became chairman of the board. The following winter, I think late in December, I became president. That was the American Brown Boveri Electric Corporation, you understand.

Senator CLARK. When was it you became president of the American Brown Boveri Electric Corporation, Mr. Flook?

Mr. FLOOK. In December 1927, according to my recollection.

The CHAIRMAN. Were you a stockholder in the New York Ship yard?

Mr. Flook. At that time, Senator, the name was the American Brown Boveri Electric Corporation. I had some stock; yes, sir.

Senator Clark. Did you succeed Mr. Wilder as president of the American Brown Boveri Electric Corporation?

Mr. Flook. Yes, sir; later on, and I think in the summer of 1928. I became president, and that continued until we sold the electrical division to the Allis-Chalmers Manufacturing Co. and changed the name to the New York Shipbuilding Corporation.

Senator Bone. When was that?

Mr. Flook. May I look at a memorandum on that, Senator?

Senator Bone. It is not important. What year?

Mr. Flook. I think it was 1930 or 1931. I made a memorandum of 1 or 2 of these dates (examining memorandum). Yes; that was in December 1931. At that time Mr. Bardo was elected president and I remained chairman of the board. That continued until the summer of 1933, when the Cord interests took the property over and I resigned.

Senator Vandenberg. Just a moment. At what time in 1933, precisely, did you resign?

Mr. Flook. I resigned as chairman of the board at a meeting held on August 2, 1933. The Cord interests took control in July 1933.

Senator Vandenberg. The Cord interests took control in July?

Mr. Flook. They bought stock control.

Senator Vandenberg. Had the stock been transferred to them at that time?

Mr. Flook. I do not know, Senator.

The Chairman. How extensive a stockholder were you, individually?

Mr. Flook. The most that I and my family ever had in the company was some seven thousand-odd shares of Founders.

Senator Clark. Was this a regular meeting of the board at which you resigned?

Mr. Flook. This was a special meeting, sir.

Senator Clark. How did you become advised that the Cord interests had acquired control of the company?

Mr. Flook. The two blocks that held control of the company before that time, Senator, was a block owned at one time by Pynchon & Co., which approximated some 50,000 shares. That, on the failure of the Pynchon & Co., had fallen into the hands of the Chase Bank and had been converted to ownership by them. There was another block, as I understand, of about 37,000 shares, which was owned by the old Blair interests, Blair & Co., and those two blocks for years had constituted control of this corporation because those two blocks together were more than one-half the voting stock.

Senator Clark. These two banking houses or brokerage houses owned the stock themselves, did they, Mr. Flook?

Mr. Flook. Yes, sir.

Senator Clark. And exercised active control of the stock in running the company?

Mr. Flook. Yes, sir; and it was those two blocks which were bought, as I understand it, by Cord.

Senator Clark. How were you advised that Cord had taken control of the company?

Mr. **Flook.** One of my directors, Mr. Earl Hines, one of the directors of the company, Mr. Earl Hines, was also a vice president of the Chase Bank, and represented their interests on the board, called me up and asked me to lunch with him. I did, and he then told me that they had sold out, wanted to advise me that they had sold out their block, and the Blair crowd had sold out their block, and therefore that the control had changed. He told me that he did not know who the purchasers were, but that a man named Taradash had made the purchase.

Senator **Clark.** Did he suggest to you you resign as chairman of the board?

Mr. **Flook.** No; he wanted me to meet Mr. Taradash. His idea was that they were going to continue me as chairman of the board.

Senator **Clark.** What did Taradash say when you met him?

Mr. **Flook.** I met him and he intimated that the real purchasers were the Cord crowd.

Senator **Clark.** Did he intimate they wanted you to step out?

Mr. **Flook.** No; he intimated they did not want any change, but Mr. Taradash was mistaken. They did.

Senator **Clark.** When and how were you advised that you were to step out as chairman of the board?

Mr. **Flook.** A few mornings later I found Mr. Manning, who was Mr. Cord's associate, and Mr. Bernard Smith——

Senator **Clark.** Mr. Who?

Mr. **Flook.** Bernard Smith, commonly known as "Ben" Smith, I believe. I had never seen either of them before. They were going by plane down to Camden and they asked me to notify Mr. Bardo that they were coming, and I saw them on that occasion for about a minute.

Senator **Clark.** About when was that, Mr. Flook?

Mr. **Flook.** That was late in July 1933.

Senator **Clark.** Did they say anything to you about the meeting of the board on August 2?

Mr. **Flook.** No; not at that time. A few days later—this meeting for August 2 had already been called. It had been called before they got control or before I knew they had control, and they were invited, of course, to be present at that meeting. A few minutes before the meeting they came into my office and Mr. Manning said that I must understand——

Senator **Clark.** Mr. Who?

Mr. **Flook.** Mr. Manning said that I must understand, of course, that they had their own supervisory organization and therefore would no longer require me. I told them, all right, they could have anything they wanted, and I would resign at once, which I did.

Senator **Clark.** That was on August 2, 1933?

Mr. **Flook.** Yes, sir.

Senator **Clark.** You were aware at that time that the bids on the warship program were to be opened the next day, were you not, Mr. Flook?

Mr. **Flook.** Was it that close? I had forgotten that it was that close.

Senator **Clark.** The record shows it.

Mr. **Flook.** I knew it was about that time.

Senator **Clark.** It was the day before the bids were to be opened.

Senator VANDENBERG. Mr. Flook, you speak of the control which the Cord interests had acquired. Do you know whether that control up to August 2 was a matter of actual purchase or simply a matter of option?

Mr. FLOOK. I do not know of my own knowledge, Senator, but my understanding clearly was that it was purchased, that it had been purchased—yes; I do know Mr. Hines told me that the purchase had been completed.

Senator VANDENBERG. Do you remember when he said it was completed?

Mr. FLOOK. No, sir.

Senator VANDENBERG. When would you fix the time when it was completed?

Mr. FLOOK. Generally in the middle of July or late in July.

Senator VANDENBERG. The time element is rather important, because I am interested in knowing whether they completed their purchase before or after the naval bids were opened.

Mr. FLOOK. I have no knowledge of that, Senator.

Senator VANDENBERG. And they were opened on July 26.

Mr. FLOOK. I do not know, Senator. I have no information on that.

Senator BONE. Mr. Flook, do you know at what price that stock changed hands?

Mr. FLOOK. I do not know, Senator; but it is common knowledge around the street that it was around $18 or $19 a share. That is the closest I can come.

Senator BONE. That is the whole block of some 87,000 shares?

Mr. FLOOK. Yes. I understand really it was around 90,000 shares.

Senator CLARK. Mr. Flook, could you fix approximately the time of this lunch with Mr. Hines, with reference to the meeting of August 2? Perhaps that may enable you to refresh your memory. About how long before that, if you can recall?

Mr. FLOOK. I think it was a couple of weeks before that.

Senator CLARK. Which would throw it roughly in the middle of July?

Mr. FLOOK. I think so.

Senator CLARK. That these other interests had acquired this property?

Mr. FLOOK. Yes, sir.

Senator CLARK. That the Chase National Bank and Blair & Co. had transferred their stock by sale to other interests?

Mr. FLOOK. Yes, sir.

Senator CLARK. And at that time he did not know who the other interests were?

Mr. FLOOK. That is right.

Senator CLARK. But asked you to consult with Mr. Taradash?

Mr. FLOOK. But asked me to consult with Mr. Taradash.

Senator CLARK. About how long after that did you consult him?

Mr. FLOOK. The same day.

Senator CLARK. You think that was about 2 weeks before the meeting at which you were requested to resign?

Mr. FLOOK. I think it was.

Senator CLARK. That would be about the middle of July?

Mr. FLOOK. I think so.

Senator VANDENBERG. What happened between March and June, Mr. Flook, to drive the stock up from 3 to 20?

Mr. FLOOK. I suppose the talk of a naval program, of increased naval ships, unless it was known in the Street that the Cord crowd was negotiating for the stock. I had no knowledge of it. I do not know.

Senator VANDENBERG. Would the mere newspaper talk about a naval program drive stock up from 3 to 20?

Mr. FLOOK. I should not think it would.

The CHAIRMAN. You would not think it would?

Mr. FLOOK. I would not think so.

Senator VANDENBERG. You were interested in the stock at the time. What did you think was driving the stock up from 3 to 20?

Mr. FLOOK. I thought that 3 was ridiculously low for it. I thought that it was a very good stock. I thought that 20 was high, but at the same time I did not sell any. I was not as wise as I wish I had been.

Senator VANDENBERG. There was not anything inherent in the company's own situation which warranted an increase from 3 to 20 in 3 months?

Mr. FLOOK. Oh, no.

Senator VANDENBERG. There must have been some external reason.

Mr. FLOOK. Yes; I should think so.

Senator VANDENBERG. And you have no information as to what that reason was, in fact?

Mr. FLOOK. None whatever.

Senator CLARK. And was there anything outside of a prospective naval building program which tended to increase the value of the stock during that period, Mr. Flook?

Mr. FLOOK. No; there was not anything, Senator, which was public knowledge.

Senator CLARK. That was the only thing probable, looking to an improvement in the company's financial situation, this prospective naval building program?

Mr. FLOOK. That was true, so far as public knowledge is concerned. I was working on some things for the corporation, which I personally thought very valuable, but the public did not know about that at that time.

Senator VANDENBERG. As far as public knowledge is concerned, what you say is true, but did you ever hear that Ben Smith and Tom Bragg, and the other new owners of the controlling interest, were in a position to know that they were going to get naval contracts so that they could justify this price that they were paying for this stock?

Mr. FLOOK. I have heard it, heard it in the papers recently, Senator.

Senator VANDENBERG. You never heard anything at the time about it?

Mr. FLOOK. No, sir.

The CHAIRMAN. You were holding about 7,000 shares of stock?

Mr. FLOOK. I do not think I had that much at that time.

The CHAIRMAN. Of the entire holdings, what were yours, roughly?

Mr. FLOOK. Just a minute. [Figuring:] About one-fifteenth. No; I beg your pardon. Just a minute. [Refiguring:] About one seventy-fifth.

The CHAIRMAN. About one seventy-fifth?

Mr. FLOOK. Yes, sir.

The CHAIRMAN. Yet you were serving in the capacity as directing head of the corporation?

Mr. FLOOK. Yes, sir.

The CHAIRMAN. Were you representing other interests than your own?

Mr. FLOOK. No, sir.

The CHAIRMAN. Were you made the candidate for your position by any particular group of stockholders?

Mr. FLOOK. No, sir. It happened in this way:

In December 1926, I was in London and I got a telegram from one of the directors, I think Mr. James Imbrie, asking me if I would take the chairmanship of the board, and I replied in effect that I would not because I thought the chairman of the board ought to be a man much closer to the public-utility industry than I was. At that time this was the American Brown Boveri Electric Corporation, and its principal activities seemed to be electrical apparatus.

When I got back to New York I had a conference with Mr. Davison, of the Central Hanover Bank, and one or two others, and did take the chairmanship of the executive committee, with a view of studying the situation and finding out if anything could be done with it.

The CHAIRMAN. Were you advanced in any particular by the Mellon interests at that time?

Mr. FLOOK. No, sir; I do not know any of them.

The CHAIRMAN. Did you know that they had a large interest at the time?

Mr. FLOOD. I am practically certain that they did not, Senator.

The CHAIRMAN. You do not know that they did have an interest?

Mr. FLOOK. I am practically certain that they did not, Senator.

The CHAIRMAN. I have before me a letter written by yourself to Mr. Manning, a copy of which——

Mr. FLOOK. Their holding had been long before that, Senator.

The CHAIRMAN. Their holding had been long before that?

Mr. FLOOK. Yes. I am familiar with that letter.

The CHAIRMAN. This letter is dated November 13, 1933.

Mr. FLOOK. Yes, sir.

The CHAIRMAN. And in the second paragraph of your letter you will note this language:

> During a very large part of the company's history it was controlled by Mr. Mellon and I think it may be taken for granted that there was strong and aggressive management. We have its records for the last 29 years, during which the average annual earnings applicable to the present common stock are in round figures $550,000, or $1.10 per share. Eliminating the so-called "war years" (that is, the years in which profits were abnormally large because of orders placed during the war) this average is $42,000, or 84 cents per share.

That has reference, does it, to the holdings of Mellon, that were rather ancient?

Mr. FLOOK. Yes, sir. It was my understanding that the Mellon interest ceased about 1924 or 1925.

Senator CLARK. They took bonds for their controlling stock?

Mr. FLOOK. They took bonds and I always understood that Mr. Mellon distributed those around to charitable institutions, so that even in the bonds he had no interest, no direct ownership.

The CHAIRMAN. On the second page of the letter open before you, the first paragraph, I wonder if we can get a little clarification there. I read:

> Another fact is that there never has been, and in the absence of actual war conditions there never can be enough naval work to keep the large yards really busy. This is where the merchant-marine business is of such vital importance; because, while it is not so remunerative as the naval business, it helps out enormously on the heavy overhead. It is therefore, absolutely vital that everything possible should be done to foster a merchant-marine policy. Fortunately, the best thought of the country is now solidifying on the proposition that, whether war times or peace times be considered, nothing is of much vital importance to the country's safety and prosperity as the maintenance of a powerful merchant marine.

Are we to gather from that language that you considered the most profitable business that of construction of ships of war?

Mr. FLOOK. Oh, obviously, Senator, because of their size and price. The merchant-marine work that had been done in this country, by and large, with the exception of the Manhattan and Washington, were very small ships, and they could be built, for the most part, in a great many yards on the east and west coasts.

The CHAIRMAN. Let the letter from which I have read be offered as an exhibit.

(The letter referred to was marked "Exhibit No. 1548" and is included in the appendix on p. 5271.)

The CHAIRMAN. Who owned the company control, or who was understood to have owned the control of the company when Mr. Wilder was with the company?

Mr. FLOOK. I am guessing a little, Senator, but I think that Pynchon, Blair & Co., and Mr. Wilder's personal holdings probably constituted control of the voting stock.

The CHAIRMAN. During your time with the yards, what was your salary?

Mr. FLOOK. I went in as chairman of the executive committee at $30,000, with the clear understanding, however, that if I stayed with the company, it would have to be increased because I would not stay at that.

The CHAIRMAN. Was it increased?

Mr. FLOOK. When I became chairman of the board, in the summer of 1927, it was doubled. It was set at $60,000.

The CHAIRMAN. Were there any bonuses in addition to that?

Mr. FLOOK. There were bonuses in 1932 and 1933.

The CHAIRMAN. 1933 and what other year?

Mr. FLOOK. 1932 and 1933. Those they paid in those years.

The CHAIRMAN. What did your pay bonus amount to?

Mr. FLOOK. At that time the salary had been reduced, because of a straight 15-percent reduction in salaries, which made the salary for a considerable time $51.000 instead of $60,000, but my total compensation for those 2 years was approximately $80,000 a year.

The CHAIRMAN. Having in mind the 1933 bids that had been asked for, had been requested, did you and Mr. Bardo have frequent conversation concerning the bidding?

Mr. Flook. No, sir.

The Chairman. You had none?

Mr. Flook. I never had a conversation with Mr. Bardo regarding a bid. I never knew what a bid was.

The Chairman. Did he report to you in writing or by letter frequently concerning progress with relation to these bids?

Mr. Flook. No, sir.

The Chairman. What of the 1927 contracts? Did you have any knowledge of the bidding in connection with those contracts?

Mr. Flook. No, sir.

The Chairman. 1929?

Mr. Flook. No, sir.

The Chairman. 1931?

Mr. Flook. No, sir.

The Chairman. 1933?

Mr. Flook. No, sir.

The Chairman. You had no knowledge of what progress was being made in connection with the bidding?

Mr. Flook. None whatever, sir.

The Chairman. No reports were made to you?

Mr. Flook. None whatever.

The Chairman. Did you have any knowledge as to how many ships your company was to have?

Mr. Flook. No, sir.

The Chairman. Did you have any knowledge that there was rather agreement among the shipbuilders?

Mr. Flook. No, sir.

The Chairman. As to what the division of this work should be?

Mr. Flook. No, sir; and I do not believe there was.

The Chairman. Did you discuss these contracts with others than Mr. Bardo?

Mr. Flook. No, sir.

The Chairman. With other companies, competitors?

Mr. Flook. No, sir.

The Chairman. You have told us of the sale of large blocks of stock in 1933, that carried with it the control. Was any effort made to buy your stock from you in 1933?

Mr. Flook. No, sir. It was not needed. The two blocks were enough. They constituted control.

The Chairman. Mr. Smith or Mr. Bragg made no approach to you?

Mr. Flook. I never saw Mr. Bragg in my life, and never saw Mr. Smith except for the two occasions I mentioned to you.

The Chairman. Neither tried to buy your stock?

Mr. Flook. No, sir.

The Chairman. Never made an offer to you in writing or otherwise about it?

Mr. Flook. No, sir.

Senator Bone. Mr. Flook, if you know nothing about the matters which Senator Nye has mentioned, what was the scope of your duties? What were you supposed to do about it?

Mr. Flook. When I went with this company, it was the American Brown Boveri Electric Corporation, a company formed for the manufacture of heavy electric apparatus in America. The theory at that time was that the shipbuilding business was dead. You will remember that was before the passage of the Jones-White bill, when it looked like all the shipbuilding plants in America were going out of business, as the Cramp plant already had. There were a great many problems—they were all financial problems—connected with the corporation, and it looked at the time I went in that it was on the verge of bankruptcy. Everybody was of the general opinion in New York that it was going to fail, and a great many moves had to do with the financial affairs of the company, the cancelation of contracts which existed, and making new ones.

The CHAIRMAN. What was the nature of the reports submitted to you by Mr. Bardo or other executives of the company from time to time?

Mr. FLOOK. I, of course, got all the financial reports of the company from time to time.

The CHAIRMAN. Never any reports concerning the activities within the industry to accomplish these contracts?

Mr. FLOOK. No, sir.

Senator CLARK. What did you do in 1932 and 1933, for instance, to earn a salary of $51,000 and a bonus of $29,000 each year, if you did not know what was going on in the yard?

Mr. FLOOK. I never had anything to do with the operation of the yard, Senator. I was doing a great many things in connection with the financial affairs of the company.

Senator CLARK. Did you know anything about the status of the efforts to get business from the Navy Department during those years?

Mr. FLOOK. Every time the Navy was about to build ships, naturally it was a subject of conversation at the board meetings.

Senator CLARK. You just told Senator Nye you had no reports as to the status of the bids.

Mr. FLOOK. As to the status of the bids, at any time.

Senator CLARK. Was not the matter of the prospects of the company for getting business from the Navy Department a matter which had the most vital bearing on the whole financial set-up of the company?

Mr. FLOOK. Certainly.

Senator CLARK. And you mean to say you did not get any reports from anybody as to those matters?

Mr. FLOOK. I did not and in the nature of things I could not, Senator. The making of these bids was a tremendously complicated matter, that was dealt with by a number of technical shipbuilding experts in the plant.

Senator CLARK. Were you given the net results of the efforts of these technical experts?

Mr. FLOOK. No, sir.

Senator CLARK. You did not know what ships the New York Shipbuilding Co. had bid on?

Mr. FLOOK. I knew they bid on them, of course.

Senator CLARK. You knew they bid on them?

Mr. FLOOK. Yes, sir.

Senator CLARK. You did not know the ones they expected to get?

Mr. FLOOK. No, sir.

Senator CLARK. You did not know anything whatever about that?

Mr. FLOOK. No, sir.

The CHAIRMAN. Mr. Flook, upon your resignation what was done with your files respecting New York Shipbuilding business?

Mr. FLOOK. I walked out of the office, Senator, and the files of the New York Shipbuilding Corporation that were located in New York remained there, of course, in the office. Afterwards, and in 1934, those offices were closed and I was told that the correspondence was all sent to Camden.

The CHAIRMAN. Did you take any correspondence out of the files at the time of your resignation?

Mr. FLOOK. No, sir; I had my personal files in a separate file, which I took with me.

The CHAIRMAN. What do you mean by "personal files"? What did those files carry?

Mr. FLOOK. Personal letters of all kinds.

The CHAIRMAN. From Mr. Bardo?

Mr. FLOOK. Oh, no.

The CHAIRMAN. You are saying, then, that your personal files would have nothing to do with the shipbuilding business?

Mr. FLOOK. Nothing to do with it whatever, Senator. When your investigator was in my office on Saturday, he went through my personal files and he found, by mistake, one small file remaining there, and he took that with him.

ACTIVITIES OF WILLIAM B. SHEARER

The CHAIRMAN. During your official connection with the company, what did you know of and how well did you know Mr. Shearer?

Mr. FLOOK. I met Mr. Shearer several times in Mr. Bardo's office, and in Mr. Bardo's house in Washington, while he was interested in the so-called "4-day-liner project."

The CHAIRMAN. In what?

Mr. FLOOK. The so-called "4-day-liner project."

Senator CLARK. When was that?

Mr. FLOOK. That was in 1928.

Senator CLARK. That was after Wilder had put over the Jones-While bill?

Mr. FLOOK. It was about that time, I think, Senator.

Senator CLARK. Then the next year Bardo came down and got a house to lobby for the 4-day-liner bill. Is that correct?

Mr. FLOOK. I do not think Mr. Bardo ever had a house in Washington.

Senator CLARK. I understood you to say you met Shearer at Mr. Bardo's house.

Mr. FLOOK. I beg your pardon. I should have said Mr. Wilder's house.

The CHAIRMAN. Did you have personal conversation with Mr. Shearer at any time?

Mr. FLOOK. On several occasions.

The CHAIRMAN. What of the activities in 1929? Did you then employ him in any capacity?

Mr. FLOOK. For the New York Shipbuilding Corporation?

The CHAIRMAN. Yes, sir.

Mr. Flook. No, sir.

The Chairman. For yourself?

Mr. Flook. The only employment—yes; now, just a minute. I had forgotten the dates. But while Mr. Wilder was working on the 4-day-liner project, which involved his option to purchase the New York Shipbuilding Corporation, Mr. Shearer went out to California to try to interest Mr. William Randolph Hearst in that proposition. I had a conversation with him before he went; and then on another occasion there was going to be some meeting in Washington—I have forgotten what it was—and Mr. Wilder thought that Mr. Shearer could be useful here. I thought so, too, at that time, and I sent him down here for about a week and paid his expenses.

The Chairman. You sent him down here to Washington?

Mr. Flook. Yes, sir.

The Chairman. He want to the Pacific coast at the expense of the New York Shipbuilding Co.?

Mr. Flook. Yes, sir.

The Chairman. Before me is a photostat of an interoffice letter dated March 30, 1929, written by yourself, dictated by yourself, and signed with your initials, Mr. Flook, evidently, to Mr. Bardo; subject, W. B. Shearer. [Reading "Exhibit No. 1549":]

> Dear Mr. Bardo: I am in receipt of your letter of March 29 regarding Mr. Shearer.
>
> When I was dictating my letter to you of the 28th, Mr. Shearer was in the room. He had just talked for three-quarters of an hour about the tremendous amount of invaluable work he had done at Washington and his great accomplishments there; and I had told him, as I had so many times before, that I did not know anything about this matter, had never employed him, did not propose to employ him, and would not interfere in any way whatever with your handling of the situation; also, as I had told him so many times before, that I was personally entirely willing to have your company pay its share of any expenditure, past or contemplated, that might be agreed upon by the shipbuilding companies. Finally, being unable to get any other commitment, he asked me if he might quote me to this effect, and I thereupon thought it better to put it in writing than to leave it in such shape that there might be some misconstruction.
>
> I agree with you that we are, of course, not obligated in any way, and that the $250 was more than ample for the expense we authorized.
>
> As to the $5,000, it was not solely to pay his expenses to California but to clean up other things to make his trip to California possible.
>
> I have always felt that he was a dangerous man.
>
> (Signed) W. M. F.
> W. M. Flook.

Mr. Flook, reference is made here to this—

> To have your company pay its share of any expenditure, past or contemplated, that might be agreed upon by the shipbuilding companies.

What work was done or what work was contemplated in which the shipbuilding companies, your own and your competitors, so to speak, were interested?

Mr. Flook. I do not recall at the moment, Senator, (after this length of time, but I assume that that referred to the Geneva Conference—to the work done at the Geneva Conference.

The Chairman. What was that work, Mr. Flook?

Mr. Flook. That was before my time—before I had anything to do with the company.

The CHAIRMAN. What did you understand that work to have been?

Mr. FLOOK. I understood that he was sent over there as an observer, to keep the companies posted as to what was done over there, and I also understood he was claiming afterward a very large amount of money due him for services.

Senator CLARK. What did he claim to have done on this trip to California and immediately thereafter?

Mr. FLOOK. On the trip to California he was to see Mr. William Randolph Hearst and try to interest him in Mr. Wilder's proposition. A little background is necessary.

Senator CLARK. He was trying to get up a war scare with England, was he not?

Mr. FLOOK. Not that I know of; no.

Senator CLARK. Is not that a period when Mr. Shearer was running around with a lot of letters, which he claimed to have been stolen from a British spy in this country?

Mr. FLOOK. I do not know, Senator.

Senator CLARK. What was the period of your employment of Mr. Shearer during that time?

Mr. FLOOK. These two items were the only two items with which I had anything to do.

Senator CLARK. When was that—in the early winter of 1929, was it not?

Mr. FLOOK. I imagine so.

Senator CLARK. It was in March 1929 that I saw him showing these notes to a United States Senator, trying to interest him.

The CHAIRMAN. I will offer the interoffice memorandum of March 30, 1929, on the letterhead of the American Brown Boveri Electric Corporation, addressed to Mr. C. L. Bardo, from Mr. W. M. Flook, for the record.

(The memorandum referred to was marked "Exhibit No. 1549", and appears in full in the text on p. 5171.)

Senator BONE. What was the nature of the work claimed to have been done by Mr. Shearer at Geneva for your company?

Mr. FLOOK. I do not know, Senator. That was before my time.

Senator BONE. You referred to the fact he had claimed to do some work and wanted more money. What was the nature of his work at Geneva?

Mr. FLOOK. I have no knowledge.

Senator BONE. He was sent to Geneva by the private shipbuilding companies?

Mr. FLOOK. I so understood.

Senator BONE. There is no question about that. They sent him over as an observer?

Mr. FLOOK. So I was told by Mr. Bardo.

Senator BONE. To sort of peacefully pick at the convention?

The CHAIRMAN. Mr. Flook, coming back to the letter which I have just read, "Exhibit No. 1549", it states:

> I agree with you that we are, of course, not obligated in any way, and that the $250 was more than ample for the expense we authorized.

Was that the expense of the trip to Washington to which you had reference?

Mr. FLOOK. Yes, sir.

The Chairman. In the next paragraph you state:

> As to the $5,000, it was not solely to pay his expenses to California but to clean up other things to make his trip to California possible.

What is the meaning there?

Mr. Flook. At that time, Senator, this corporation was handling two lines of business, one a shipbuilding business and the other a heavy electrical-apparatus business. It was under contract, made before my time, with the Swiss firm of Brown Boveri & Co., which bounded it to prosecute with all its resources the electrical business in America. The company had obviously not enough money to go along with both of those lines of business, and it was vitally important to sell one of them. Mr. Wilder had at the time an option on the shipbuilding plant of the New York Shipbuilding Corporation, and he was trying to put himself in financial position to exercise that option. All of us on the board were very desirous at that time that he should leave the company in a clean financial position, to go ahead and prosecute its electrical business.

Mr. Wilder told me that Mr. Shearer knew Mr. William Randolph Hearst very well, and he was sure that he would be interested in that proposition, and wanted me to make it possible for Mr. Shearer to go out there and see him and try to interest him in it. I foolishly did it. Nothing ever came of it.

The Chairman. At this very time was not your company as much interested in this 4-day or was it not more interested in the 4-day ships as in the so-called "Jones-White bill" that was pending at the time?

Mr. Flook. For the same reason, Senator. The building up of the merchant marine in America was absolutely contingent, of course, on the passing of the Jones-White bill. If the Jones-White bill passed, it seemed to us very probable that Mr. Wilder would be able to exercise his option.

Senator Bone. Is that why Wilder came down to Washington and worked on the Jones-White bill?

Mr. Flook. Yes, sir.

Senator Bone. That accounts for the expenditure of a quarter of a million dollars, more or less, here on preliminary work, to which he testified?

Mr. Flook. I imagine so.

Senator Clark. How did you carry this $5,000 which you gave Shearer on the accounts of the company, Mr. Flook? Did that go into overhead?

Mr. Flook. No, sir; it went into straight expense.

Senator Clark. It went into cost, then?

Mr. Flook. Yes, sir.

Senator Clark. If you had a cost-plus contract with the Government, that $5,000 would have been pulled in, would it not?

Mr. Flook. No; the company was losing so much money at that time it could not affect any contract.

Senator Bone. One other matter before leaving it. When was this 15-percent reduction in wages and salaries made?

Mr. Flook. I think in 1932, Senator.

Senator Bone. 1932. So that reduction went all the way down the ranks; did it?

Mr. Flook. It affected all salaried men.

Senator Bone. It affected all salaried men?

Mr. Flook. Yes, sir.

Senator Bone. It did not affect the workers in the yard?

Mr. Flook. No, sir.

Senator Bone. Did any of these salaried men get bonuses?

Mr. Flook. Yes, sir; as I recall it there were about 25 or 30 men whose services were supposed to be vitally important to the company, who got bonuses in those 2 years.

Senator Bone. How many were affected by the wage reduction?

Mr. Flook. All the salaried men there were.

Senator Bone. You said 25 or 30 got bonuses. How many did not?

Mr. Flook. Many hundreds, of course.

Senator Bone. Hundreds of them. So, in other words, you got a 15-percent reduction in your salary but at the same time you got a $29,000 bonus, which gave you $20,000 more than you were getting before?

Mr. Flook. Not $29,000, 25, I think, or 24, is approximately correct.

Senator Clark. I think you testified, Mr. Flook, that your salary was reduced from $60,000 to $51,000 by this cut, a net loss of $9,000, but that the net result, assuming you got the bonus, was $80,000, a final gain of $20,000.

Mr. Flook. That is correct, sir.

Senator Clark. A pretty good trade.

Senator Bone. My reason for this question is because I wondered whether this trade between bonus and salary cut affected everybody in personnel.

Mr. Flook. There was no trade between bonus and salary cut.

Senator Clark. Everybody getting cuts did not get bonuses, in other words?

Mr. Flook. No, sir; they did at different times.

The Chairman. There were large sums spent throughout those years to accomplish results here in Washington and accomplish results out on the Pacific coast to get backing for the larger program?

Mr. Flook. Not during those years, sir. The large sums which were spent here in Washington were in 1928.

The Chairman. What were those expenditures for?

Mr. Flook. The support of Mr. Wilder.

The Chairman. What?

Mr. Flook. The support of Mr. Wilder and his program here.

The Chairman. The Jones-White bill?

Mr. Flook. And for the support of his program to buy the shipbuilding plant.

The Chairman. I observe in the summary of expenditures that in 1928 an advance of $250 appears to W. B. Shearer. Evidently that was this trip you have told us of to Washington?

Mr. Flook. Quite possibly.

The Chairman. In the summary for the same year I find a special expenditure by H. C. Hunter of $10,908.33. Do you know what that was?

Mr. Flook. No, sir. May I ask what summary that is?

The CHAIRMAN. That is the summary, I understand, for the year 1928.[1]

Mr. FLOOK. You mean of Mr. Wilder's expenses?

The CHAIRMAN. Yes.

Mr. FLOOK. Oh, no; I have no knowledge.

The CHAIRMAN. I find thereon a note on that summary, "Special to William M. Flook, $17,000." What was that?

Mr. FLOOK. That was money—that was much later. The board of directors of the New York Shipbuilding Corporation authorized the support of Mr. Wilder in his program up to a certain sum, I have forgotten just what that was, but that was reached from time to time, and exceeded, and they extended the limitation from time to time in the hopes that he would be able to exercise his option. In addition to that, I supported him personally in several instances, where the payments authorized by the board did not warrant it. Afterward, after the situation was all cleaned up, and we were getting in pretty good financial shape, I suggested to the board that I was out of pocket this amount of money, and that I was perfectly willing to let it go, but it might be in order to pay it back to me, and that was unanimously done.

The CHAIRMAN. Have you paid anything to Mr. Shearer yourself?

Mr. FLOOK. No, sir; not in that amount—not in any way; no, sir.

The CHAIRMAN. In no amount?

Mr. FLOOK. No, sir.

Senator BONE. Mr. Flook, who drew the Jones-White Act?

Mr. FLOOK. I do not know, sir.

Senator BONE. What lawyer?

Mr. FLOOK. I do not know, sir. I always understood that Senator White had a good deal to do with the drawing of that thing himself.

Senator BONE. I think it was asserted that the first paragraph and the preamble, which was somewhat of a high-flown expression of patriotism, was written by a Member of Congress, or in the other House, and the rest of the bill was prepared by counsel for the private shipbuilding companies.

Mr. FLOOK. I do not know.

Senator BONE. That was the testimony of Mr. Wilder, and do you have any reason to believe it is not correct?

Mr. FLOOK. I do not know anything about it.

Senator BONE. He was very positive on that, and you people gave him a quarter of a million dollars.

The CHAIRMAN. Were you not a little bit fearful of having it appear on the record that moneys were being paid to Mr. Shearer in 1929?

Mr. FLOOK. No, sir; I do not think so. I never thought of it.

The CHAIRMAN. As a matter of fact, did you not know that some of the money which you advanced, which could probably be accounted for in this $17,000, was money paid to Mr. Wilder for, in turn, payment to Mr. Shearer?

Mr. FLOOK. No, sir.

The CHAIRMAN. You did not so understand it at that time?

Mr. FLOOK. I did not, sir.

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[1] Entered as "Exhibit No. 1550", see p. 5177, infra.

The CHAIRMAN. Did you make advances of moneys to Mr. Wilder?

Mr. FLOOK. Yes, sir.

The CHAIRMAN. You were reimbursed for that in this $17,000?

Mr. FLOOK. In that $17,000.

The CHAIRMAN. What did you understand Mr. Wilder's purpose of this money to be?

Mr. FLOOK. It was just in connection with his regular running expenses in Washington.

Senator CLARK. Did Wilder ever tell you he paid Shearer $7,500 in payment for the painting of a picture of a ship?

Mr. FLOOK. No, sir; he never did.

Senator CLARK. He testified to that on the witness stand.

The CHAIRMAN. Who was Mr. H. C. Hunter?

Mr. FLOOK. I do not know, sir.

The CHAIRMAN. The committee has before it the photostat of a letter or memorandum dated August 6, 1929, to Mr. C. L. Bardo, from Mr. N. R. Parker:[1]

> Paid to H. C. Hunter. March 17, 1927, $2,500; paid to H. C. Hunter, June 24, 1917, $2,500; paid to H. C. Hunter, December 7, 1927, $3,333.33, making a total of $8,333.33.

Do you know what these payments were for?

Mr. FLOOK. No, sir.

The CHAIRMAN. The memorandum goes on to say:

> The above represents New York Ship's proportion of the $25,000 paid to W. B. Shearer.

You had no knowledge that a proportion was being paid to Mr Shearer at that time?

Mr. FLOOK. What was the date of that, Senator?

The CHAIRMAN. August 5, 1929.

Mr. FLOOK. I have no recollection of it, Senator. I do know that at some time, though—though it was a later date than that—the shipbuilding companies settled with Mr. Shearer.

The CHAIRMAN. Did the other shipbuilding companies make any contribution through you to this fund for Mr. Shearer?

Mr. FLOOK. No, sir; this fund, I do not know what it is, Senator. this particular item.

The CHAIRMAN. The memorandum by Mr. Parker says:

> The above represents New York Ship's proportion of the $25,000 paid to W. B. Shearer.

Mr. FLOOK. What was the date of that letter, please?

The CHAIRMAN. August 5, 1929.

Mr. FLOOK. That may be their proportion of the settlement finally made with Mr. Shearer, although I was under the impression it was at a later date.

The CHAIRMAN. You know of no moneys from other shipbuilders as to their contributions to this Shearer fund?

Mr. FLOOK. I do not think so. I think we paid our proportion and they paid theirs.

The CHAIRMAN. What does Mr. Parker mean in his memorandum by this [reading]—

> In addition to the above there was paid to William M. Flook, November 13, 1928, $5,000, which was the amount received from the Sun Shipbuilding

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[1] Entered as "Exhibit No. 1551", see p. 5177, infra.

Co. There was also advanced on your instruction from the New York Ship's petty cash fund January 9, 1929, $250. That received by W. B. Shearer from this company, directly and indirectly, is as above $13,583.33.

Mr. Parker's memorandum would indicate that the Sun Shipbuilding Co. had contributed to Mr. Shearer $5,000, which went through you.

Mr. FLOOK. It would indicate that, and possibly it did, Senator, but I have no recollection of it. Mr. Parker could clarify that incidentally, of course.

The CHAIRMAN. Surely in a matter of this kind, Mr. Flook, it would seem that you would be able to remember, had it actually taken place.

Mr. FLOOK. I have not any recollection of it. I think Mr. Parker is mistaken.

The CHAIRMAN. You think Mr. Parker is mistaken?

Mr. FLOOK. I think, in that the $5,000 passed through me, although it may have. I do not know.

The CHAIRMAN. Did you help maintain favorable political connections for the New York Shipbuilding Co.?

Mr. FLOOK. No, sir.

The CHAIRMAN. Were you in any wise interested politically in those days?

Mr. FLOOK. No, sir; neither then nor now.

The CHAIRMAN. At this point I want to offer for the record the summary of expenses referred to.

(The statement referred to was marked "Exhibit No. 1550", and is included in the appendix on p. 5273.)

The CHAIRMAN. Were you dependent at all upon the favors of any political party or any political group?

Mr. FLOOK. No, sir.

The CHAIRMAN. You were not aware of the fact, then, that the company was using political pressure at that time?

Mr. FLOOK. At what time?

The CHAIRMAN. In 1926 or on up through the years?

Mr. FLOOK. No, sir.

The CHAIRMAN. Did you have any Tammany connections, Mr. Flook?

Mr. FLOOK. I am a very great friend of Mr. William F. Kenny. That is the only connection I have. I know no other Tammany people.

The CHAIRMAN. I would like to offer for the record the memorandum I have previously referred to from Mr. Parker to Mr. Bardo.

(The memorandum referred to was marked "Exhibit No. 1551" and is included in the appendix on p. 5273.)

The CHAIRMAN. I have before me a letter by L. G. Buckwalter to Mr. L. R. Wilder, dated July 14, 1926. Were you then with the company?

Mr. FLOOK. No, sir.

The CHAIRMAN (reading):

> Referring to our conversation of Monday regarding close affiliations with Tammany:
>
> The concern I mentioned is Edwards & Booth, 80 Maiden Lane, New York. The partnership is "Big Bill" Edwards and Walter C. Booth. They are both Princeton men of about 1900. They are both widely known in New York, and

are close to Tammany and the politicians. Edwards had a responsible political position for years. I believe he was street-cleaning commissioner. Mr. Bardo stated that he understood he was dead. This is incorrect—at least, he was alive on Monday.

Mr. Flook. They are in the insurance business, Senator.

The Chairman (continuing):

> And I asked Mr. Wickersham sometime ago to get in touch with Mr. Booth the next time he was over to New York. I feel that it would be of advantage to know these people and keep in touch with them, and I will be glad to arrange for an interview, if you desire.
>
> When you and Mr. Neeland were returning from Europe last fall, Mr. Neeland cabled me to have someone meet you at the pier to expedite your customs' examination, clearing of baggage, etc. Mr. Booth himself took care of this matter, called at the pier and rode to the hotel with Mr. Neeland.
>
> L. G. Buckwalter.
>
> Copies. Mr. Bardo, Mr. Wickersham.

(The letter referred to was marked "Exhibit No. 1552" and appears in full in the text.)

The Chairman. Has this practice of maintaining close political relationships continued through the years with the company?

Mr. Flook. No, sir.

Senator Vandenberg. Mr. Flook, has the practice of using insurance contracts been pursued subsequently by New York Ship in order to obtain advantageous rates?

Mr. Flook. No, sir.

Senator Vandenberg. The annual premium on New York Ship insurance is a pretty big item, is it not?

Mr. Flook. Yes, sir; I do not remember what it is.

Senator Vandenberg. About $600,000?

Mr. Flook. I imagine so.

Senator Vandenberg. You never heard of the placing of this premium for insurance in quarters where it might be politically helpful?

Mr. Flook. No, sir. I understood that one firm of insurance brokers located in Philadelphia handled the business of the company for a great many years, until the Cord crowd came into control.

Senator Barbour. Do you know who they were, Mr. Flook?

Mr. Flook. The name slips me now. I will get it and put it in the record.

Senator Vandenberg. Was it a name something like Telft?

Mr. Flook. Tifft Layer & Co.

Senator Vandenberg. Was there a complete change in the insurance relationships in 1932 or 1933?

Mr. Flook. No, sir; not to my knowledge.

Senator Clark. Mr. Flook referring again to those payments to Mr. Shearer, I will read a paragraph from a letter from Mr. Shearer to Mr. Bardo. dated January 23, 1929, headed "My dear C. L." [reading]:

> Realizing just what the United States is up against I find it necessary to release bit by bit a British secret document that has come into my possession. The first reference to this document I herewith enclose and before I am finished I will without question prove a case against England which was so ably referred to in Senator James A. Reed's speech before the Senate. There is much that I could tell you which I don't care to write on the evidence in my posssion. However I will submit it at a later date. In the meantime it was distinctly understood that to carry on my work Mr. Flook was to contribute toward the expenses and as I have assumed the position as well as the obligation I am forced to look to you in Mr. Flook's absence.

As a matter of fact, that is what those payments were for, is it not, Mr. Flook?

Mr. Flook. No, sir.

Senator Clark. How is that?

Mr. Flook. No, sir.

Senator Clark. Were you not advised of this arrangement between Mr. Bardo and Mr. Shearer, to which Mr. Shearer refers there?

Mr. Flook. No.

Senator Clark. Did you know the nature of the work that Mr. Shearer was supposed to be doing?

Mr. Flook. Let me get this clear, Senator. I know of course before 1927 that Mr. Shearer had been sent to Geneva, and there was a claim for further compensation on that account.

Senator Clark. Yes, but, Mr. Flook, this letter which I have just read indicates that in January 1929 Mr. Shearer was carrying on the work of actively putting out propaganda against England in this country, and that there had been an arrangement between him and Mr. Bardo by which you were to finance his activities. He said in your absence he looked to Mr. Bardo to do it, and that is his explanation of the situation, is it not, Mr. Flook?

Mr. Flook. I do not believe there was any such arrangement, and I do not believe that that is true.

Senator Clark. Did Mr. Bardo ever report any of these activities to you?

Mr. Flook. No, sir; he never did, and I do not believe that anything of the kind ever happened.

(The letter referred to was marked "Exhibit No. 1553" and is included in the appendix on p. 5273.)

NAVY'S DESIRE FOR ALLOCATION OF SHIPBUILDING[1]

The Chairman. Mr. Flook, you have told us that Mr. Bardo never made any reports to you concerning activities with regard to bidding on these Government contracts.

Mr. Flook. That is right.

The Chairman. As a matter of fact, did not Mr. Bardo report to you frequently concerning visits he had had in Washington with naval officials and with shipbuilders in connection with these bids?

Mr. Flook. Not with shipbuilders. He frequently mentioned in conversation that he had been down to the Navy Department and had seen so-and-so and so-and-so, and that the Government plans on so-and-so and so-and-so with reference to ships.

The Chairman. That was in conversation, a verbal message to you?

Mr. Flook. Yes, sir.

The Chairman. But no letters?

Mr. Flook. No; to the best of my recollection, no letters.

The Chairman. How good is that recollection, Mr. Flook?

Mr. Flook. Pretty good.

The Chairman. If Mr. Bardo had upon occasion written you that he had been in touch with naval officials and that the naval officials had rather suggested to him that the shipbuilders ought to get together, would you not remember having had such a letter?

Mr. Flook. I should think so. May I ask what year this was?

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[1] See chart on p. 5190.

The CHAIRMAN. In any of these years.

Mr. FLOOK. While I have no recollection of it, I should not be at all surprised if that happened in 1933.

The CHAIRMAN. In 1933?

Mr. FLOOK. Because it was while I did not know. It was my clear understanding in 1933 that the Government not only wanted but demanded that the work be divided among the different yards.

The CHAIRMAN. What do you mean by "the different yards"? The three yards?

Mr. FLOOK. The three, and the Federal yard and I think Sun. In a general way, that the work that was being done for the Navy under the Public Works program should be spread around.

Senator CLARK. That work was let on contracts, was it not, Mr. Flook?

Mr. FLOOK. Yes, sir.

Senator CLARK. How was it to be spread around if it was let on contracts? Do you mean to say that the Navy Department requested that there be collusion with respect to the bidding on those contracts?

Mr. FLOOK. No, sir; I am just saying that was my understanding of the conversations had with respect to it. I was never in touch with it and I do not know.

The CHAIRMAN. You destroyed no such letters?

Mr. FLOOK. I destroyed no letters at any time.

The CHAIRMAN. But you have nothing more than recollection of conversation from Mr. Bardo regarding these matters?

Mr. FLOOK. No, sir.

The CHAIRMAN. You do not recall his having written to you at any time?

Mr. FLOOK. No, sir. It is possible that he did, but I do not recall it.

The CHAIRMAN. I hand you, Mr. Flook, a letter dated June 22, 1933, from C. L. Bardo, addressed to yourself, and ask you if you can recall having received this letter [handing paper to witness]. Perhaps if we read it through you would better recall [reading "Exhibit No. 1554"]:

> Mr. W. L. FLOOK:
>
> DEAR MR. FLOOK: I spent the last 2 days in Washington in connection with the shipbuilders'- and ship-repairers' code required by the Industrial Recovery Act. We finally worked out a code which was reasonably satisfactory to the ship repairers, although there are some questions of a more or less controversial nature which we will have to iron out between now and the time the code is made effective.

Do you recall this letter?

Mr. FLOOK. Not so far. I undoubtedly received it, but I do not recall it.

The CHAIRMAN (continuing reading "Exhibit No. 1554"):

> Three or four of these smaller yards, including the Todd and United Dry Docks in New York who have never been engaged in Navy work, have had their eyes set right along upon having allocated to them some of the destroyers.
>
> It was necessary for me to be here today and it was also necessary for Ferguson to be in Newport News, so that the shipbuilders' code could not be completed. In order, however, to set the ship repairers aright I sent the attached telegram to Mr. Smith who was presiding at the meeting. I outlined our company's position on this matter of allocation to yards not hereto-

fore engaged in shipbuilding activities. I talked to Ferguson on the phone this afternoon and he fully approved of this position.

I know from my talks with some of the representatives of the Navy, who are keenly interested in this work, that they are desirous of finding some substantial reasons for awarding this work to the largest possible extent to private yards upon whom they must rely for the necessary engineering to complete the ships.

Do you recall this letter?

Mr. Flook. Yes; I do, Senator.

The Chairman. You do recall it?

Mr. Flook. Yes; I received it.

The Chairman. I read on [reading "Exhibit No. 1554"]:

> There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else. The situation as it now stands is substantially as follows:
>
> Newport News: The two airplane carriers, which while not duplicates of the *Ranger*, are of similar type.
>
> Bethlehem: The 10,000-ton 8-inch cruiser, a duplicate of the ship which they are now building.
>
> New York Ship: A new 10,000-ton 6-inch cruiser, and a distribution of the eight destroyer leaders.
>
> This new work would amount approximately to the following values:
>
> Newport News: $30,000,000.
>
> Bethlehem and New York Ship: $28,000,000 each, although the final estimates may slightly change these figures.

Did the final estimates change those figures materially?

Mr. Flook. I do not know, Senator.

The Chairman (continuing reading "Exhibit No. 1554"):

> I have a suspicion that the Department has clearly in mind ordering some additional cruisers once this first lot is out of the way, and I am also clearly of the view that they regard our cruiser output as being superior to that of the other yards.
>
> I am now of the opinion that we will probably submit a bid for 6 of the 8 destroyer leaders, although it may be necessary to reduce this slightly in the final set-up.
>
> We are preparing a clause to be inserted in the contract, which we think will be acceptable to the Navy, to the effect that in the event labor and material charges under these contracts should exceed the labor and material estimates of the yard to a point where losses would accrue, that the contractor will be authorized to apply to the President who in his discretion can cancel the contract and order the work completed on the basis of a cost plus a fixed fee.
>
> Very truly yours,
>
> C. L. Bardo.
>
> P. S.—As near as we can figure out, the distribution of the new Navy program will run about 60 percent to private yards and 40 percent to Navy yards, although this may later be changed without further notice.
>
> C. L. B.

(The letter referred to was marked "Exhibit No. 1554" and appears in full in the text.)

The Chairman. You recall this letter now, do you, Mr. Flook?

Mr. Flook. Yes, sir.

The Chairman. Were there other letters that Mr. Bardo wrote to you concerning these relations with the Navy?

Mr. Flook. I can recall no others.

Senator Clark. You could not recall that one until you saw a copy of it, could you?

Mr. Flook. That is right. But it bears reference to the same idea I expressed a minute ago.

Senator CLARK. So that there might be other letters which you could not recall, unless letters were produced?

Mr. FLOOK. It is quite possible in that year.

Senator CLARK. Or any other year. You could not recall it in 1933, and there might have been letters in 1932 or 1934, which you could not recall?

Mr. FLOOK. They would not be letters relating to this subject.

The CHAIRMAN. What is the meaning here of the Navy officials being desirous of finding some substantial reasons for awarding the work to the largest companies?

Mr. FLOOK. I took that to mean that they preferred to have those companies build ships.

The CHAIRMAN. Why would they not get them if they bid right upon them?

Mr. FLOOK. Irrespective of the exact bidding, I think they would liked to have gotten them to build the ships because they build better ships.

Senator CLARK. You mean private companies build better ships than navy yards?

Mr. FLOOK. I think so.

Senator CLARK. You think the Navy took the position themselves having these ships constructed in private yards rather than in navy yards?

Mr. FLOOK. No; I did not remember it that way. Just a moment.

Senator BONE. Don't forget the language, " they are desirous of finding some substantial reasons "—meaning the Navy.

Mr. FLOOK. May I ask where that is?

Senator VANDENBERG. In the fourth paragraph of the letter.

The CHAIRMAN. They want " some substantial reasons."

Senator BONE. " They ", meaning the Navy officials, " are desirous of finding some substantial reasons for awarding this work to the largest possible extent "—meaning the building of the ships, and that might mean up to 100 percent—" to private yards upon whom they must rely for the necessary engineering to complete the ships." That is for the plans.

Mr. FLOOK. For the necessary engineering to complete the ships.

Senator CLARK. You understand that to mean that the Navy Department understood that the Navy Department's engineering personnel was incapable of completing the ships?

Mr. FLOOK. I would not say that.

Senator CLARK. What does it mean?

Mr. FLOOK. They liked the engineering skill of the private yards better.

Senator CLARK. What did you understand Mr. Bardo meant when he said " for awarding this work to the largest possible extent to private yards upon whom they must rely for the necessary engineering to complete the ships "?

Did it not mean that the Navy could not complete the engineering work themselves?

Mr. FLOOK. Yes, sir. I have heard to that effect.

Senator BARBOUR. Might it not mean that the time element is important?

Mr. FLOOK. Yes, sir.

Senator BARBOUR. And there are only a certain number of navy yards?

Mr. FLOOK. There might be many reasons, but I do not know what the reasons were.

Senator BARBOUR. That could be a reason?

Mr. FLOOK. That could be a reason.

Senator BARBOUR. And they were also anxious to get out as many ships as rapidly as possible?

Mr. FLOOK. As rapidly as possible.

Senator BARBOUR. And wanted to use the private yards and navy yards to the greatest extent possible?

Mr. FLOOK. Yes, sir.

The CHAIRMAN. Therefore they wanted the shipbuilders all to get together and not bid against each other. Is that what that amounts to?

Mr. FLOOK. No; I do not think so.

The CHAIRMAN. What is the meaning of the letter, "There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else"?

Mr. FLOOK. The private yards are always up against the bids of the navy yards.

Senator BONE. That is not the point.

Senator CLARK. Referring to the time element mentioned by Senator Barbour, in actual practice the time element amounted to this, did it not: That the Government would depend on the New York Shipbuilding Co. to prepare the plans for the light cruisers in the 1933 program, and as far as the time element is concerned, the New York Shipbuilding Co. was so dilatory that this program has been held up from that day to this. Is not that right?

Mr. FLOOK. That is all since I left the company, Senator.

Senator CLARK. You know that as a matter of common knowledge, do you not?

Mr. FLOOK. I do.

Senator BONE. That is not susceptible of interpretation but means what it says, Mr. Flook. "There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else."

That is collusion if you ever saw it. Can there be any doubt in your mind, as a business man, that that means collusion and nothing else?

Mr. FLOOK. Collusion is a word of opprobrium.

Senator BONE. It makes no difference what it is, but it was an invitation for the shipbuilders to get together and fix up their bids in advance.

Mr. FLOOK. If it were done at the request of the Government, I would not call it collusion.

Senator CLARK. That is collusion, if the Navy is a party to it.

The CHAIRMAN. That makes the Navy a party to the collusion.

Mr. FLOOK. It would seem that if each shipyard bid only on the ships which it wanted——

Senator CLARK. After agreeing on which ones they want.

Mr. FLOOK. At the request of the Government——

The CHAIRMAN. The question was asked you by Senator Bone, as he read that paragraph, "There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else." And he asked you if the Navy was suggesting this. You nodded your head but unfortunately the reporter cannot record a nod. Do you mean to say that that was your understanding?

Mr. FLOOK. May I have the question again?

The CHAIRMAN. That the Navy was suggesting that they should get together.

Mr. FLOOK. As I read this letter.

The CHAIRMAN. Yes.

Senator BONE. Paragraph 5 of the letter.

Senator VANDENBERG. That means not only——

Mr. FLOOK. This seems very clear "expressed to us the desire"—I assume by the Navy.

Senator BONE. It could not mean anything else.

Mr. FLOOK. Of course it could not.

Senator VANDENBERG. Mr. Flook, this says "expressed to us the desire that the shipbuilders get together upon what each would bid." Does that not include not only the categories but also the price?

Mr. FLOOK. I would not think so, Senator.

Senator VANDENBERG. Upon what each would bid?

Mr. FLOOK. I would not think so.

Senator VANDENBERG. And then bid on nothing else?

Mr. FLOOK. That is it—and then bid on nothing else. Agree as to which they would bid on, and do not bid on anything else.

Senator VANDENBERG. And, as a matter of fact, what actually happened was that after they did get together, as indicated in this letter, and did agree on what each was to have, ahead of the bidding. they did only bid in good faith upon the things that they wanted themselves, and each of the other shipbuilders in the big three did not put in competitive bids against those categories which had been agreed upon, but did put in so-called "protective" bids. That is what happened, is it not?

Mr. FLOOK. I do not know, sir.

Senator VANDENBERG. But you were there in 1933.

Mr. FLOOK. Yes, sir; I was there.

Senator VANDENBERG. And New York Ship got the contracts upon which it actually prepared full sets of estimates and actually submitted good-faith bids. You got everything you tried to get, did you not?

Mr. FLOOK. I do not know that, Senator. Mr. Bardo will know, of course.

Senator BONE. Mr. Bardo won't tell. [Laughter.]

Senator VANDENBERG. That is hardly fair. We have not allowed Mr. Bardo to tell except as he waived his immunity. But it is a fact that the thing described in the fifth paragraph of this letter is substantially what happened, is it not? The builders did get together and they did agree, so far as they could, upon what each would bid, and then they did not bid on anything else except in a purely pro forma way?

Mr. FLOOK. Senator, you are telling me, but I do not know.

Senator VANDENBERG. I am asking you what happened.

Mr. FLOOK. No, sir; I do not know. It was a matter handled by Mr. Bardo. He would know all about it, and I do not know anything about it.

Senator VANDENBERG. What was your position in 1933?

Mr. FLOOK. Chairman of the board.

Senator VANDENBERG. And you knew nothing about this $30,000,000 transaction?

Mr. FLOOK. I knew that there were ships to be built, certainly. I knew nothing about the bids or the preparations of the bids for them. I never at any time incidentally had anything to do with the technical business of building ships or getting business.

Senator VANDENBERG. No; but you got this letter from Mr. Bardo, in your official capacity as chairman of the board, and when you read the letter you discovered that the three big shipbuilders are going to get approximately an even split on this $100,000,000 that the Government was going to spend. Did it not occur to you, when you read that, that that was a collusive arrangement?

Mr. FLOOK. It certainly did not, but it undoubtedly occurred to me that they would do exactly what the Navy wanted them to.

Senator VANDENBERG. In other words, if it was a collusive arrangement, you were satisfied that whatever was being done was being done with naval blessing?

Mr. FLOOK. In good faith, and open and above board.

Senator CLARK. If it was done open and above board, what was the idea of going through the empty formality of having bids submitted at all, and going through the pretense of making awards on bids? Did that occur to you?

Mr. FLOOK. If the bids were too high the business would not have been allotted.

Senator CLARK. If the Navy wanted to do this thing by that method what was the idea of going through the pretense of having bids submitted and making awards, if the thing was agreed on in advance?

Mr. FLOOK. I do not know.

Senator CLARK. Did that occur to you as being a fraud on the public?

Mr. FLOOK. No, sir.

Senator BONE. What percentage of the business of the New York Shipbuilding Co. in 1933 was represented by building of ships and what percentage represented by these contracts?

Mr. FLOOK. All of it.

Senator BONE. So that 100 percent of the business of the yard at that time was in shipbuilding, and you were receiving $80,000 that year, and you tell us you did not know anything about this?

Mr. FLOOK. I did not know anything about the bids or the making of the bids.

Senator BONE. If you did not know anything about 100 percent of the business of the plant, of which you were chairman of the board, what did you get the $80,000 for? It seems to me a fair question.

Mr. FLOOK. It is a fair question.

Senator BONE. You have said you got $80,000 and yet you knew nothing about the business of the concern.

The Chairman. Let him answer.

Senator Bone. That is what I want him to do.

Mr. Flook. Do you want me to answer?

Senator Bone. Yes.

Senator Clark. Yes.

Mr. Flook. I took this company from the beginning of 1927 over this period of 7 years, from a point where it was bankrupt to a point where, in the summer of 1933, the Cord interests were willing to pay approximately $2,000,000 for approximately 17 percent of its capital stock.

Senator Bone. That may be true, but I cannot understand how you did not know anything about the business.

Mr. Flook. So that I must have done something. Just a minute. The reconstruction of the balance sheet of that company in a way ended after we succeeded in selling the electric division to Allis-Chalmers, and changing the name to the New York Shipbuilding Corporation. From that time on my activities were almost entirely concerned with the finding of new business for the south yard, with the finding of things to manufacture in the south yard, which was then entirely unoccupied, and I did during that last year or two get three things under option, all of which I think were very valuable. But those were the activities in which I was principally concerned at that time: The attempt to build up this company into a successful corporation.

The Chairman. The company was practically broke in 1927?

Mr. Flook. Yes, sir.

The Chairman. And yet it was finding it possible to throw out a rather large outlay to accomplish results at Geneva, was it not?

Mr. Flook. That was in 1926.

Senator Clark. When was this balancing of the budget completed?

Mr. Flook. Let me look at this memo again, because that is one thing which I have here some place. [Examining papers.] Toward the end of 1931.

Senator Clark. So that in 1932 and 1933 you were not actually doing anything excepting looking for new business?

Mr. Flook. Practically so.

Senator Clark. Was any of this new business accepted by the company for the south yard?

Mr. Flook. Yes, sir; it was so acceptable that they took options on these devices and spent considerable money on the development of them.

Senator Clark. Did they actually go through with the work?

Mr. Flook. As soon as the Cord people came in, they threw them out the window.

Senator Clark. Yes, sir; but they paid you bonuses in 1932 and 1933 of $29,000 a year?

Mr. Flook. Yes, sir.

Senator Clark. As a sort of salesman looking around for something for the yard to do?

Mr. Flook. I was not a salesman, but trying to look for something to manufacture.

Senator Clark. They actually paid you more in 1932 and 1933—$29,000 each year—as a sort of salesman for new business, more than when you were accomplishing this great work of putting the balance sheet back in place?

Mr. Flook. That is all true, except I never was a salesman and never sold anything.

Senator Bone. But you say this company was practically broke in 1926 and 1927.

Mr. Flook. In 1927.

Senator Boone. Did it have any balance in the bank at all?

Mr. Flook. Very small balance.

Senator Bone. Was it in position to realize any money in the way of loans from banks?

Mr. Flook. It did—I did establish credit for the company of $2,500,000, as a matter of fact.

Senator Bone. Where did it raise the amount in excess of $250,000 spent by Wilder down here in putting over the Jones-White Act? Where did that money come from?

Mr. Flook. That was in 1929—not in 1928.

Senator Bone. The bill was enacted in 1928?

Mr. Flook. Yes.

Senator Bone. The money could not have been spent in 1929, and you have told us the money was spent to put over the bill.

Mr. Flook. I corrected myself.

Senator Bone. Where did the company get the money when it was broke?

Mr. Flook. I did not say it was broke in 1928.

Senator Bone. You said 1926 and 1927.

Mr. Flook. No.

Senator Bone. The work on the Jones-White bill must have been done in 1926 or 1927?

Mr. Flook. No; it was done in 1928.

Senator Bone. The bill was enacted in May 1928.

Mr. Flook. Yes.

Senator Bone. Where did the company get the money to do this?

Mr. Flook. From the treasury.

Senator Bone. You just took the money from a broke company?

Mr. Flook. You are putting words in my mouth. I did not say it was broke.

Senator Bone. It was badly crippled?

Mr. Flook. It was badly crippled.

Senator Bone. But did not hesitate to spend over a quarter of a million dollars to put over the Jones-White Act. Is that correct?

Mr. Flook. That is correct.

Senator Clark. As a matter of fact, the company started back uphill after the failure of the Geneva Conference, accompanied by the naval building program in 1927. Is that not a fact?

Mr. Flook. As to date, yes.

Senator Bone. Mr. Flook, you say all this business was going on between the Navy and Mr. Bardo, in fixing up these bids, was all open and aboveboard. Am I correct?

Mr. Flook. No; I did not say that, Senator.

Senator Bone. Do you care to comment further on the character of it? Do you think it was open and aboveboard?

Mr. Flook. I do not think anything about it.

Senator BONE. Then one might be tempted to ask why it was that Mr. Bardo said the Navy or naval officials are desirous of finding some substantial reasons for awarding this work and getting the thing done, Mr. Flook, in paragraph 4.

You think Mr. Bardo and the Navy officials were anxious to find some substantial reasons for framing up the new deal? That is right, is it not?

Mr. FLOOK. It would seem so from the letter.

Senator BONE. It appears on the face of the letter.

Mr. FLOOK. Yes, sir.

The CHAIRMAN. Mr. Flook, the reference in Mr. Bardo's letter to you, " I know from my talks with some of the representatives of the Navy "—has he ever discussed these matters with you?

Mr. FLOOK. What matters?

The CHAIRMAN. In addition to the correspondence, have you had personal talks with Mr. Bardo concerning your relations to the Navy?

Mr. FLOOK. Many times when Mr. Bardo has been in my office he has talked to me about having seen somebody in the Navy Department.

The CHAIRMAN. Who was that somebody?

Mr. FLOOK. I have no name in mind.

The CHAIRMAN. He never named anyone?

Mr. FLOOK. He possibly did, but I do not remember the names. There were so many of them.

The CHAIRMAN. The committee understands, Mr. Flook, your very great desire to be away this afternoon, and we are all sure you should be. I hope we are not going to have to call you back, but if we should, we can find you at your address in New York?

Mr. FLOOK. Certainly.

The CHAIRMAN. Thank you, Mr. Flook.

The CHAIRMAN. The committee will be in recess until 10 o'clock tomorrow morning.

(Thereupon, at 12:15 p. m., the hearing was recessed until tomorrow, Tuesday, Feb. 12, 1935, at 10 a. m.)

This concludes that part of the testimony known as " Part XIX, Naval Shipbuilding—New York Shipbuilding Corporation (concluded)". At this point the committee continued hearings on Naval Shipbuilding, taking the testimony of officials of the Newport News Shipbuilding & Dry Dock Co. See Hearings, Part XX.

APPENDIX

DISTRIBUTION OF NAVAL CONTRACTS

In Millions of Dollars

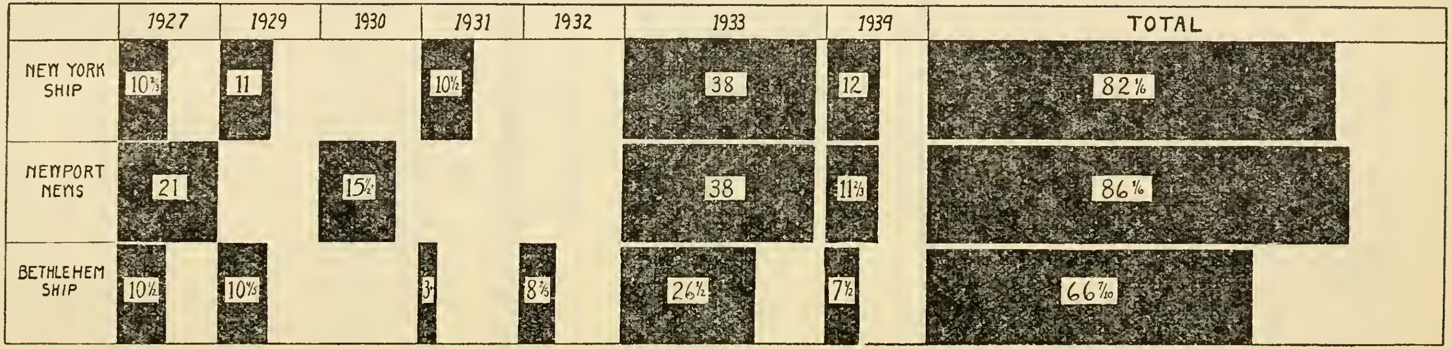

EXHIBIT NO. 1485

NEW YORK SHIPBUILDING CORPORATION,
Camden, N. J., January 24, 1935.

MR. STEPHEN RAUSHENBUSH,
Secretary Special Committee Investigating the Munitions Industry,
Room No. 357, Senate Office Building, Washington, D. C.

DEAR MR. RAUSHENBUSH: Herewith is schedule of monthly yard average labor cost per hour, discussed with you yesterday, in the form which you indicated.

Trusting this is the information desired, we are,

Yours very truly,

NEW YORK SHIPBUILDING CORPORATION,
By N. R. PARKER, *Treasurer.*

New York Shipbuilding Corporation, monthly average yard labor cost per hour

	1927	1928	1929	1930	1931	1932	1933	1934
January	60.7	64.7	62.9	62.5	61.4	60.1	54.6	66.5
February	60.8	64.4	62.7	62.6	61.7	61.7	54.9	67.2
March	61.0	64.4	62.3	62.8	62.0	60.0	55.1	66.8
April	61.1	64.4	62.9	62.9	62.2	60.5	55.0	57.4
May	61.1	63.8	62.8	63.4	60.2	60.5	55.6	76.1
June	61.4	61.5	62.4	63.1	62.9	60.6	55.1	76.9
July	62.1	63.9	62.5	62.2	61.8	65.1	64.9	78.0
August	62.0	64.3	62.4	62.0	61.3	53.7	65.7	79.0
September	62.4	64.5	63.2	61.8	61.6	53.9	67.3	78.5
October	62.7	63.9	63.0	61.6	60.9	54.1	66.7	78.1
November	64.4	63.6	62.2	61.7	61.1	54.5	66.1	77.4
December	64.4	63.6	62.1	61.4	60.6	54.5	66.6	79.3

EXHIBIT NO. 1486

Bids submitted on naval vessels, U. S. Government

Est. No.	Cont.	Class	Bid opened	Estimate	
				Material	Labor
X-913	375	Light cruiser #25 *Salt Lake City*	4/1/26	$4,048,537	$3,563,100
		Changes		90,399	62,496
		(Detail estimate made.)			
X-913	375A	Light cruiser (Mach.) *Pensacola*	4/1/26	1,735,107	252,010
		Changes		33,729	1,266
		(Detail estimate made.)			
X-2040	380	Light cruiser #27 *Chester*	4/5/27	4,170,065	3,780,115
		Changes		[1] 9,354	29,132
		(Detail estimate made.)			
X-3636	399	Heavy cruiser #35 *Indianapolis*	6/15/29	3,950,000	3,223,000
		Changes		313,553	384,540
		(Detail estimate made.)			
X-4400		Aircraft carrier #4 *Ranger*	9/3/30	5,801,160	5,017,910
		(Detail estimate made.)			
X-4536	407	Heavy cruiser #37 *Tuscaloosa*	2/11/31	4,095,355	3,153,925
		Changes		32,823	175,320
		(Detail estimate made.)			
X-4680		1,500-ton destroyers #348 to #355	9/16/31	(2) 2,166,260	1,843,450
		(Detail estimate made.)			
X-5002		Heavy cruiser #39 *Quincy*	12/14/32	3,938,210	2,875,145
		(Detail estimate made.)			
X-5091		Floating drydock for San Diego base	3/8/33	194,915	170,750
		(Detail estimate made.)			
X-5170-A	408/411	1,850-ton destroyers #356/363—*Porter, McDougal, Selfridge, Winslow.*	7/26/33	(4) 5,965,195	5,442,282
		(Detail estimate made.)			

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[1] Indicates red figures.

Bids submitted on naval vessels, U. S. Government—Continued

Est. No.	Cont.	Class	Bid opened	Estimate	
				Material	Labor
X-5231	412/413	Light cruisers #42/43 *Savannah, Nashville.* (Detail estimate made.)	7/26/33	(2) $9, 245, 775	$7, 646, 285
X-5232		Heavy cruiser #44 *Vincennes* (No. est. made—Price based on #39 estimate X-5002.)	7/26/33		
X-5233		1,500-ton destroyers #354/379 (No detail estimate made, based on X-5170 detail.) (1,850-ton destroyers and est. X-4680 1,500-ton destroyers—no detail.)	7/26/33	(2) 3, 182, 384	2, 340, 188
X-5236		Aircraft carrier #5/6 (Approximate est. made based on est. X-4400 *Ranger.* No detail estimate made.)	7/26/33	(2) 17, 362, 000	14, 314, 800
X-5450		1,500-ton destroyers, #385, 387, 389, 391 & 393. (Detail estimate made.)	8/15/34	(2) 2, 838, 450	2, 614, 890
X-5485		1,850-ton destroyers #381/383 (Detail estimate made.)	8/15/34	(2) 3, 160, 630	2, 939, 380
X-5486	416	Light cruiser #46-47-48 *Phoenix* (Detail estimate made.)	8/15/34	(1) 4, 748, 225	3, 908, 775
X-5490		Heavy cruiser #45 (Detail estimate made.)	8/15/34	4, 909, 475	4, 016, 455

Bids submitted by and contracts awarded to New York Shipbuilding Corporation, U. S. Government (Navy Department)

Est. no.	Cont. no.	Bid opened	Contract signed	Delivered	Bid or contract price
X-913	375	4/1/26	4/16/26	12/9/29	$8,240,141.00.
	375-A	4/1/26	4/16/26	Misc. dates.	$2,296,209.00.
X-2040	380	4/5/27	6/13/27	6/23/30	$10,815,000.00.
X-3636	399	6/15/29	8/15/29	11/14/32	$10,903,200.00.
X-4400		9/3/30			$16,334,000.00.
X-4536	407	2/11/31	3/3/31	8/17/34	$10,450,000.00.
X-4680		9/16/31			(2) $5,350,000.00.
X-5002		12/14/32			$9,616,000.00.
X-5091		3/8/33			$417,000.00 (plus extras).
X-5170-A	408/11	7/26/33	8/3/33		$3,775,000.00 each.
X-5231	412/13	7/26/33	8/3/33		$11,677,000.00 each.
X-5232		7/26/33			$11,050,000.00 (sliding). $12,100,000.00 (fixed).
X-5233		7/26/33			(2) $7,300,000.00 (sliding). $7,650,000.00 (fixed).
X-5236		7/26/33			(2) $40,400,000.00 (sliding). $48,530,000.00 (fixed).
X-5450		8/15/34			(2) $8,000,000.00 (sliding). $9,600,000.00 (fixed).
X-5485		8/15/34			$8,450,000.00 (sliding). $10,120,000.00 (fixed).
X-5486	416	8/15/34	8/22/34		$11,975,000.00 (sliding).
X-5490		8/15/34			$13,750,000.00 (sliding). $16,000,000.00 (fixed).

JANUARY 15, 1935.

Estimated material and labor on changes

Name of ship	Cont. no.	Material	Labor
Salt Lake City	375	+$90, 399. 15	+$62, 495. 80
Pensacola	375-A	+33, 728. 93	+1, 266. 00
Chester	380	−9, 353. 61	+29, 132. 10
Indianapolis	399	+313, 553. 22	+384, 540. 18
Tuscaloosa	407	+32, 823. 22	+175, 319. 64

JANUARY 15, 1935.

The following amounts are actual awards for all contracts except contract #407 which is tentative

Name of ship	Cont. no.	Amount
Salt Lake City	375	+$168, 081. 00
Pensacola	375–A	+36, 678. 43
Chester	380	+42, 952. 22
Indianapolis	399	+990, 205. 28
Tuscaloosa	407	+377, 931. 98

Bids submitted by and contracts awarded to New York Shipbuilding Corporation, merchant vessels

Est. no.	Cont. no.	Bid opened	Cont. signed	Delivered	Cont. price
X–3151	387	10/12/28	1/9/29	4/1/30	$3, 250, 000. 00
X–3350	394	11/5/28	8/13/29	12/18/30	2, 250, 000. 00
"	395	11/5/28	8/13/29	1/15/31	2, 250, 000. 00
"	396	"	"	6/4/31	2, 250, 000. 00
"	397	"	"	8/4/31	2, 250, 000. 00
X–3731E	405	----------	5/24/30	7/27/32	9, 529, 000. 00
"	406	----------	"	5/2/33	9, 529, 000. 00

Bids submitted by and contracts awarded to New York Shipbuilding Corporation merchant vessels

Est. no.	Cont.	Class	Bid opened	Estimated	
				Material	Labor
X–3151	387	Passenger & freighter Santa Clara	10/12/28	$1, 785, 900	$889, 070
		Changes	----------	39, 198	8, 664
X–3350	394/97	Passenger & freighter Excalibur Exochorda Exeter Excambion	11/5/28	(4) 4, 660, 700	3, 053, 720
		Changes	----------	21, 413	29, 074
X–3731E	405/406	Passenger vessels Manhattan Washington	----------	(2) 9, 630, 635	5, 833, 832
		Changes	----------	226, 776	241, 200

Estimated material and labor on changes

Name of ship	Cont. no.	Material	Labor
Santa Clara	387	$39, 198. 00	$8, 664. 00
Excalibur	394	21, 413. 00	29, 074. 00
Exochorda	395		
Exeter	396		
Excambion	397		
Manhattan	405	226, 766. 00	241, 200. 00
Washington	406		

Special contract 19190, conversion of (4) Hog Island "A" ships (Scan Penn, Scan York, Scan States, Scan Mail)

Est. no.	Cont. no.	Material	Labor	Cont. price
X–4783	19190	$434, 580	$386, 310	(4) $837, 140. 00
Changes	----------	128, 083	15, 695	(4) $152, 514. 00

("Exhibit No. 1487" appears in text on p. 4981)

Exhibit No. 1488

THE MAYFLOWER,
Washington, D. C., January 29, 1935.

U. S. SENATE MUNITIONS COMMITTEE,
Room #408, Senate Office Bldg., Washington, D. C.

GENTLEMEN: In compliance with your order we have listed below a copy from our records of the rooms, rates, etc., occupied by the gentlemen shown at the times designated, taken from the registration cards of The Mayflower.

July 25–29, 1933, Korndorff, L. H., suite #333-4 (per day)	$15.00
July 17–21, 1933, Korndorff, L. H., room 509 (per day)	5.00
July 1, to Aug. 9, Bardo, C. L., apt. 465 (per month)	200.00
July 17–26, 1933, Smith, H. G., room 678–A (per day)	7.00
July 9–10, 1933, Smith, H. G., room 378–A (per day)	7.00
July 6–8, 1933, Smith, H. G., room 378–A (per day)	7.00
July 23–24, 1933, Ferguson, H. L., room 389 (per day)	6.00
July 25–26, 1933, Gatewood, W., room 389 (per day)	6.00
July 24–26, 1933, Cornbrooks, E. F., room 316 (special)	7.00
July 24–26, 1933, Wakeman, S. W., Suite 860 (per day)	22.00
July 29, 1933, Wakeman, S. W., room 617 (per day)	5.00
Aug. 14–15, 1933, Wakeman, S. W., suite 451–2–3 (per day)	18.00

Attached hereto are duplicates of room charges on certain of these rooms.

Very truly yours,

E. A. ELDRED, *Credit Manager.*

EAE/s.
enc.

Exhibit No. 1489

NATIONAL RECOVERY ADMINISTRATION

[Immediate release July 19, 1933. Release No. 62, section 6.]

TRANSCRIPT OF PROCEEDINGS, SHIPBUILDING CODE HEARING FIRST DAY, JULY 19, 1933, AFTERNOON SESSION

AFTER RECESS

The hearing was resumed at 2 o'clock p. m.

Deputy WHITESIDE. Mr. Smith, has Mr. Ferguson arrived yet?

Mr. SMITH. He has not arrived yet, sir.

Deputy WHITESIDE. We have changed the order that was announced by me this morning regarding having anybody representing the workers speak this afternoon, because I think we should get a ruling on one or two points that came up this morning before going to that general subject. So we will defer that until tomorrow and develop the hearing on the plant facilities this afternoon.

Mr. Smith, is Mr. Bardo, president of the New York Shipbuilding prepared to proceed?

Mr. SMITH. Yes, sir; he is ready.

STATEMENT OF MR. C. L. BARDO, PRESIDENT NEW YORK SHIPBUILDING COMPANY

Mr. BARDO. My mandate from the shipbuilders and ship repairers this afternoon is to present to you their views urging the inclusion in the code of that paragraph which is now written into it, reading as follows:

"The present capacity of active shipbuilding and ship-repairing companies of the United States as a whole, is in excess of present or any prospective needs. Therefore, it will be considered a violation of this code to make any material increase in the plant capacity of the industry."

Deputy WHITESIDE. Are you reading from the code?

Mr. BARDO. No, sir. I am reading from my address.

Deputy WHITESIDE. I asked that question because there is a clause left out of what you read.

Mr. Bardo. "During the life of the act" was added on yesterday after this statement was prepared.

Shipbuilding is an essential national industry, embracing within its scope many branches of the arts, science and the highest degree of mechanical skill and administration. It is, therefore, entitled to every protection afforded or contemplated by the National Industrial Recovery Act. We welcome this opportunity to contribute to the best of our ability our most earnest and conscientious endeavors to the accomplishment of its purpose.

The text for our presentation is taken from the preamble of the act itself, the philosophy and object of which, among other things, state "to promote the fullest possible utilization of the present productive capacity of industries."

Many millions of dollars are invested in shipbuilding and ship repair facilities from Maine down the Atlantic coast, through the Gulf and upon the Pacific as far north as Seattle, and upon our inland waterways and the Great Lakes. The welfare and prosperity of many thousands of employees and their dependents hinge upon the effectuation of the policies laid down in this act, which among other things contemplate the elimination of unfair practices, destructive and cutthroat competition in the industry as now existing. We believe it necessarily follows that new and additional industries should not be created unless it can be shown that existing facilities are inadequate to efficiently and economically serve the shipbuilding and ship repair demands.

It naturally follows that any funds of the Federal Government appropriated under this act, should not in the spirit of the legislation be utilized to finance or assist in increasing the capacity of the shipbuilding or ship-repair industry. This would be especially so where such facilities, if created, would mean an additional industrial plant that would enter into destructive competition with plants already in existence.

After all, in this period of financial stress, it is unthinkable that Federal funds—which have their source in taxpayers' money—should be used in financing and building up an unnecessary industrial facility, especially when some of these funds come from the taxes of individuals, corporations, and businesses of similar existing enterprises, which would be endangered, if not entirely destroyed by the new unnecessary facility created.

There is attached to this report the following exhibits which will be referred to hereinafter:

1. Map of the United States showing the location of shipbuilding facilities, number of ways, capable of building vessels of or in excess of 3,500 tons deadweight, with the location and centers of the important steel rolling and shape producing plants—area of hatching representing capacity output.
2. Map of the United States showing ship repair facilities, graving docks, floating docks, marine railways, of a capacity in excess of 1,800 tons weight.
3. Table of shipyards in existence at close of the war, showing those still in use, those inoperative, and those no longer in existence, with the number of ways used by the Emergency Fleet Corporation.
4. Table showing ships built at various American yards in the last 10 years and the total gross tonnage of ships built at each yard in the last 10 years.

Existing shipbuilding facilities.—During the existence of the World War, a large shipbuilding industry was built up in the United States. Since the war this has shrunk. Many yards have been dismantled and abandoned, and the better located and laid out plants which have continued to exist have only done so under the most serious handicap of curtailment of business and difficulty in surviving financially. The shipbuilding facilities of this country now capable of building ships have a capacity far in excess of any business now existing, or that has existed since the war. They are fully capable of taking care of any possible growth in the shipbuilding business and doing this even though shipping and foreign trade and the demand for ships and ship work should again return to the most prosperous days before 1929.

In substantiation of this statement, reference is herewith made to exhibit 1, which, on a map of the United States, shows the location of existing American shipyards, and gives the number of ways available for building seagoing ships in excess of 3,500 deadweight tons. There are included on this exhibit the shipbuilding ways in the Government yards.

Attention is especially invited to the fact that there are no shipbuilding facilities on the South Atlantic, or in the Gulf, and while there are shipbuilding facilities on the Pacific coast, these have only been used to a minor extent in the past 10 years. A table on this exhibit shows the largest shipbuilding plants and their performance in the last 10 years. It will be noted that for these large plants the total gross tonnage of ships built on the Atlantic coast in the Boston-New York-Philadelphia-Newport News area exceeds 800,000 gross tons, while on the Great Lakes, it is about 335,000 gross tons. For the same period only 49,000 gross tons were built on the Pacific coast.

On a further examination of this exhibit it is seen that the steel-producing plants capable of supplying steel are in locations closely related to the existing shipbuilding area.

Steel for ship hulls is only part of the materials required in shipbuilding. There are involved many and various other materials and manufactured articles, such as turbines, various types of engines and machinery, electric motors, electrical material, refrigerating appliances, and a myriad of other things—the center of supply of which closely proximates the Boston-New York-Norfolk-Pittsburgh-Chicago area.

Referring again to existing shipbuilding facilities, Director Charles Piez of the United States Shipping Board, on page 13 of his report to the board of trustees of the United States Shipping Board Emergency Fleet Corporation states: "At the outbreak of the war in April 1917 there were in the United States 37 shipyards with 162 shipways capable of building steel ships, and 24 yards with shipways capable of constructing wooden ships, both of 3,500 tons deadweight, and over", making 61 shipyards with 234 shipbuilding ways. According to Mr. Piez, on March 31, 1919, there were in existence 67 steel shipyards with 420 ways, and 83 shipyards for wooden or concrete ships with 357 ways, or, 150 shipyards with 777 ways.

There are at the present time in the United States, in accordance with the figures of the National Council of American Shipbuilders, on the Atlantic, on the Pacific, and in the Great Lakes, 27 commercial plants, with 106 ways, capable of building steel ships.

An examination of exhibit 3 will plainly explain the enormous shrinkage in shipbuilding facilities since 1919, which is traceable entirely to the abandoning, closing down, and dismantling of yards on account of there being no demand on them for building ships.

These shipbuilding facilities are commercial and do not include the Federal shipbuilding facilities in navy yards, which are equipped at the present time with 18 building ways. This is important because these yards are in the nature of competitors with the commercial yards in the building of Federal ships, and to that extent add to the available commercial facilities.

Reference is herewith made to exhibit 4, which enumerates ships of over 2,400 gross tons built in American shipyards since 1923 for a 10-year period, during which time these American yards constructed ships to the extent of 1,198,105 gross tons, an average of 119,810 gross tons per year. In this period, 151 ships were built with an average gross tonnage of 8,000.

It should be borne in mind that the length of time a ship is on the shipbuilding ways, while to some extent regulated by the location and conditions of the ways, possible maximum depth of water at the outboard end, and other conditions, that the all important element is the amount of business and ship construction to be done. Frequently a builder may retain a ship on the ways for a long time—to practical completion of a ship—where, if the demands of shipbuilding and his business required it, he would launch much earlier and have, in fact, two or three ships during the period that, without such demand, the ways were occupied by one ship.

Having said the above—shipbuilding capacity will be estimated on the basis of the number of shipbuilding ways in existence at the present time, capable of being used for building ships of 3,500 deadweight tons, or over. Nine months will be allotted to the period of the ship on the ways, and the average size of the ship will be assumed at 8,000 gross tons, the average of the 151 American seagoing ships built in the last 10 years.

I might say that estimate does not include the shipbuilding facilities existing at a number of our ship repair yards, who are equipped to build smaller ships, ships of the smaller size.

On this basis, the shipbuilding capacity of existing shipyards for commercial ships is 1,055,500 gross tons per annum, or approximately one hundred and thirty-five 8,000 gross ton ships, the average gross tons per ship for the past 10 years.

For the past 10 years, including the great stimulation in shipbuilding incident to the Jones-White Act, there was an average annual building of commercial ships of 120,000 gross tons, or less than one-eighth of the shipbuilding capacity of the country.

It is impossible to forecast the future policy of the United States in connection with an expansion of its merchant marine, but irrespective of this, it is at once seen that the shipbuilding capacity of existing facilities on the Atlantic coast alone is far greater than the demands upon them for shipbuilding in any one of the last 10 years. This statement is based upon—not present conditions and demands—but demands of the most prosperous years in shipbuilding since the Emergency Fleet Corporation's shipbuilding program during the World War. Actually, at the present time there are only two seagoing merchant ships under construction in all of these yards, namely; two 7,500 gross ton ships, or 15,000 gross tons as against a capacity nearly 100 times as great as is now being utilized.

In any consideration of shipbuilding facilities of the United States, it is important to bear in mind the demand on these in connection with construction of Federal vessels, especially naval vessels, to meet any requirement of future naval building programs. The Federal navy yards at the present time, are well equipped with such building facilities and the problem of the commercial shipbuilders is not that commercial yards have not the facilities, but that shipbuilding in the United States is at a low ebb. In order that their shipbuilding plants may survive, this Federal shipbuilding capacity may not be used to anything like its capacity, and private yards may secure some much needed naval shipbuilding work to keep them going.

The announced new naval shipbuilding program under the National Industrial Recovery Act involves the construction of 37 vessels. It is also proposed that certain existing vessels be reconditioned, which includes hull work. Unfortunately for the commercial shipbuilders, the Federal navy yards' shipbuilding and ship-repair facilities are so extensive that their problem is, and their hopes are, that at least one-half of this shipbuilding and all of the ship-modernization program will come to their establishments to keep them alive, not alone for their own benefit but to the supposed general national good. Under the plain provisions of the National Industrial Recovery Act it is the view of the private shipbuilders that as a matter of simple social justice from the standpoint of employment they should be permitted to enjoy a sufficient amount of naval work to maintain stable forces substantially upon a normal basis.

Ship repair facilities.—With respect to drydocks and ship-repair facilities: The extent of these and their locations are shown graphically on exhibit 2. These are well distributed on the Atlantic, the Pacific, in the Gulf, and on the Great Lakes. The location of plants is shown with the linear foot of commercial and naval graving docks and the lifting capacity of floating docks, which, with the single exception of the New Orleans Dock, are commercial, this one dock being a naval dock. Marine railways of capacity in excess of 1,800 tons are also shown. In fact, all of the facilities are major ones, capable of taking seagoing vessels. Facilities for smaller vessels are not included, of which there are a myriad.

This exhibit gives two tables, one enumerating commercial ship repair plants, their location, ownership, graving docks, floating docks, and marine railways, with the dimensions of capacities.

The second table shows Government (naval) ship-repair plants, the dimensions of graving docks, capacity of floating docks, and marine railways.

These existing facilities are considerably in excess of any demands that have been made on them since the World War. In fact, in almost every case, the dry docks, marine railways, shops and tools available for ship repair work are far in excess of present day demands on them, and are fully up to any maximum demand that may be or has been made, even in the most active shipping period since the World War. Ship-repair facilities, in their location and in the character of the plants have the sole purpose of serving the commercial needs of ship operation. Normal routine dry docking for inspection and painting of hulls and minor repairs is performed at plants located conveniently to best serve ship operation requirements and which are closely located to the normal routes and ports of call, the convenience of the ship being considered in connection with time available and the ship being without cargo.

On account of the higher American standards of living, with its resultant high wage rates, normal routine ship inspection, painting, and minor repairs of foreign ships are not done in American ports. Foreign ships usually postpone such work for performance in their home ports. This condition only changes when repair or damage requires immediate attention, or where the financial condition of business that might be lost by the ship offsets cheaper foreign repair work. With ships of American registry, having in mind the cheaper cost of repair in foreign ports, national American interests in maintaining ship-repair facilities are protected by a 50-percent duty on repair work performed outside of the United States.

While the present ship-repair facilities of the United States and the number of plants in existence have shrunk slightly since the period of the World War, this has been due entirely to the shrinkage of business, and the fact that some of these could not survive financially. However, the principal plants are still in existence, and in fact, not alone are all the drydocking facilities in existence, but they have been added to, in some plants to a marked degree, so that the ship-repair facilities of the United States are in fact potentially greater than they were during the World War and are capable of serving any possible demands on them.

It is desirable to estimate the probable ship-repair capacity of existing facilities and this is done on the basis of yards capable of handling and drydocking ships in excess of 1,800 tons weight or displacement. It is borne in mind that this usually would be the weight light and would represent the ability to, in general, dock a 2,500-ton deadweight ship.

Any estimate of ship-repair capacity is more difficult to ascertain than is that of shipbuilding capacity. A comparison of the years 1918–19 to 1932, based upon the experience of a group of yards on the Atlantic, in the Gulf, and on the Pacific, shows the relationship of occupancy to capacity of 1 to 5, namely, that the present plants are operating at 1/5 capacity and have a capacity of 400 percent greater than they are now operating under.

There is now pending, and I think this is a correct statement, before the Administrator of the Public Works Section of the National Industrial Recovery Act, an application by Gulf Industries, Inc., for a very substantial loan to be used for the creation of shipbuilding and ship-repair facilities at Pensacola. The shipbuilders and ship repairers, signers of the code, submit herewith a report prepared by Admiral Frederick R. Harris (retired) in opposition to the proposal of Gulf Industries, Inc., as outlined in the brief of Fay, Spofford & Thorndike.

On behalf of the shipbuilders, parties to the code, it is, therefore, respectfully requested that the paragraph above quoted, now appearing in the code upon this subject, be allowed to remain.

Deputy Whiteside. Have you finished?

Mr. Bardo. Yes.

Deputy Whiteside. I imagine it is evident to all of us that this is one of the most important questions that the administration will have to solve. It is basic to all industry. It may be that it is peculiar to this industry, but it is something that we must go into very, very thoroughly, and whatever ruling or decision that is made on this is going to have an ultimate effect on the entire development of this country on an economic basis, and I think in the circumstances that we will have to ask a great many questions.

I think that briefs may have to be prepared tonight by all those prepared to testify on the subject. I will not pass it lightly by. I think it is one of the most fundamental questions that will have to be answered, and I think we should get right straight to the foundation of it, work it out, and then have the record show what the solution may be. I am going to ask you if you will answer several questions before you sit down. I am not going to ask you at first all the technical wording of the paragraph, because I think that requires explanation.

Mr. Bardo. It was intended to follow the language as it now appears in the code.

Deputy Whiteside. I am speaking of the language of the code. I am not going to speak about that necessarily at the moment.

In making your comments you spoke from the standpoint of an individual industry, and the peculiarities of that industry. Do you think that the same reasoning could be applied to all industries in the circumstances that are in a position to overproduce?

Mr. Bardo. Yes; I do. I do not see how we can have one rule and keep increasing our industrial capacity beyond that which is needed normally, to take care of our normal requirements.

Deputy Whiteside. I am under the impression from data that we have in regard to most industries, that they are in a position to produce, if allowed free machine-hours and man-hours—they would materially overproduce current requirements.

Mr. Bardo. In connection with that I would make this comment: This estimate which we have furnished in the brief is based upon a single shift operation. Now a capacity, as indicated here, could be very substantially increased if it became necessary, not by necessarily increasing the plant capacity, but by simply increasing the work force and work plants 16 or 12 hours a day instead of 8.

Deputy Whiteside. That does not change the point that we would deny in that paragraph the initiative of new concerns starting in business or materially increasing the plant capacity of existing plants, and I infer that is the interpretation we should give to it.

Mr. Bardo. Our whole industrial structure is in a state of flux.

Deputy Whiteside. What is that?

Mr. Bardo. The whole county is constantly in a state of flux, is constantly shifting, new ideas, new processes, new materials, new designs, which are constantly forcing the reconsideration of things that were considered perfectly all right a year ago, so that you would have to differentiate in my judgment in dealing with a question as to increased industrial capacity to a certain extent, to the features found necessary, determining whether or not this was a development in the interest of progress, or whether it was simply another plant coming into the picture for the sake of making the same thing.

Deputy Whiteside. As I understand it, the general attitude so far has been to restrict production through the limitation of machine-hours or man-hours, and to allow industry to fairly well regulate itself in other ways. Do you take the position there should be an exception in connection with the shipbuilding and ship-repairing industry, because of peculiarities in that industry?

Mr. Bardo. As to limitations?

Deputy Whiteside. Yes; I mean the expansion of it, expanding facilities.

Mr. Bardo. Now that the Government is in competition with business—up until this time business had no control of the situation—there is nothing to do except to accept a competitor when he comes in the field and live with him as best you can. Here the Government is making very large expenditures of the taxpayers' money, for the sake of rehabilitating industry and restoring unemployment. It seems to me the height of business folly with that policy laid down as the base of this, to allow anything to go on which will disturb or destroy or disarrange the very thing this act was created to protect.

Deputy Whiteside. Yes; but may I ask the question: It would be, I believe, within the judgment of a group, within the discretion of a group which may be appointed in some way, to advise with industry whether anyone could start in the shipbuilding business or ship-repairing business in the United States, in the classifications mentioned in the code.

Mr. Bardo. I think it is quite appropriate such a matter as that should be referred to a committee who would study the matter.

Deputy Whiteside. The first point I would like to establish is whether you believe that that is peculiar to the shipbuilding industry and may be one or two others, or a few others, or whether that same line of reasoning might be applied to all divisions of industry.

Mr. Bardo. I do not know that I should include it in all industries, when there are certain amounts of industries I know about that are suffering from exactly the same thing—overcapacity.

Deputy Whiteside. It is certainly a very, very important subject, is it not?

Mr. Bardo. Sure.

Deputy Whiteside. I gather from the discussion this morning that there was very little decrease in labor due to new processing. I wonder if you could carry that out. That there was very little advantage in the new processing that would reduce the number of employees to carry on the same job in shipbuilding.

Mr. Bardo. Shipbuilding is not a matter of mass production. It is a matter of individual workmanship. Except where you might be building six or a dozen ships of the same type, you might get into a minor form of mass production; but it does not lend itself to anything like the extent of mass production that other industries do.

Deputy Whiteside. Did we experiment with that in the war, in producing ships?

Mr. Bardo. I do not know. I was not in shipbuilding at that time. I have heard a lot about it since and the impression I have from comments was that it was not a very successful program. It was the only program that could be adopted to build a large number of ships in the minimum amount of time and with the least amount of money, but it was mass production of ships and we do not build ships that way, not good ships.

Deputy Whiteside. Now, may I go back, and will you pin this down slightly? Do you think the shipbuilding industry is a peculiar industry where you could insert that paragraph in the code, where the majority of the industries would not come within that code?

Mr. Bardo. From the standpoint of the shipbuilding industry I should say yes.

Deputy Whiteside. It is true peculiarly to that industry and not primarily on the economics itself?

Mr. Bardo. Well, I think primarily it is both, because to begin with you cannot ignore the fundamentals of economics.

Deputy Whiteside. Is it your belief that we should include this clause because the Government is also in shipbuilding?

Mr. Bardo. Not necessarily because the Government is in shipbuilding, but the Government is a very large purchaser of ships and is now proposing to go along with a very large shipbuilding program.

Deputy Whiteside. Has the financing of the Government anything to do with it?

Mr. Bardo. Very decidedly, because the greater amount of work you can give a plant the more it can stabilize its employment, and the more you do that the cheaper you can get it to produce, and interest and overhead will be correspondingly reduced.

Deputy Whiteside. Now, there is another question. You say this applies to new plants. I think you emphasized that in your remark, instead of increasing any facilities in existing plants. Did you have reason to do that?

Mr. Bardo. My remarks contemplated no increase in facilities in present plants. They are already there. Take the New York Shipbuilding Company. We have a complete shipyard, entirely idle. The ways and all that is necessary to build ships are there doing nothing. It represents a substantial investment, in a good labor market. During the war they employed in that yard about 22,000 men. We have now about 2,000, about one-tenth of that number.

Deputy Whiteside. The expression is used here, taking the literal words of the paragraph:

"Therefore, it will be considered a violation of this code to make any material increase in the plant capacity of the industry, during the life of the National Industrial Recovery Act."

What does the word "material" mean?

Mr. Bardo. It is intended—take our own plant. I regard it as a violation of the code as that language now reads to do what might be necessary to rehabilitate for full shipbuilding all the ways we now call our "South plant."

Deputy Whiteside. Would this have any bearing whatever on expansion of the repair plants?

Mr. Bardo. That would depend to a very large extent upon the needs. The repair units have been changed to this extent: We have been gradually expanding our marine service, going into other routes, and that creates another demand in another direction, for repair facilities. A port may be substantially abandoned and a new port created, and facilities required there. I would not regard that as a violation of the code, because it is not creating a new facility, but creating facilities at a point where it is regarded as necessary.

Deputy Whiteside. Does the last clause, "during the life of the National Industrial Recovery Act" tend to modify the economic situation in your mind?

Mr. Bardo. No. We simply limited it to that because we thought that was as far as we could go.

Deputy Whiteside. Is there any qualification that could be put into that that would reduce the importance of the decision if it were allowed to remain?

Mr. Bardo. I do not know as I quite get your thought.

Deputy Whiteside. We evidently are trying to span a period. I am now just thinking aloud to get your reaction so that we may more readily recommend the answer to it, that is, during the period of 6 months instead of the life of the act—whether that does affect your general opinion?

Mr. Bardo. Yes. I should say it does. I do not know how we can go into partnership in this thing and dissolve partnership any time we want to and get out. If we are going to have the National Recovery Act, let us have it in whatever way we can for that life. We do not want to let us start across the river and if somebody heads us off, turn around.

NATIONAL RECOVERY ADMINISTRATION

[Immediate release, July 19, 1933. Release no. 62, section 7]

Transcript of Proceedings, Shipbuilding Code Hearing, First Day, July 19, 1933, Afternoon Session

Deputy Whiteside. Would you have that paragraph if there were no time limit to it, assuming it were going to be a continuing provision?

Mr. Bardo. Yes. My interpretation would be that it went through the life of the code.

Deputy WHITESIDE. Who would make the decision that would enable people to go into business or expand or do whatever they thought best?

Mr. BARDO. That would come under the jurisdiction of the committee, the jurisdiction of the committee of the industry itself.

Mr. BARDO. It is a self-governing organization, as I take it, like any other governmental agency, to keep appropriate checks on the administration's acts, are applied.

Deputy WHITESIDE. Here is a question that may be presented. I think you have answered one half of it, and the other half you may answer. Would it be a violation of the purposes of the code if the present shipyards were to increase the number of their ways or reconstruct ways now in disrepair?

Mr. BARDO. No. A facility that now exists, I would not regard that—Wait a minute! Did you say, Would it be a violation?

Deputy WHITESIDE. Yes.

Mr. BARDO. No; I do not think it would, to increase new ways and rehabilitate old ways. If a way was entirely in disuse and needed to be entirely rehabilitated, it might be, in the strict language of the code, increasing the facilities. It might be a material increase. Necessarily that would have to be governed by a good many of the surrounding conditions.

Deputy WHITESIDE. Would you have any recommendation to make of a word to substitute for the word "materially", to give us a more definite basis to work on?

Mr. BARDO. We discussed that for a good many days and there was not any language anybody could find to fit our views.

Deputy WHITESIDE. It would be difficult for anybody to interpret that, except the governing body.

Mr. BARDO. I think the body selected to administer the code have thoroughly in mind what we were talking about. In other words, suppose we wanted to improve a lot of machinery that becomes obsolete. We might spend $500,000 in buying new tools and it would not materially increase the facilities. It would facilitate the use of those facilities. Whereas, if we went out and expanded the shop in a direction we had never done before, that might be regarded as a material increase.

Deputy WHITESIDE. I thank you very much.

Mr. BARDO. I thank you.

(*Pick up Report of Harris*)

STATEMENT OF REAR ADMIRAL E. S. LAND, CHIEF BUREAU OF CONSTRUCTION AND REPAIR, U. S. NAVY

Admiral LAND. We want to build these ships on what I call the 4–E platform, namely, employment, expedition, economy, and efficiency.

Deputy WHITESIDE. In what capacity do you speak?

Admiral LAND. I am representing the Navy Department, chief of the Bureau of Construction and Repair.

THE 4–E PLATFORM

(1). Employment.
(2). Expedition.
(3). Economy.
(4). Efficiency.

The code as submitted by the shipbuilders, so far as it affects shipbuilding activities for the Navy Department, is generally satisfactory. In connection with the question of the 40-hour week as proposed by the code, the Navy Department is of the opinion that this is required by the industry and that any reduction in the working hours below this would interfere unduly with the proper prosecution of the naval building program, as well as with the normal ship-repairing activities of the navy yards and private ship yards. At the present time the navy yards are on a 44-hour work week with 48-hours pay. The Navy Department feels, however, that it would be fair to reduce this to 40 hours work.

There are a number of vessels now under construction in Government navy yards under specific appropriations, and the substitution of the 30-hour week for the present 44–48 hour week would seriously increase the cost and delay the completion of these ships. The loss of four hours' work per week involved in the reduction from 44 hours to 40 hours would not affect seriously the output and can be accepted. There are also a number of vessels under contract in private shipyards which would be affected by the proposed code.

Studies have been made as to the effect on labor in the shipbuilding industry of the 40-hour week as compared to the 30-hour week, and it is the conclusion of the Navy Department that the adoption of the 30-hour week would not be in the interest of labor, and in view of the size and content of the naval shipbuilding program, that the 40-hour week would not lead to unemployment in shipbuilding trades.

In other words, practically all skilled artizans available in the shipbuilding trades would be able to find employment on the 40-hour week basis.

The National Industrial Recovery Act under the provisions of which this code has been formulated, provides, as a part of the policy, "to promote the fullest possible utilization of the *present* production capacity of industries." The existing shipbuilding facilities of the country now in operating status are in excess of the requirements for new construction and projects contemplated under the National Recovery Act, or for any other prospective new construction. Establishment of new facilities or reopening of those that have been closed over a period of years will result in excess capacity and creation of new and very temporary labor markets leading to later unemployment and unsatisfactory conditions. *The Navy Department is of the opinion that some provision should be included in the code such that it will avoid establishment of new shipbuilding yards, reopening of those long since inoperative, or expansion of small yards and repair plants for shipbuilding purposes. This opinion is in direct accord with the declaration of policy of the National Industrial Recovery Act.*

Under the provisions of the code the hours of work for draftsmen would not be limited to forty hours per week for the first six months. The program of new naval vessels calls for a very large amount of drafting work in the preparation of designs and working plans and to permit preparation of lists of materials to be purchased, also to allow construction work to proceed and employment of labor to start. The number of trained draftsmen qualified for the preparation of plans and designs for naval ships is very limited, and there is no source of supply from which to recruit additional ones. It will probably develop that limiting the hours of work of draftsmen to forty hours may lead to delays in starting actual shipbuilding operations. The Navy Department is of the opinion that if practicable to do so, the hours of employment of draftsmen and other technicists should be exempted, at least temporarily, from the limitation.

The total money appropriated for the Navy Department for the fiscal year 1934 is in round numbers $329,000,000.

This amount has been limited by the Bureau of the Budget to a cash withdrawal during the fiscal year 1934 of $275,600,000. The difference between these two sums is $53,400,000.

In view of the above drastic curtailments, it will be possible for the Navy Department to function during the fiscal year 1934 if our navy yard and naval station work is done on a 5-day 40-hour week, and it is on this basis that the actual appropriations made by the Congress were reduced by the Bureau of the Budget. Should the Navy Department be compelled to work on another basis, such as the 44-hour week (48 hours pay), or on a 30-hour week basis, it would be absolutely necessary to run a deficit or else seriously cripple the efficiency of the Navy.

Attention is invited to the fact that navy yards are primarily repair yards for the maintenance of the fleet. Any arguments presented by shipbuilders operating repair yards are equally potent with regard to navy yards in so far as repairing vessels is concerned.

While the foregoing may not have a direct bearing on the shipbuilding program authorized under the N. I. R. A., it has a very vital indirect bearing on the basic proposals being considered.

In fact we are working under what might be called three laws or three orders, that is, work of 40-hour week and the 40-hour week on which we based our estimates with the Bureau of the Budget and the program of the National Industrial Recovery Act.

Admiral LAND. I think you will readily understand that it is impossible to work under hermaphrodite conditions such as those. We believe the correct solution would be to have the 5-day, 40-hour week.

Deputy WHITESIDE. You have not expressed yourself very definitely regarding the extension of plant facilities. May I have your opinion a little more in detail, if you care to give it?

Admiral LAND. The capacity of the shipbuilding industry in this country, including the navy yards, is more than ample to take care of any existing or prospective programs. The navy shipbuilding, in my judgment, is the most difficult, intricate, complicated type of shipbuilding that there is in the world. It requires more experience, more technical engineering staffs, and more skill in design and construction than any other type of shipbuilding in the world. Therefore, the program upon which we base this is what I call the fourth point program of economy and efficiency. From the Navy Department's point of view it is much more satisfactory to have these contracts placed with facilities that are familiar with the Navy Department work, Navy Department classifications, and so on. We think it is more strict and more difficult of accomplishment than any other type of shipbuilding in the world. On that basis I have no hesitancy in saying that the present existing, growing shipbuilding facilities of the country are more than ample to take care of the Navy program, any prospective Navy program and, so far as my own knowledge goes, any merchant marine program.

Deputy WHITESIDE. In your opinion, the facilities are now available to carry out adequately your program?

Admiral LAND. Yes, sir; they are. I might add, Mr. Whiteside, that if you wish any further statement from the Navy's standpoint, that Captain H. L. Wyman is here from Assistant Secretary Roosevelt's office, and he has a statement which has been presented to you.

Deputy WHITESIDE. I was going to call on Captain Wyman, but I just wanted your opinion. Captain Wyman, are you now prepared to speak on the subject of expansion?

Captain WYMAN. Yes, sir.

STATEMENT OF CAPTAIN H. L. WYMAN

Captain WYMAN. I have a statement which has been submitted.

Deputy WHITESIDE. Are you going to speak on hours?

Captain WYMAN. I have a very short memorandum which has been prepared which merely supplements to a small extent what the chief constructor has just said. The reason I am doing it is that Assistant Secretary Roosevelt is away at the present time and I happen to know that this has been passed upon already by him before his departure. So in placing this in the record I trust I am placing the Assistant Secretary's ideas in the record.

Deputy WHITESIDE. I would appreciate sincerely your reading it, because I think all of us should hear it.

There has been allotted to the Navy Department from the National Industrial Recovery Act the sum of $238,000,000 for the construction of ships.

The building program under this allotment provides for the construction of 32 ships, 16 of which are tentatively allocated to Government navy yards and 16 to private shipbuilding plants.

There is a provision in the Recovery Act reading as follows:

TITLE II—PUBLIC WORKS AND CONSTRUCTION PROJECTS

"SEC. 206. All contracts let for construction projects and all loans and grants pursuant to this title shall contain such provisions as are necessary to insure (1) that no convict labor shall be employed on any such project; (2) that (except in executive, administrative, and supervisory positions), so far as practicable and feasible no individual directly employed on any such project shall be permitted to work more than thirty hours in any one week; that all employees shall be paid just and reasonable wages which shall be compensation sufficient to provide, for the hours of labor as limited, a standard of living in decency and comfort, * * *"

At the present time the work week in navy yards provides for 5½ days, with 44 hours work and 48 hours pay. The proposal now has been made that this be altered to 30 hours' work with 30 hours pay; or in other words a reduction of 14 hours work and 18 hours pay per week.

There are now naval vessels under construction at Government navy yards under specific appropriations made by Congress. The estimates for these ships and the consequent appropriations therefor, were based on a work week of 5½ days with 44 hours work and 48 hours pay.

It is certain that the substitution of the 30-hour week for the present 44–48 hour week in navy yards would very seriously increase the cost and delay the completion of all ships built in navy yards.

The principal objectives of the Recovery Act are:

"To encourage national industrial recovery, * * * and to provide for the construction of certain useful public works * * *" which means the relief of unemployment and recovery of industry.

According to the best information obtainable by the Navy Department, the building program of the Navy, which includes 32 ships under the Recovery Act, plus 5 under the existing Naval Appropriation Acts, or a total of 37 new vessels to be laid down during the fiscal year 1934, will absorb the normal amount of labor employed in the shipbuilding industry (both government and private), on the 44-hour-week basis, and there may be an actual shortage of labor in certain trades.

Thus, insofar as the shipbuilding industry is concerned, the above mentioned objectives will be attained without application of the 30-hour week.

The Department does feel, however, that it would be fair to reduce the present work week from 44 hours work with 48 hours pay, to 40 hours work with 40 hours pay. Insofar as the navy yards are concerned this would cause a loss to labor of weekly pay amounting approximately to 16⅔ percent and would cause a loss of nominally 4 hours work per week to the Government.

As to the loss of 4 hours work per week, this is not as serious as it might seem on its face, for as a matter of fact, the 4 hours put in on Saturday mornings actually results in much less than that amount of really valuable labor, and it has even been estimated that on a basis of real value, only about 2 hours, or less, should be counted.

As to the loss in money to labor in the weekly pay envelopes, it is believed that a certain amount of the loss of 8 hours pay, through adopting the 40-hour week, could be absorbed by rearrangement of wage schedules, but if the 30-hour week should be adopted, it would be impossible to absorb the loss of 18 hours per week pay and keep anyway near within the amounts authorized by acts of Congress and allotments from the National Recovery Act, all of which sums were estimated on the basis of the longer week.

Several ships are now under construction in navy yards under naval appropriations on the 44–48-hour week basis. If the work to be added under the Recovery Act should be on a 30-hour week basis, administrative difficulties and confusion would be bound to result, with attending increased costs and serious delays; in other words, an impossible situation, which could only be met by:

(a) Authorizing all work both present and future on a 40 hours per week basis, or

(b) By obtaining increases in both appropriations and allotments to take care of additional costs so as to permit of the adoption of the 30-hour week.

Even if we could obtain the additional funds necessary we would be confronted with the element of delay. This might be met by working additional shifts but the Department feels that it is not desirable to employ more than one shift in the construction of naval ships owing to the insufficient number of men available in certain of the skilled shipbuilding trades and to the character of the work involved.

In the opinion of the Navy Department the adoption of the 30-hour week would not be to the best interests of labor engaged in the shipbuilding industry, in which there will be practically no unemployment after the program gets under way, as it would result in greatly reduced weekly wages for these men and women owing to the fact that it would be manifestly impossible to absorb the loss of 18 hours pay per week into the 30-hour week, whereas the absorption of 8 hours into the 40-hour week would not present the same difficulties.

To meet the situation on a fair basis—fair to the taxpayer, fair to the laborer, fair to the Navy which feels that the ships should be built as economically and as espeditiously as possible—it is believed that for the shipbuilding industry (including Government yards) a five day week of 8 hours per day, or in other words, a 40-hour week with 40 hours pay, be adopted.

Nothing is to be gained by adopting the shorter week, which would necessitate the employment in shipyards of men unsuited to the work and whose return to their normal occupations should be the primary objective.

To sum up: The foundation platform on which these ships are to be built is expedition, economy and efficiency. Should the navy yards and private shipyards be forced to go on a 30-hour week the shipbuilding program authorized and appropriated for cannot be built for $238,000,000; nor can ships now building and ships appropriated for in the 1934 Naval Appropriation bill be built within the "limit of cost" set by the Congress. The result will be that the Navy Department will have to forfeit its guarantee and its promises to the Congress, the President of the United States.

Deputy WHITESIDE. Are you prepared to say anything regarding the expansion of plants?

Captain WYMAN. No, sir; not other than to concur in what Admiral Land just said. That has been talked over considerably in the Assistant Secretary's office, and that is the feeling of the Department, just as expressed by Admiral Land a few moments ago.

Deputy WHITESIDE. Which is that the present plant facilities are adequate?

Captain WYMAN. Yes sir; that the present plant facilities are adequate, and that it would be undesirable to scatter into new plants the work and cause migrations of labor from centers where they are now living to build up plants in other areas.

Deputy WHITESIDE. Will you hesitate to place contracts with new organizations or with other organizations that were built hastily that had not previously constructed ships?

Captain WYMAN. I think the Navy Department would hesitate very much, for this reason, that they want to be sure of the output that they are going to get.

Deputy WHITESIDE. Do you feel that that provision in the code is peculiar to the situation in the shipbuilding industry?

Captain WYMAN. Yes, I do.

Deputy WHITESIDE. Now, may I ask one other question, Captain Wyman? How about the existing wage rates of the Navy as compared with those of the private yards?

Captain WYMAN. Of course, they are at least equal to and, I think, they are generally a little above. That is my impression. I do not like to make that positive statement.

Deputy WHITESIDE. Your feeling is that they are about on the same level?

Captain WYMAN. Yes, sir, that is my feeling.

Deputy WHITESIDE. And has that condition existed for some time or has it been only recently since your 15 percent cut?

Captain WYMAN. I think that that condition existed before the 15 percent cut, and then, as I understand it, private labor has gone down too.

Deputy WHITESIDE. You still keep that parity?

Captain WYMAN. I think it is nearly on a parity. Admiral Land may know more about that than I do.

Deputy WHITESIDE. Admiral Land, may I call you back for just a moment? I wish to thank you very much, Captain Wyman. Mr. Smith, I would like to call on Admiral Land on that one question, because it has not been answered yet.

Admiral Land, the question is, from 1926 on have wages in private plants been about on a parity with those paid by the Navy Department for like work in the shipbuilding industry?

Admiral LAND. Generally speaking, from 1926 to 1929, and on through possibly to 1930 they were, in accordance with the regulations and laws of the so-called "labor board." We have been on the 1929 wage schedule by administration policy and by law since 1929. The only modification made to wages was a 15 percent cut; when an effort was made to obtain data on this matter for the Appropriations Committee in the House this last session, the indications were that they were on rather flimsy evidence, and indicated that our wages were generally higher than those paid in the trade. That was before the 15 percent cut was made. I am not in that branch or in that department which would enable me to discuss the present status, and I do not think we have sufficient knowledge upon which to base it. But we were on a higher wage schedule on the 1929 wage basis and for those succeeding years. As private shipbuilders cut wages, naturally that variation increased. That is as far as I am prepared to go on that matter.

Deputy WHITESIDE. If a 40-hour week or a 48-hour week were decided upon, how many hours do you think the average worker would actually work and be paid for in a year?

Admiral LAND. Do you mean how many days of employment on that basis?

Deputy WHITESIDE. How many hours a week on the average does a man actually work when the hours designated are 40 hours a week? Do weather conditions and things of that kind affect the working hours?

Admiral LAND. Very little in shipbuilding. They do as you get north in the winter time. But the shipbuilding plants in the navy yards so arrange their work that they do the works in the shops instead of on the ship. It is somewhat less efficient, but I do not think they lose work because of extremes in weather, that is, because of extreme heat or extreme cold, as they do here in the administrative departments of the Government.

After all, that is merely a question of the over-all efficiency of the plants and actual loss of time.

Deputy WHITESIDE. Does the same answer apply to ship repairing?

Admiral LAND. So far as the navy yard is concerned—and that is all I am able to answer about—it does apply.

Deputy WHITESIDE. Thank you very much.

The next speaker is Josiah T. Newcomb, general counsel Gulf Industries, Incorporated, speaking on the subject of facilities, as I understand.

STATEMENT OF JOSIAH T. NEWCOMB, GENERAL COUNSEL GULF INDUSTRIES, INCORPORATED

Mr. NEWCOMB. Mr. Whiteside, a number of questions have been asked, and I am going to take the liberty of asking one myself, if I may.

Mr. Bardo, when speaking, discussed the question of financing a proposed project, and we are discussing the economic question of whether plant facilities should be restricted. I take it there is no connection between the two questions. I do not wish to have to discuss here, unless it is necessary for me to do so, the question of the proprietary of the United States Government financing an increased facility if an increased facility were desirable. I wish to eliminate that question, if I can. If I must discuss it, of course I must discuss it.

Deputy WHITESIDE. The point I was making was, I was simply trying to confine this paragraph in some way to this particular code.

Mr. NEWCOMB. I think I have not made myself clear. I do not refer to anything, to any question you ask. I would be delighted to answer myself any question, and I know everybody is, because really this hearing is for your information.

I do not refer to that at all. Mr. Bardo, in his statement, discussed the propriety of the United States Government financing a facility, if a facility in a shipbuilding business were desirable, the question of who financed it is not a question that should be brought up here, is it? That is the question I would like to eliminate.

Deputy WHITESIDE. It is a comment made in an informal way.

Mr. NEWCOMB. Yes; but I want to be very clear in discussing the questions of facilities that we are not discussing another question of whether it is proper for the United States Government under any conditions to put money into competitive industries.

Deputy WHITESIDE. That is the question of opinion of those who have expressed it. May I ask you, are you associated in the industry?

Mr. NEWCOMB. I am general counsel of Gulf Industries, a representative of the Pensacola Shipbuilding Company, which has been invited to bid on the naval program.

Deputy WHITESIDE. Are others joining in this, or is it for one specific company you are speaking? I am trying to get the identification of it for our record.

Mr. NEWCOMB. I want to present some considerations to you on behalf of all the interests that are grouped about this that I represent, which, I hope, will have some bearing on the question of whether or not you should prohibit in your code increased facilities. In order to do that it is necessary to get a considerable different picture of the shipbuilding industry from that which has been presented. I myself, after sitting here all day so far, wish I might join in the chorus and agree with everybody. It is not at all pleasant to be in an obvious minority. However, we have to perform our duty, and I believe we are right, and I believe that the picture of the shipbuilding industry that you should have in your mind in passing on this code is not confined to its exact present condition. It has seemed to me that if I had been speaking for the industry as it stands now, I would have spoken somewhat apologetically.

It has been described here as an industry that has not got by the handcraft stage. I would not be proud of that if I represented it. I do not believe it is essential for the shipbuilding industry to remain in the handcraft stage. My associates do not believe it is, and they have founded their project on the theory that it is not.

Moreover, if I were representing the present shipbuilding industries as they stand today, I would not be proud of the fact that my industry was idle. I would be sorry because of that. I would feel I had to explain it.

The interests I represent do not believe the shipbuilding industry belongs in any such class. We believe in the United States we have the skill, we have the ability, we have the energy, we have all the qualities that once made this the great shipbuilding country of the world. We believe it has been turned in a different channel for some decades. We believe that now is the time for it to be turned back into the channel where it once was so conspicuous, and if it is, what becomes of your proposition to stifle it with a provision in a code that is meant for a recovery from industrial depression?

I have got to undertake to give in some way or other, with my limited abilities, not a difficult subject, give some little picture of what my associates visualize as the future and the immediate future of the shipbuilding industry.

This provision, if it is found legal, if it goes into the code and is found to be legal and enforceable—I have not taken the time to discuss the legal phase of it, because you do not want it, Mr. Whiteside—I will call your attention to the fact the preamble of the act was depended on by Mr. Bardo, and I depend on the text. That is all I care to say. He can have his preamble, and I will take the text, and we will see.

The project which this provision, if it is found to be legal, would defeat, is one which in the opinion of its sponsors will make possible for the first time in eighty years, the building of adequate American merchant vessels at costs comparable to those of the other maritime nations.

The Congress by mandate in the acts of 1920 and 1928 enunciated the national merchant marine policy in the following language:

"That is is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types or vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States; and it is hereby declared to be the policy of the United States to do whatever may be necessary to develop and encourage the maintenance of such a merchant marine."

We have not such a merchant marine today.

Exhibit No. 1490

CONFERENCE HELD AT THE NAVY DEPARTMENT ON TUESDAY, FEBRUARY 8, 1927, AT 10:00 A. M., IN CONNECTION WITH THE PROPOSED FORM OF CONTRACT (CLASS 1) FOR THE CONSTRUCTION OF SCOUT CRUISERS NOS. 26, 27, AND 28

Present: Groesbeck, Bardo, Newell, American Brown Boveri Electric Corporation; Wakeman, Birkhart, Bethlehem Shipbuilding Corporation; Gatewood, Bailey, Palen, Newport News Shipbuilding & Dry Dock Co.; Mull, Metten, Wm. Cramp & Sons Ship & Engine Building Co.; Rear Admiral John Halligan, Jr. (U. S. N.), Commander C. A. Jones (U. S. N.), Commander H. T. Smith (U. S. N.), Bureau of Engineering; Captain W. P. Robert (C. C.) (U. S. N.), Captain L. B. McBride (C. C.) (U. S. N.), Commander H. E. Rossell (C. C.) (U. S. N.), Mr. Warren McLaine, Bureau of Construction and Repair.

Admiral Halligan stated that the meeting was called at the request of Mr. Wakeman.

Captain Robert inquired as to the matters which were proposed for consideration.

Mr. Wakeman stated that the meeting developed from a desire to discuss certain sections of the contract. The shipbuilders had a meeting to discuss the question of interchangeability of certain parts of the scouts and in the discussion many other points were brought out. He suggested that certain sections of the contract be considered first and that the matter of cooperation and interchangeability be taken up later in the meeting.

Mr. Palen stated that the meeting was the result of the request for duplicating the vessels, which presents a new phase to the shipbuilder. In considering the contract it was only natural to discuss the specifications, and the serious thing seems to be whether or not there is sufficient information for the estimators to make a fair and just estimate of cost and time for building these ships that would be equitable to the companies. That a memorandum had been prepared as to the matters desired to be considered.

The contract was then considered, clause by clause, in connection with the modifications as outlined in the memorandum.

Clause first, line 3, insert after the word "in" the word "substantial."

Mr. Palen. We thought a modifying word necessary so that we could comply with the contract.

Captain ROBERT. You could comply with them now as well as you could 2 years ago.

Mr. PALEN. There are in these general specifications many features which are almost a change of policy. For example, they state "the superintending constructor shall have the right to examine workmen as to their qualifications", this policy was never adopted by the Department before.

Captain ROBERT. We will leave that for later consideration.

Clause second, line 20, after the word "department", insert the words "or of the contractor."

Mr. PALEN. That section deals with things that are not known or understood at the present time. It is usual in commercial practice if anything in the plans is not in the specifications, or anything in the specifications is not in the plans, which is plainly shown in one or the other, it is considered to be shown in both, that acts of Congress are not understood by the shipbuilders; that such expense should not be imposed upon the shipbuilder.

Mr. WAKEMAN. It is feared that the Comptroller might rule that money should not be paid out except for something called for in the contract; and the builder should have some protection against this higher power.

Clause second, line 24, strike out the words "are hereby and in consideration of the premises expressly waived", and insert the words "should be determined by a board of naval officers appointed by the Secretary of the Navy."

Mr. PALEN. What you people have practically done is ask us to waive a right which might be a right we would want to use.

Captain MCBRIDE. It seems to make it simply a matter subject to change. If that were incorporated it might act to your disadvantage as well as to your advantage. I think that clause has been used for a certain freedom of exchange between the contractor and department and it is a saver of a tremendous amount of highly legal correspondence and if you don't have some such clause you are letting both parties in for long discussions on matters of detail.

Captain ROBERT. Suppose we put in the word "inadvertent." You should supply it without compensation if it is clearly something omitted that should be supplied.

Clause second, par. 2, line 11.

Mr. PALEN. We thought that for changes we should have a larger percentage of overhead for increases than for decreases. Any change causes an interference with the schedule of work which is not represented by labor and material. The word "damage" would cover this situation if the Board on Changes would take cognizance of that feature. When you omit labor you do not omit all overhead; a certain amount of overhead goes on and in omissions or decreases that is not omitted.

Capt. ROBERT. You are fixing an overhead rate which might vary according to the method in which your accounts are kept. I don't quite see how you can specify overhead in advance. Some will carry supervision in direct labor.

Mr. GROESBECK. We are trying to fix a basis for changes.

Mr. PALEN. You can specify that "direct labor" shall not include supervision.

Clause second, par. 2, lines 24 and 26, change "five (5)" to "two (2)".

Mr. PALEN. We thought 5% of the cost of the vessel is a large amount to allow for increases that are supposed to be made without possibly involving an increase in time. If these are to be $10,000,000 vessels, 5% is a lot to allow without an extension of time. We are not cut out from claiming delay. There is nothing interferes with our schedule of building more than changes.

Admiral HALLIGAN. The Comptroller in the case of the Westinghouse contract for machinery for the *Tennessee* has held up payment because we made payment of more than 5%, and he construed this clause as limiting.

Mr. MULL. I suggest strike it out.

Capt. ROBERT. We used to say * * * and then Ferguson, I think it was, came along and asked us to limit this to 5%. If you omit the last part you won't be any better off.

Mr. PALEN. How about omitting all about 5%.

Mr. WAKEMAN. Suppose we leave it out.

Capt. ROBERT. You want to leave out the whole business. We want to make it clear that when we call for changes it doesn't mean an extension of time. It puts the burden on you to show there is a delay. If we omit the entire sentence I don't know of any contractual phraseology that will put the burden on you.

Mr. WAKEMAN. It is hard to put delay on individual items.

Capt. ROBERT. Suppose you make it read * * * ?

Clause second, par. 3, strike out the first eight lines and to the word "thereof" in the ninth line, and insert the following: * * * .

Mr. PALEN. In general that puts our notice 10 days from the time we get approval of the drawings involving the change. Most changes go on under negotiations for some time after we first get notice. We want to shift the 10 days notice to a point where we know what the change is. We want it fixed so we will not be in default.

Clause fourth, change to read as follows: * * *.

Mr. PALEN. We are trying to impose on the department some part of this question of cooperation. We might better leave this part until we get through the contract and then go back to it.

Clause fourth, par. 2, line 5, before the word "and" insert the words "as far as practicable".

Mr. PALEN. There is a big difference between "identical" and "duplicate".

Capt. ROBERT. We meant made from the same plans.

Clause fifth, add at the end. * * * .

Mr. WAKEMAN. In these specifications there are a lot of new things, new applications, and we are very uncertain of the results. There are questions as to the use of aluminum alloy and electric welding. The idea of the department, I think, is that electric welding be used. It might be possible for a superintending constructor at one of these yards to be unfavorable towards electric welding. If one firm finds it cannot make aluminum alloy it might want to substitute something else. We are willing to take responsibility for weight but we think you should take responsibility for the material.

Capt. ROBERT. I think it better to have a matter of this kind cared for by change in specifications in regard to a particular feature.

Mr. WAKEMAN. The extent is so great that we cannot do it in the time we have.

Admiral HALLIGAN. I think it should be in the contract instead of the bids. The limit of cost should come in here.

Capt. ROBERT. I think the question entirely too broad to insert in the contract.

Admiral HALLIGAN. With Cramps we recently specified aluminum instead of cast-iron pedestals, and Cramps objected.

Mr. BARDO. Fix the contract and specifications and hold the contractors to them.

Admiral HALLIGAN. The natural tendency of the manufacturer is to give something he has had experience with.

Capt. ROBERT. Changes that you propose will be treated as a change and you will get the benefit of saving in weight and if there is increase in weight we will not charge you for it.

Admiral HALLIGAN. I think it would be fair for us to take the responsibility.

Capt. MCBRIDE. Design comes in. The success of any particular fitting is dependent upon (1) design, (2) material, (3) workmanship.

Capt. ROBERT. We should take care of that in the specifications.

Mr. WAKEMAN. There is not time.

Admiral HALLIGAN. If we specify the use of a material and the contractor designs the fitting, the failure might be due to design and not to the use of a material.

Mr. METTEN. Regarding steady bearings. We have had no experience in applying aluminum alloy to large castings.

Admiral HALLIGAN. In a case like that we should take the responsibility.

Mr. MULL. That should apply methods as well.

Clause sixth, page 5, between 1st and 2d paragraphs, insert a new paragraph, reading as follows: * * *

Mr. GROESBECK. The plan question is a most serious question.

Capt. ROBERT. The idea is entirely sound; I don't see how we can give you any more time.

Capt. MCBRIDE. Not practicable to make it as rigid as given in this proposal.

Capt. ROBERT. Cannot we use some adjective instead of a number?

Admiral HALLIGAN. We could say "In case of a plan submitted to the inspector there is a delay of more than * * * and in the case of plans submitted to the department there is a delay greater than * * * then the contractor may make claim to the department for delay."

Capt. ROBERT. We recognize your point and will try to care for it in some manner.

Clause eighth, strike out the entire clause and substitute the following: * * *

Mr. PALEN. You specify $5,000,000 insurance. That does not cover all the risk on this vessel, so the remaining risk has to be carried by someone. Therefore we are specifying that the remaining risk over and above $5,000,000 is to be carried by the department. I specified Builders Risk Insurance, American Form, as that is the best you can get, and that is what we will furnish. It is the broadest insurance written.

Capt. ROBERT. Suppose you were hoisting a boiler and dropped it overboard; is that in Builders Risk Insurance?

Mr. PALEN. Yes; and it is essential to make it payable to the Secretary of the Navy for distribution by him.

Capt. ROBERT. Does the last paragraph come in?

Mr. PALEN. Yes; it should read "*Provided*, That said insurance of $5,000,000 shall be increased * * *."

Clause ninth, line 7, after the word "therefore" insert the words "and any extension thereof."

(No discussion.)

Clause ninth, line 18, after the word "*Provided*" strike out * * * and insert * * *

Mr. PALEN. This language was taken from the Interdepartmental Contract Board's circular.

Clause ninth, page 6, paragraph 2, lines 4, 5, and 6, strike out the words "and his decision thereon shall be conclusive and binding on the parties to this contract."

Clause ninth, page 6, paragraph 3, line 7, after the word "delayed" insert the words:

* * * * * * *

Mr. PALEN. I am particular about this extension of time, because there is a question of getting the ships done on time. We will work in good faith if we don't have to pay demurrage.

Capt. ROBERT. That part of the clause you want to strike out is more apt to work to your advantage than otherwise.

Mr. PALEN. We have a clause covering the Secretary's decision being final and binding.

Capt. ROBERT. You really cut it out in one place and put it in in another

Clause tenth, line 5, after the word "immediately" insert the words "take steps to."

Mr. PALEN. We usually cannot stop immediately.

Capt. ROBERT. Suppose we say "promptly."

Mr. PALEN. I rather think "immediately take steps to" is good.

Mr. BAILEY. Why not say "stop as soon as feasible."

Capt. ROBERT. Suppose we say "immediately take steps to stop and shall stop."

Clause tenth, last (30th) line, after the word "vessel" insert:

* * * * * * *

Mr. PALEN. If we are slowed up we want the provisions of suspension to be applicable to us as far as practicable.

Capt. ROBERT. If we slowed you up is there not something else that will take care of it?

Mr. MULL. The worst thing that could happen is lack of appropriation to carry on the work.

Capt. ROBERT. Then the additional cost to the contractor caused by this shortage of funds should be treated as a change.

Mr. PALEN. That is what it means. Page 7 "*Provided*, That this contract shall not be construed as obligating the department * * *."

Capt. ROBERT. Why are you proposing such a condition, because we cannot go beyond the limit of cost.

Mr. PALEN. You say you will not pay us if it exceeds the limit of cost.

Mr. GROESBECK. Suppose you suspend work and cost for suspension and contract price exceed the limit of cost, we are not paid for costs incurred during suspension. Under those conditions we should not be required to do certain things.

Capt. ROBERT. Suppose the ship was 90 percent or 95 percent completed and we had paid you and we told you to stop work and then suppose that dragged on for a year or two and your charges for suspension were such as to bring you up to the limit of cost, then what would happen?

Mr. GROESBECK. If there is any default in payment we could stop work and not be bound to complete the ship.

Clause fourteenth, at the end of 4th paragraph, after the words "in each direction" add the words "at 20 knots."

Mr. WAKEMAN. Steering gear will not stand backing at a speed of more than 20 knots.

Capt. ROBERT. The fellow that goes to sea and gets in a jam says he has got to put the ship astern at full power and the steering gear must withstand it.

We must have some provision. What are we going to require?

Admiral HALLIGAN. I don't see any reason for going astern at a greater speed than 20 knots.

Capt. ROBERT. Whatever the turbines will do to a ship going astern, the steering gear must not be wrecked.

Comdr. ROSSELL. In the design for 24 and 25 we based the whole design on the maximum speed, on the basis of actual experience on the last cruisers, so that the gear would not be broken. The ruggedness of the whole gear is to be sufficient to stand full speed ship is making astern.

Mr. WAKEMAN. Engineering requires 50 percent more power and you have not provided for it.

Admiral HALLIGAN. We may have to put in here that the rudder shall not be operated from hard over to hard over.

Comdr. ROSSELL. There is a limit as to revolutions. The gear is designed to stand up at maximum power but not to operate.

Clause fifteenth, next to last paragraph, commencing with the words "*Provided, however*, That if the corrected fuel oil", stike out the entire paragraph.

Mr. PALEN. It depends on just how much of this you want to penalize us for.

Admiral HALLIGAN. The purpose was to define an unsuitable vessel.

Mr. PALEN. The margin is so slight we don't know what to do. If you say so much penalty for fuel consumption we can guess at it.

Capt. ROBERT. Would it be more agreeable if we made this limiting amount more liberal?

Clause fifteenth, page 13, last paragraph, line 4, insert after the word "vessel" the words "due to defective material or workmanship".

(No discussion.)

Clause fifteenth, page 14, paragraph 3, commencing with the words "In case of the rejection of the vessel", strike out the entire paragraph.

(No discussion.)

Clause nineteenth, strike out the clause.

Mr. WAKEMAN. What will the Comptroller say?

Mr. PALEN. We don't want anything in here to have a vessel on our hands.

Page 18, after clause twenty-third insert a new clause, as follows:

* * * * * * *

Mr. WAKEMAN. That is the exact wording as in the contract for the *Raleigh* and *Detroit*, except the amount.

Capt. ROBERT. Suppose you turned out a rotten ship and got by the inspectors and went to sea and during the 6 months there were a lot of defects plainly attributable to the contractors; if you've got a reservation of $250,000 it seems to me that there possibly could be a limited liability for guarantees but not a limited liability for defective workmanship.

Mr. PALEN. When we bid on fixed price ships we don't capitalize this sort of things.

Mr. GROESBECK. If you miss all your guarantees on the last scout cruisers by 5% you are out about $900,000. The shipbuilding condition is in such shape that we cannot gamble with that much money.

Capt. ROBERT. We would make collective liability to guarantees rather than for all purposes. We would not be willing to fix same limits towards guarantees.

Mr. BAILEY. There is no question as to material and workmanship with the inspection you now have.

Mr. WAKEMAN. You have a precedent, even it if was a cost-plus contract.

Capt. ROBERT. You are all willing to guarantee work.

Mr. PALEN. We are all bound to have our financial responsibility limited.

Mr. WAKEMAN. I don't think there should be a limit on this thing. We have got to carry a bag and if you think there is money in these contracts—we have no margin. We have not figured our estimates but we are not going to be in position to accept unlimited liability. You have stuck on penalties. You want to increase the quality and effectiveness of these boats but in doing that you don't want to put us out of business.

(Recess was taken at 1:20 p. m.)

(Reconvened at 2:10 p. m.)

Present: All parties mentioned above, and Rear Admiral Geo. H. Rock (C. C.) (U. S. N.).

Capt. ROBERT. If we would agree to limited liabilities as to guarantees?

Mr. PALEN. We were looking up the contract——

Capt. ROBERT. That was a cost-plus ship.

Mr. WAKEMAN. This is a ship we are paying for. You were paying for the cost-plus ship.

Capt. ROBERT. In a cost-plus you do what we tell you and there is little responsibility to take. You don't take responsibility for cost.

Mr. WAKEMAN. We did take some responsibility for cost in that contract.

Mr. PALEN. There is more reason in a fixed price ship as we take responsibility for cost.

Capt. ROBERT. If you have a limited liability of this kind and if you simply lay down on the job and don't do anything? (Several present objected.) I don't think the Department will approve the limited liability clause for all purposes, but think they will approve it for performance.

Admiral ROCK. I think we should make limited liability for performances.

Capt. ROBERT. We thought we were giving you a chance to make money on saving in weight.

Mr. WAKEMAN. You have an item of 50 tons for ——— and another item for ——— tons, a matter of about 160 tons, and we don't know what you have in there.

Capt. ROBERT. Don't we specify that if there is a change you are not to be charged with weight caused thereby?

Mr. WAKEMAN. You are going to specify aluminum gratings and we will have to substitute iron. We will have to take the increased weight.

Capt. ROBERT. Suppose you put that in—weight and performance—but not workmanship. I think there will be no objection to workmanship (being guaranteed by you without limitation).

Mr. WAKEMAN. You penalize us and have increased that, and don't give us a bonus.

Capt. ROBERT. I am proposing to limit liability to weight and performance.

Mr. PALEN. What is the objection to adding limit as to workmanship.

Admiral ROCK. I don't know what Admiral Beuret's attitude is.

Capt. ROBERT. I feel I can argue with him as to the other part of it.

Admiral HALLIGAN. I would be willing to limit them on performance and weights.

Mr. PALEN. The main point is that we must get our limit on financial responsibilities; we cannot capitalize on an uncertainty. I hope you will go the limit as to limiting us as to uncertanties.

Clause twenty-fourth.

Mr. PALEN. We tried to modify clause 24 as written so as to allow us to go to court on questions of financial responsibilities and we have gotten it out of the Interdepartmental Board's circular.

Capt. ROBERT. We are not bound by that form of contracts for ships.

(Mr. Palen read the clause as changed.)

Admiral HALLIGAN. You propose that the Secretary's action as to cost and time is not final?

Mr. PALEN. No; it gives us a right to go to court.

Captain ROBERT. In case of uncertainty you would serve notice on the department so as to "catch your breath".

Mr. BAILEY. It probably would be settled before notice was served.

Mr. WAKEMAN. The Supreme Court has handed down a decision that you have no right to open the case as the contract is now written, and by changing it we would have the right. It is not an attempt to force the Secretary, but we want the legal right to protect our contract.

Captain ROBERT. Are there any departures from the standard contract form? Element of time and financial consideration involved. Our most fruitful source of controversy in the past has been over delays.

Mr. PALEN. Time is delay.

Mr. BAILEY. It says the Board on Changes shall adjust this.

Captain ROBERT. The Board on Changes only exists to determine amounts of money cause by changes. It is nothing but a money-finding board.

* * * * * * *

Mr. PALEN. We have added a paragraph of our own [reads same]. Of course that is generally implied, but it is usually customary and stated.

Captain ROBERT. We have said elsewhere that where the contract and specifications are in conflict, the contract shall govern.

Mr. PALEN. I don't think so. I think it a perfectly reasonable and just request.

Captain Robert. This contract merely says this is the instrument to carry out the plans and specifications.

Mr. Palen. But it says when and how you will pay us and states the penalties.

Mr. Wakeman. We have two more questions.—I doubt whether the company would sign a contract with some of these specifications.

There are two things to discuss: The question of cooperation and the question of specifications. We don't think these should be turned over to the specifications people. We are talkng about things that are vital from our point of view.

Captain Robert. Suppose we talk about cooperation.

Mr. Wakeman. We want to settle the extent to which you want duplication or interchangeability on these three contacts.

Captain Robert. Heretofore we have not had interchangeability. We felt that these ships would be worth a great deal more if they all had the same pumps, intermediate shafts—if they were just as much alike as possible even if we cannot get 100 percent [duplication].

Admiral Halligan. It is a question of maintenance with us.

Mr. Wakeman. On page 4, first paragraph, it should read "The contractor will cooperate so far as practicable." We object to the word "identical"; insert "so far as practicable."

Suppose we have a central drafting room composed of the yards that get these contracts. We start in and make drawings and these drawings are submitted to the Bureau; the Bureau approves; the plans are sent out to each yard. Are you willing to tell your representatives at the yards, the superintending constructor and inspector of machinery, that their functions in the yards are limited to inspection and workmanship and that they have nothing to do with these plans, and limit them in the scope of their work.

Captain Robert. We are talking about a certain list of auxiliaries; most of them will be purchased.

Mr. Wakeman. It is a question of putting them in the ship. If we have a central drafting room we will have a central purchasing department.

Captain Robert. You don't raise this as a serious objection.

All shipbuilders stated they have not committed themselves.

Mr. Wakeman. If we have a central drafting room and submit a plan to you for approval, and you approve. Now that plan must go to two or three yard. What happens to the plan?

Admiral Halligan (concurred in by Capt. Robert). So far as that plan has been approved by the Bureau, the inspectors are not to change it except in necessary details to make it fit the ship.

Mr. Wakeman. Your men at the yards can change it and you are not getting a duplicate; unless you take away certain functions and limit them. We have this trouble on the *Lexington* and *Saratoga*. What authority will your inspectors have?

Captain Robert. Not to veto the Bureau.

Mr. Wakeman. If they have the same authority that they now have it will not work.

Captain Robert. They pass on drawings that don't have to be referred to the Bureau. You could not send out all plans from the Bureau.

Mr. Wakeman. We are talking about locating it in a building yard.

Mr. Groesbeck. The only thing is to limit it to diagrammatic plans.

Mr. Palen. Suppose we did not have a central drafting room and steel plans were gotten out for steel structure by Bethlehem and sent to the Bureau and approved by the Bureau. would that approval hold for us if sent on to us. That is plans approved for one ship by the Bureau no matter who made them.

Captain Robert. We only mention a few systems [in our proposal for duplication of plans].

Mr. Birkhart. You must either take the whole hog or none.

Captain Robert. Is there any particular difficulty in having a central drafting room and preparing all your plans except a few sketches?

Mr. Wakeman. I will say I believe it can be worked out but the great difficulty I see we cannot work for three or four different people. We can work for the Bureau, and can you get C. & R. to limit comments to inspection and things of that kind.

Mr. Bailey. Suppose the boilers were not the same design; exactly the same two types of turbines, but with a little difference. You have diagrammatic plans that will cover the bulk of the thing but when you get down to details you are going to have some difference.

Admiral Halligan. The important feature, so far as I am concerned, is to have duplicate auxiliaries.

Mr. Bailey. There is the question of capacity to get these out in time. There are several pump builders. You could not get any pump maker to make all these pumps. Every one will want these pumps and you will have to take more than one kind of pump.

Capt. Robert. One man could supply all pumps for a given service.

Mr. Palen. If the lines were gotten out in a central drafting room and approved by the Bureau they would go for all contractors. If we did not have a central drafting room and the lines were made, say, by Fore River, will all inspectors take those lines?

Capt. Robert. If we told him to, he would.

Comdr. Rossell. With a central drafting room the superintending constructor at that plant should pass on them and it should be compulsory on the other superintending constructors.

Mr. Palen. I am discussing plans that are approved by the Bureau.

Capt. Robert. They would be followed except so far as minor modifications on ship necessitated.

Mr. Wakeman. This question gets down to * * * If this plan is approved by the Bureau, what power would the superintending constructor at the yard have to change it?

Capt. Robert. If he picked up something glaring he might telegraph us.

Mr. Groesbeck. Now suppose you move a central drafting room to one shipyard. You have a superintending constructor there who will approve probably 75%; will his approval be final and binding on the other superintending constructors?

Capt. Robert. No. [See modification to this answer later.]

Comdr. Rossell. Why not?

Mr. Bailey. There are not draftsmen enough to do this in three or four different places. My plan is that each contractor take a certain portion and get that out and then the principal men at the yards consult.

Mr. Wakeman. We don't anticipate trouble with engineering. We anticipate more trouble with C. & R.

Capt. Robert. State your suggestion.

Mr. Wakeman. If you have a central drafting room will you have a superintending constructor there whose power is final to settle plans for all the yards?

Capt. Robert. When they get to the other yard they should not be changed unless there is some interference.

Mr. Wakeman. Should not be changed for personal opinion of the superintending constructors at the other yards.

Capt. Robert. Suppose the central drafting room is somewhere else and a structural plan comes to you and you say you are not willing to stand back of the structure——

Mr. Wakeman. We are going to stand back of it.

Mr. Palen. Suppose the central drafting room makes plans for gun foundations and our people don't think them right, we will send our people to the central drafting room to see if they cannot be changed.

Capt. Robert. If you are willing to go that far.

Mr. Wakeman. Make the change "as far as practicable." We want a definition of "interchangeable", "duplicates", and "identical."

Mr. Palen. If there are different boilers and different turbines going into the two ships we might still make the plans in the central drafting room.

(Considerable discussion was then had as to purchasing agents. All builders agreed to stand back of decision of central office.)

Mr. Bailey. As to delivery—who will get their delivery first?

Mr. Wakeman. That can be worked out. We want the Department to agree on this and if the ships are delayed we don't want to be penalized.

Admiral Halligan. If we are jammed for deliveries we will have to split deliveries.

Mr. Palen. In connection with purchasing. You could have a central purchasing department to purchase this list of things so they would be alike; all other purchasing to be done by separate yards.

Capt. Robert. So far as I am concerned (but I cannot speak for the chief constructor) we will try to get that across. We would have to modify our organization to get that result.

Admiral Halligan. Under existing conditions it would be helpful.

Mr. Palen. The purchasing of that list of things is not a serious matter.

Mr. Metten. Purchasing would be merely buying parts designated.

Mr. Palen. Except for those in the list, the purchasing would be done by the separate yards.

Admiral Halligan. It would be to the advantage of the Government and should reduce the cost of the ships and also tend to similarity between the ships. We would get concentration.

Capt. Robert. Is it practicable to design a ship away from the ships?

Mr. Wakeman. Yes.

Mr. Groesbeck. You might have to depart somewhat from your scheme, but it is entirely practicable.

Mr. Wakeman. The biggest difficulty is your changing your point of view in handling the superintending constructors.

Mr. Groesbeck. You have got to make a decided change.

Capt. Robert. I cannot speak for the chief constructor.

Mr. Groesbeck. All we want, so far as this contract is concerned, is the inserting of "so far as practicable."

* * * * * * *

Admiral Halligan. Suppose Congress gave us these three extra cruisers, making six instead of three. Probably we would ask each shipbuilder to bid on one, two, and three instead of on one and two as at present. How much additional time should we allow for that?

Mr. Wakeman. From the 10th of March? Will they be duplicates?

Admiral Halligan. They will be duplicates. Funds are such that we would have to defer the beginning of the last three about 10 months. The first three would be 36 months, and the next three about 45 months.

Mr. Palen. A couple of weeks.

Mr. Wakeman. The 30th of June. We have a lot of questions to settle and we want just as much time as we can get; because if we go into centralization it would influence bids. [Mr. Wakeman later changed his statement to agree substantially with above opinion of Mr. Palen.]

Capt. Robert. If these three additional ships are authorized, they must be contracted for before the 30th of June.

Mr. Wakeman. We want all the time we can get.

Capt. Robert. This is the 8th of February and the 10th of March is four weeks off. Suppose by the end of February we find three more ships available, which we will have to stagger about six to ten months after the first three. If we by the 1st of March send out advertisement for six instead of three and defer our date of opening, would a date say by the end of March be sufficient.

Mr. Wakeman. No. [This statement was later modified by Mr. Wakeman.]

Capt. Robert. That gives you seven week (from now to consider ways & means).

Mr. Palen. I don't see why a couple of weeks would not be all right.

Capt. Robert. They would be the same as the ships you now propose to bid on by the 10th of March. Surely you could if we add three more and give you three weeks longer.

Mr. Mull. The 10th of March is early for the first three.

Mr. Wakeman. We want to talk this situation over with you further.

Capt. Robert. You would also tell me that the 10th of March would not be satisfactory(?) If we notify you by the end of February would not two weeks longer be long enough?

Mr. Groesbeck. It is not simply a question of saying we will take two instead of one. We would have to write out to all prospective subcontractors and they would have to double the quantities.

Capt. Robert. Well, would not the end of March be time enough?

Mr. Groesbeck. No.

Mr. Wakeman. I would like to think it over.

Mr. Metten. We cannot place an order unless we fix the date of delivery.

* * * * * * *

(After a short discussion as to the ability of the steering gear to stand up under the test at the *required speed astern* as conducted by the trial board, the specifications were considered.)

(Adjourned about 5 p.m. Mr. Mull and Mr. Metten did not remain for second day.)

(Reconvened February 9, 1927, at 9:30 a. m., and continued the discussion of specifications.)

(Adjourned about noon February 9, 1927.)

Substantially correct.

W. B. R.

Exhibit No. 1491

[Memorandum]

2/18/17.

PROPOSED CHANGES IN FORM OF CONTRACT FOR LIGHT CRUISERS NOS. 26 TO 28—AMENDMENTS PROPOSED BY SHIPBUILDERS IN CONFERENCE WITH BUREAUS AT THE NAVY DEPARTMENT ON FEBRUARY 8TH AND 9TH, 1927. COMMENTS AND RECOMMENDATIONS BY BUREAU REPRESENTATIVES FOR FURTHER DISCUSSION WITH SHIPBUILDERS

1. In the following, reference is first made to amendments proposed by representatives of the Newport News Shipbuilding & Dry Dock Company, Wm. Cramp & Sons Ship & Engine Building Company, Bethlehem Shipbuilding Corporation, and American Brown Boveri Electric Corporation, on the occasion of the conference referred to above, these amendments being embodied in a memorandum handed by the shipbuilders to the Bureau representatives, which memorandum is attached hereto. For convenience, item (*a*) refers to the proposal of the shipbuilders and item (*b*) represents the tentative proposed action of the Bureaus

(*a*) Insert the word "substantial" after the word "in" in line 3 of the first clause of the contract.

(*b*) Not recommended. Such a word might be construed to limit the shipbuilder's responsibility for complying with the plans and specifications. The requirements of the plans and specifications should be interpreted intelligently, but if there are any points in which these plans and specifications are not definite the remedy lies in making them definite rather than in the insertion of a qualifying adjective of this kind in the contract itself. It is believed that the conference has resulted in clearing up certain points in the specifications, which will be modified where necessary to make them definite and reasonable.

(*a*) Line 20 of second clause, after the word "Department", insert the words 'or of the contractor." Also, in line 24 strike out the words "are hereby and in consideration of the premises expressly waived" and in lieu thereof insert the words "should be determined by a board of naval officers appointed by the Secretary of the Navy."

(*b*) The sentence to which the above proposed amendments apply is for the purpose of making it clear that any omission from the drawings, plans, and specifications of any feature that is clearly necessary to carry out the contract as a whole the omission being clearly an inadvertent one, is to be supplied by the shipbuilder in the same manner as if the inadvertent omission had not been made. To state that the omission shall not operate "to the disadvantage of the Department or of the contractor" might very well have a meaningless effect. The object of the requirement is to insure that the detail or feature inadvertently omitted shall be supplied without further cost to the Department, and if the words "or of the contractor" are supplied in juxtaposition to the Department if might be construed to mean that the inadvertent omission would be supplied without cost to the Department or to the shipbuilder, and that would be meaningless. It is proposed, however, that the sentence begin as follows: "No inadvertent omission in the drawings", etc. Also, at end of paragraph, add "Similarly, no inadvertent inclusion in the drawings, plans, and specifications of any detail, object, or provision not necessary to carry this contract into full and complete effect shall operate to the disadvantage of the contractor." This would relieve the shipbuilder of the cost of any inadvertent inclusion in the same manner that it would relieve the Government of the cost of any inadvertent omission. This phraseology was suggested by the bureaus, and it is believed that it will be acceptable to the shipbuilders as meeting, in a measure, the criticism advanced.

As regards the change in phraseology at the end of this sentence, it is believed that the proposed change should not be made, as the carefully considered opinion of the bureaus concerned should be as satisfactory to the shipbuilder as the opinion of a board of officers, particularly in view of the fact that the shipbuilder can always appeal to the Secretary in case he considers a bureau decision as unreasonable. The board on changes has no status except as a cost-finding board; it has no authority for interpreting the contract or specifications.

(*a*) At the end of line 11 of second paragraph of second clause, insert the words "which shall be taken to be the cost of the material and 10% thereof, plus the cost of the labor and 100% thereof, for increases and the cost of the material, plus the cost of the labor and 40% thereof for decreases."

(*b*) The proposal is an attempt to define the "actual cost." As regards "actual cost"—

First. The cost of material is not necessarily the cost of the net material plus 10%. The total material used may in some cases include more than 10% scrap (for example, in stock plates cut to odd sizes); in the case of purchased auxiliaries there may be no loss of material although the overhead cost of the purchasing department should be borne by the transaction, this being supposedly included in the office portion of the total overhead or burden charge.

Second. The actual overhead charge that is carried as a percentage of the labor cost varies from 1 yard to another and varies in any given yard according to the method of keeping accounts. For example, 1 yard charges in certain supervision as a part of direct labor and another yard may not do so. In any case the actual cost cannot be determined in advance by using a specified overhead.

The method of compensating the shipbuilder for changes has for many years past (with the exception of the river gunboats mentioned below) been governed by the act of 1886, which specifies that "if changes are thus made the actual cost thereof and the damage caused thereby shall be ascertained, estimated, and determined by a board of naval officers to be provided for in the contract." This law has not been effective since the operation of the naval bill that was passed June 24, 1910. However, as a matter of policy and convenience, the procedure thereof in regard to changes has been continued in effect with no departures until the six contracts for river gunboats entered into about a year ago; in these contracts it was provided that the shipbuilder would be entitled to the cost of the change plus 10 percent, and this 10 percent was also made to apply to decreases as well as increases.

Although shipbuilders have generally agreed that boards on changes use their best endeavors to be fair toward them in ascertaining the cost of changes, they generally claim, and I believe justly so, that changes are apt to interfere with the orderly progress of work and that although they may not be able to claim that an individual change delays the ship, the accumulation of a number of changes in the aggregate tend toward that end; and further, that although estimates may be made of all items that can at the time be considered as entering into a change, some items are at times left out inadvertently, both by the shipbuilder and the Government inspectors and the boards on changes, and that in spite of the best efforts of all concerned to arrive at the actual cost, they sometimes by the methods heretofore in effect suffer financially on account of changes. In order to protect themselves against losses bidders are apt to include in their bid price an amount for uncertainties of this character. It is considered very inadvisable, however, both from the viewpoint of the Government and that of the shipbuilder, to have an item of possible expense that has to be cared for in this manner. The subject is one that has resulted in much dissatisfaction—and in some cases marked irritability—on the part of the shipbuilder.

The "standard Government form of contract" approved by the President November 19, 1926, specifies in reference to changes that "an equitable adjustment shall be made"; it further specifies that the claim for adjustment must be made and specifies how the matter shall be settled "if the parties cannot agree upon the adjustment." The standard form of contract in this respect is therefore a distinct departure from the practice heretofore general in the case of changes in shipbuilding contracts. The standard practice of the Bureau of Yards and Docks is to be found in the following quotation from the "General provisions forming part of specifications for contracts for Public Works" dated December 1, 1926:

"In arriving at the amount of the change, due allowance shall be made, in the discretion of the contracting officer, for overhead and general expense, plant charges, and other expense items of a similar nature. To all estimates of cost 10 percent shall be added for contractor's profit."

Carrying out the spirit of the standard Government form of contract approved by the President and having as precedents the contracts for the river gunboats and contracts for Public Works, and in order to remove from the contract as far as practicable items of uncertain effect, it is recommended that the forms of contract be so changed as to allow the actual cost of the work, plus 10 percent both in the case of increases and in the case of decreases. This can be done by substituting the words "the actual cost, plus 10 percent thereof, and of the damage, if any, caused thereby" for the words "the actual cost thereof and the damage, if any, caused thereby."

(*a*) Paragraph 2 of second clause, lines 25–26, substitute "two (2)" for "five (5)."

(*b*) After discussion the shipbuilders present agreed that instead of reducing the percentage from five to two it would be better to delete the limiting clause "not exceeding a total increased cost, as determined by the board on changes, of five (5) percent of the contract price of the vessel", and to insert the word "however" in place of the clause so deleted. This agreement to omit the limiting clause was arrived at after Admiral Halligan pointed out that the Comptroller in the case of the Westinghouse contract for machinery for the *Tennessee* held up payments because the payment involved more than 5 percent of the original contract price, the limiting clause evidently having been construed by him to limit the amount of the changes that can be paid for as well as to deal with the question of delay. In view of the present conditions the shipbuilders expressed themselves as agreeable to the omission of this limiting clause and it is accordingly recommended that it be omitted, beginning with the words "not exceeding" etc.; the word "However" to be substituted at the beginning of the sentence next following.

(a) Strike out the first eight lines and the word "thereof" in the ninth line of the third paragraph of the second clause, page 2, and insert the following: "*Provided, however,* That no claim for delay or cost resulting from any change shall be submitted to the board or considered by the Secretary of the Navy unless the contractor, within ten days after the receipt of the department's approval of the plans embodying such change, notify the department in writing that the work will be delayed thereby, the said notice to be followed in due course with a statement of the grounds therefor, the extent of such delay and the amount of costs claimed on account thereof."

(b) The proposed amendment instead of requiring the shipbuilder to submit notice to the department as to delay and the cost of same within ten days after the receipt of the *order* for such change requires him to submit the notice of delay within ten days after receipt "*of the department's approval of the plans embodying such change*" and to follow this notice later with a statement of the grounds for the change, extent of delay, and amount of cost claimed on account thereof. The determination as to whether a delay is or is not involved can in general be made promptly upon receipt of the order for the change. The plan for the change does not always require departmental approval. If the change results in delay the bureau concerned should be promptly notified thereof, as in this case a modification of the order as to the change might be given. It should not be necessary to incur the expense of the preparation of plans if the change is not to be made. It is therefore highly advisable that the bureau concerned be notified promptly after the order to make the change is received by the shipbuilder. It may not be readily practicable in some cases to determine the extent of the delay and the amount of the cost claimed on account of the delay, but the existence of a delay can generally be determined promptly and without waiting for the plans embodying the details to be acted upon. In order to provide that the department shall receive prompt notice of the claim for a delay and, at the same time, in order to allow the shipbuilder ample time to prepare his claim as to the extent of the delay and the cost claimed on account thereof, it is recommended that the phraseology of the form of contract be modified to read as follows:

"*Provided, however,* That no claim for delay or cost resulting from any change shall be submitted to the board or considered by the Secretary of the Navy unless the contractor shall within ten days after the receipt of the order for such change notify the department in writing that the work will be delayed thereby, stating the grounds therefor, and shall within one month after the receipt of the order for such change notify the department in writing as to the extent of such delay and the amount of cost claimed on account thereof."

(a) In the fourth clause, pages 3 and 4, the three lines preceding the list of auxiliaries and the five lines following the list of auxiliaries to be deleted and the following to be substituted:

"The following items to be installed on this vessel will, as far as practicable, be duplicates of those installed or to be installed on Scout Cruisers ______ and ______, and the contractor will endeavor to cooperate with the contractors for Scout Cruisers ______ and ______ with that end in view; and the department will approve, for this vessel, plans and orders approved for Scout Cruisers ______ or ______ if the same are submitted for approval."

(b) The shipbuilders criticised the use of the words "duplicates" and "identical," fearing that a literal interpretation of these words might cause needless trouble. The bureaus desire the maximum amount of interchangeability of auxiliaries; the object to be desired can be secured by the articles in question being purchased or manufactured from the same plans. In the case of purchased articles, the desired degree of interchangeability will be secured by the purchase of duplicates from the same plans and order sheets. It is recommended that the following changes be made:

The three lines preceding the list of axuiliaries to read as follows:

"The following items to be installed on this vessel will be made from the same plans as the corresponding items installed or to be installed on Scout Cruisers ______ and ______."

The five lines following the list of auxiliaries to read as follows:

"The contractor will cooperate with the builders of Scout Cruisers ______ and ______ and with the Navy Department, to the end that the said items installed in the three vessels shall be made from the same plans and shall conform to the department's specifications."

It is believed that the proposed changes are acceptable to the shipbuilders.

(a) At the end of fifth clause add the following:

"*Provided, however,* That the department recognizes that the extreme necessity of saving weight, as evidenced by section fifteenth hereinafter, page 13, second paragraph, has led to the specification of materials and methods of construction whose reliability in the naval service has not yet been fully proved. Accordingly it is agreed that if and when the contractor is doubtful as to the suitability of the materials and/or methods prescribed, other materials and/or methods may be proposed by the contractor. If the department approved the proposed change, the contractor shall assume the responsibility for the increased weight, if any; the performance and the full contractual liability for workmanship and materials prescribed in section fifteenth hereinafter, page 13, last paragraph under the caption 'Guarantee period.' Should the department per contra disapprove the contractor's proposed change in material and/or methods then and in that case the contractor's further responsibility shall be limited to making a workmanlike installation in accordance with the specifications; and any replacements and/or alterations which the contractor may be required to make while the vessel is under construction, or during the guarantee period, by reason of deterioration, fracture, or other causes, will be treated as a change under the contract."

(b) The proposed change would be exceedingly broad in its effect and would permit a shipbuilder to object to materials and methods prescribed in the plans and specifications. It is belived that any objections that bidders may have to the requirements of the plans and specifications should be thrashed out in advance of submitting their bids so that they may be on a basis that is definite and satisfactory to both parties to the contract. After that is done any questions of departures from the plans and specifications can be handled as changes. It is believed that the principal objections that the shipbuilders have in mind can be settled as a result of the recent conference and it is recommended that no change be made in the form of the contract in this respect.

(a) At the end of paragraph 1 of sixth clause insert the following paragraph:

"Time being of the essence of this contract, it is agreed that plans submitted to the local inspectors shall be acted on within ten days of their receipt. Plans submitted to the bureaus shall be acted on within thirty days of their submission by the contractor. Delays in this connection will be considered as involving delays in the construction of the ship with corresponding extension of the contract time in each case. Plans returned for correction shall be corrected and resubmitted promptly but no corrections other than those called for in the first instance shall thereafter be required."

(b) The bureaus recognize that delays in plans have a bearing on the date of completion of a ship. Whether an actual delay in completion of a ship is caused and how much, if any, delay is so caused by delays in action on plans depend on whether the working plans reach the yard when required. This in turn depends not only on the time required by inspectors and bureaus to act on plans but, in particular, on when the plans are prepared and presented to the inspectors by the shipbuilder. If the plan is not prepared until immediately before it is needed in the yard to carry on the orderly progress of work, any time taken by the inspectors or the bureaus to examine and comment on the plan and cause changes therein will delay the work to which the plan relates and may conceivably cause delay in the final completion of the ship.

The time required to prepare a plan and the time required by the inspectors and the bureaus to examine and criticize the plan cannot be stated in advance as so many days, applicable to all plans, and it does not appear that the proposal of the shipbuilders in this connection is entirely practicable.

In order that the principle discussed above may be clearly brought out in the contract, it is recommended that a paragraph substantially as quoted below be inserted. The insertion of this paragraph will bring out prominently the recognition of the point involved, but each case would have to be decided on its own merits. The proposed paragraph is as follows:

"Time being of the essence of this contract, it is agreed that plans submitted to the local inspectors and to the bureaus will be acted on and returned to the contractor as promptly as practicable. In case the contractor considers that a plan has been held by the inspectors or by the bureaus an undue length of time and that an actual delay in the prosecution of the work covered by the plan is caused such as to cause a delay in completion of the ship, the contractor may upon receipt of the returned plan make claim for an extension of the contract time, giving reasons therefor and the amount of delay claimed. This claim shall be acted on as provided in the ninth clause hereof for action on other claims for delays."

(a) Strike out eighth clause and substitute the following:

"Said vessel and all materials and appliances provided by either the contractor or the department for and used, or to be used, in the construction thereof, shall be kept duly insured at the contractor's expense, by Builders Risk Insurance, American form of 192 , in the sum of $5,000,000, in the name of both the contractor and the department, and in such companies as shall be approved by the Secretary of the Navy; the loss, if any, to be stated in the policies as payable to the Secretary of the Navy, for distribution by him to the department or the contractor as their respective interests may appear. All risk, loss or damage from whatever cause not covered by and collected under such insurance is assumed and carried by the department. *Provided*, That this insurance shall be increased to such amount as may be approved by the Secretary of the Navy during the time the vessel may be away from the building yard, but this increased insurance will be treated as a change in accordance with the provisions of the second clause hereof."

(b) The question of this substitution should be handled by the Judge Advocate General.

* * * * * * *

(a) Ninth clause, line 7, after the word "therefor" add the words "and any extension thereof."

(b) It will be satisfactory to add the words "and any extension thereof approved by the department."

* * * * * * *

(a) Ninth clause, 18th line, after the word "*Provided*," strike out the remainder of the clause and substitute the following:

"That the contractor shall not be held responsible for any unavoidable delay in the performance of this contract (not the result of his fault or negligence) arising from causes beyond his control. Such causes shall include, but shall not be restricted to, acts of God, the Government, the public enemy or common carriers, fires, epidemics, quarantine restrictions and strikes, wherever any of the causes of delay occur, but such circumstances shall not be deemed to include delays in obtaining materials when such delays arise from causes other than those herein specified: *Provided, also*, That if it shall appear to the satisfaction of the Secretary of the Navy that the contractor ordered the necessary materials at the proper times, and used every reasonable effort to obtain the delivery of such materials at the time and in the order required to carry on this work properly, but that nondelivery of such materials delayed the completion of the vessel, he may, in his discretion, grant such extensions of time for the fulfillment of the contract as he may deem proper under the circumstances.

"In case any question shall arise under this contract concerning delay, such question, with all the facts relating thereto, shall be submitted to the Secretary of the Navy for determination.

"All delays that the Secretary of the Navy shall find to be properly attributable to any of the causes covered by the foregoing provisos of this clause and to have been delays affecting the completion of the vessel shall entitle the contractor to a corresponding extension of the period prescribed for the completion of the vessel; *Provided, however*, That in the event the vessel is not completed within the contract time and any extensions thereof, such contract time may be further extended in the discretion of the Secretary of the Navy, notwithstanding that the causes for such extension are not included within this section of the contract: *Provided, further*, That no delay in the completion of the vessel, or the alleged cause or causes thereof, shall be considered by the Secretary of the Navy unless the contractor shall, at the time of the occurrence thereof, notify the department in writing of the facts and circumstances in each case, and where possible of the extent to which the contractor claims that the completion of the vessel is thereby delayed: *And provided further*, That the said Secretary may, without prejudice to the rights of the contractor, reserve his decision on any or all claims for extension until such time as he may consider desirable and if deemed expedient until after the completion of the vessel, the work on her in the meantime, in accordance with the contract, plans and specifications, not to be discontinued or delayed on account thereof."

(b) It was stated by shipbuilders at the conference that the proposed changes in form of contract are based on what they understand to be the corresponding provisions in the standard Government form of contract. One of the principal changes proposed consists in the recital of causes for delay. The phraseology of the shipbuilders in regard to this point was evidently taken from the annual report of the chairman of the Interdepartmental Board of Contracts and Adjustments dated July 1, 1923. However, the standard form of contract as approved by the President does not follow the phraseology of the 1923 report in this respect. In order that the ship contract may be brought somewhat nearer into accord with the standard Government form of contract approved by the President, it is suggested that the causes of delay for which contractors are not responsible as specified in the standard form of contract be substituted for those specified in the form of ship contract heretofore used and now under consideration. With this object in view it is suggested that the following words, beginning on the 18th line of ninth clause, be deleted:

"That such delay shall not have been caused by the act of the department, or by fire or water, or by any strike or stand out of workmen employed in the construction of the vessel; or by other circumstances beyond the control of the contractor, but such circumstances shall not be deemed to include delays in obtaining materials when such delays arise from causes other than thoseherein specified;" and that the following be substituted therefor:

"That such delay shall not have been due to unforeseeable causes beyond the control and without the fault or negligence of the contractor, including, but not restricted to, acts of God, or of the public enemy, acts of the Government, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, and usually severe weather or delays of subcontractors due to such causes."

In the next paragraph of ninth clause the shipbuilder proposes to omit the words "and his decision thereon shall be conclusive and binding on the parties to this contract." As stated orally by the shipbuilders, they propose in a later section of their amendments (discussed below in connection with twenty-fourth clause) to provide that decision of the Secretary shall be final and conclusive "except as to the elements of time and financial consideration involved." It will be seen in the comments below that this recommendation of the shipbuilders is not agreed to and it is recommended that the words quoted above for deletion from the second paragraph of ninth clause of the contract be not deleted but remain as at present worded.

The shipbuilder proposes in the third paragraph of ninth clause a proviso to be inserted authorizing the Secretary of the Navy to make further extensions in the contract time of completion of the vessel for causes other than those specifically named in the contract. This recommendation is concurred in in order that in the decision of the Secretary in such a matter, if made, may have standing with the Comptroller. This proviso should be added at the end of first paragraph of ninth clause and the following words should be inserted after the word "clause" in 3d line of last paragraph of ninth clause, "for which causes extensions of time without assessment of damages may be granted."

* * * * * * *

(a) Tenth clause, line 5, after the word 'immediately" insert the words "take steps to."

(b) After discussion it was suggested that the words "immediately stop" be changed to "immediately take steps to stop and shall stop." This was agreeable to the shipbuilders and is recommended.

* * * * * * *

(a) Tenth clause, page 7, at the end of second paragraph add the following proviso:

"*And provided further*, That if the department is compelled by the condition of its current appropriation for any fiscal year during the life of this contract to limit the contractor to the expenditure of a less amount of money than would be necessary for normal and orderly progress, then and in that event the provisions of this section shall be applied insofar as appropriate in ascertaining the extra compensation to which the contractor shall be entitled."

(b) The proposed proviso should, it is believed, be agreed to in principle except that the extra compensation to which the shipbuilder is entitled shall be determined by a board on changes rather than by a special board. The case of suspension of work covered by an earlier portion of tenth clause is so far-reaching as to warrant the special board referred to in the second paragraph of tenth clause, but the case now advanced by the shipbuilders, which is that of limited funds on the part of the Government rather than a suspension of work, may well be covered as a change. Provision is made elsewhere for taking care of the delay, as the cause in this case would be one for which the Government is responsible. It is recommended that the proviso read as follows and be inserted as paragraph 9 of twenty-third clause:

"If the department, by reason of the condition of its current appropriation for any fiscal year during the life of this contract shall limit the payments below those earned in accordance with the provisions of this clause, or if notice is given by the Government to the contractor that payments will be so limited and the contractor thereupon notifies the department that progress on the ship will be restricted by reason of such limitations in payments, then and in that event the cost to the contractor by the withholding of earned payments or the slowing down of work below that necessary for normal and orderly progress on account of the inadequacy of funds for payments earned, shall be treated as a change in accordance with the provisions of the second clause hereof."

* * * * * * *

(a) After the word "vessel" at the end of third paragraph of tenth clause add the following proviso:

"*Provided, however*, That if for any reason other than a default on the part of the contractor as referred to in section sixteenth, p. 14, 'Forfeiture of the Contract,' the Department defaults in the payment of any moneys due the contractor under the terms of this contract, the contractor may suspend work on the vessel without incurring the penalties prescribed for delays in section ninth supra, and without prejudice to any of its rights under the contract; and

"*Provided further*, That if the said default is caused by the fact that the limit of cost as fixed by law has or will be exceeded, then, and in that case the contractor shall be under no obligation to do further work under the contract except as prescribed under section tenth, page 6, hereinbefore set forth under the caption 'Suspension of Work'."

(b) The underlying feature of this provision desired by the shipbuilders is believed to be reasonable and is in general recommended for approval on the assumption that the withholding of payment of moneys due the shipbuilder is intended to cover the case of insufficient appropriation rather than withholding of payments as an offset, due to overpayments for other causes. However, the second proviso is unnecessary and is so worded as to be inconsistent; this second proviso is sufficiently covered in the first proviso and elsewhere. The following phraseology is recommended as caring for what appears to be the underlying thought of the shipbuilders. Paragraph 10 of clause 23rd.

"If the Department fails on account of insufficient funds available to make payments when such payments are earned in accordance with the provisions of the twenty-third clause hereof or notifies the contractor that on account of insufficient funds available payments will thereafter cease, the contractor may suspend work on the vessel or may slow down work on the vessel without incurring the penalties for liquidated damages on account of such delay as may be caused by this suspension or slowing down and without prejudice to its rights under the contract."

Original paragraph 9 of 23rd clause should be changed to paragraph 11.

(a) Fourteenth clause at the end of subparagraph (a) where backing standardization is described, after the words "in each direction" add the words "at twenty knots."

(b) This change is not recommended for approval. The shipbuilders' objection appears to be directed to the possibility of trouble with the steering gear if the rudder is put over after the ship reaches full sternboard. As has previously been pointed out to shipbuilders at a former conference, it is of great importance that the steering gear be sufficiently rugged not to carry away or take charge under any conditions that may obtain in service. The specifications cover the steering gear tests and include the requirement that the steering gear shall not carry away or take charge when the vessel is backing under full power and has gathered full sternboard and that the steering gear shall operate to control the rudder when going astern at revolutions equal to two-thirds of the revolutions for 32.7 knots ahead. It is considered absolutely necessary that this provision be carried out.

* * * * * * *

(a) Fifteenth clause, page 12, strike out the following: "*Provided, however*, That if the corrected fuel oil per knot on trial (f) shall exceed 475 pounds of fuel oil per knot or if on trial (c) it shall exceed 1,965 pounds per knot the Secretary of the Navy shall have authority to accept the vessel at a reduced price upon conditions to be agreed upon between the Secretary of the Navy and the contractor."

(b) It is not considered that this guarantee should be omitted as it is of great importance that the performance of the vessel should at least come up to the figures named. It will be seen below, however, that a limited liability clause is recommended and, in case this limited liability clause is inserted, the paragraph above quoted (which the shipbuilders recommend be deleted) while remaining in the contract, should have the following words added:

"The deduction for this cause shall, however, not be greater than an amount which, when added to the net deductions for trial performance guarantees and weight and liquidated damages, will cause to be exceeded the sum named in twenty-fourth clause as the collective liability."

* * * * * * *

(a) Fifteenth clause, last paragraph on page 13, 4th line, after the word "vessel" insert the words "due to defective material or workmanship."

(b) The clause as amended would provide that defects "due to defective material or workmanship other than that due to general design or to fair wear and tear", and the proposed verbiage is not logical. Upon discussion it developed that in order to be logical the inserted words would be "due to defective material, workmanship or design" and such verbiage would include all causes, the same as are now included. In any case a further exemption of the contractor than is now specified does not appear to be reasonable and no change in this connection is recommended.

* * * * * * *

(a) Delete last paragraph of fifteenth clause which provides for settlement in case of rejection of the vessel.

(b) On discussion it developed that the principal objection to this clause lies in the fear in the minds of the shipbuilders that conditions might arise which would leave the vessel on their hands. There appears to be no such cause except that covered by the eighteenth clause in connection with forfeiture. While rejection would appear to be extremely remote, still the various provisions therefor should should remain substantially as stated in the form of contract. The paragraph in fifteenth clause recommended by the shipbuilders for omission should remain.

* * * * * * *

(a) Nineteenth clause: Delete entire clause.

(b) This clause specifies that it shall not be obligatory upon the department to accept or pay for the vessel or any part thereof unless it shall have been completed in strict conformity with this contract and in accordance with the provisions of the acts of Congress relating thereto. Upon discussion it appears that the shipbuilders are fearful lest some great loss should rest with them such as to amount to a financial catastrophe. With the clause proposed below for limited liability it is believed that they are suitably protected, and it is recommended that the nineteenth clause stand as written.

* * * * * * *

(a) At the end of twenty-third clause add a new clause numbered twenty-fourth (chainging clause twenty-fourth to twenty-fifth), the proposed clause reading as follows:

"The collective liability of the contractor for the breach of guarantees and agreements as to material, workmanship, weight and the performance of the vessel contained anywhere in this contract shall be limited to $135,000 and the deductions therefor shall not in the aggregage exceed such an amount."

(b) Much discussion followed as to the reasonableness of a clause limiting the collective liability of the shipbuilder and, in particular, it was urged by the shipbuilders that they find that in their present financial condition they consider it essential to protect themselves against such very heavy losses as might follow from the possible accumulation of performance and weight penalties. It is not believed that this collective liability should extend to defects and deficiencies in material, workmanship and design, since these features can and must be covered by proper attention to details. However, performance guarantees and weight guarantees are in another category not so easily within the control of the shipbuilders and it is believed that a collective limited liability for these features would be reasonable and would be reflected in receiving more satisfactory bids. The same in general may be said of liquidated damages on account of delays in completion. This collective liability should, however, reach a more substantial figure than that named above. It is recommended that an additional clause numbered twenty-fourth be inserted, as follows:

"The collective liability of the contractor for the breach of guarantees as to weight and trial performance of the vessel contained anywhere in this contract and as to liquidated damages for delays in completion of the vessel shall be limited to $250,000, and the deductions therefor shall not in the aggregate exceed this amount. Provided, however, that this limitation as to liability shall not apply in case of forfeiture of the contract."

(a) Strike out twenty-fourth clause and insert in lieu thereof a new clause numbered twenty-fifth, as follows:

"If any doubts or disputes arise as to the meaning of anything in this contract, or the drawings, plans or specifications, or if any discrepancy appear between such drawings, plans or specifications and this contract, the subject in dispute shall be referred at once to the Secretary of the Navy for determination. The Secretary shall promptly render his decision and cause a copy thereof to be served on the contractor. The decision of the Secretary, when rendered, shall be final and conclusive upon the parties hereto and carried out by them as within the contemplation of this contract, except as to the elements of time and financial consideration involved and, the decision of the Secretary shall also be final and conclusive as to the questions involved in these elements, unless the contractor, within thirty days after the receipt of such decision, shall commence an action at law to determine his legal rights involved in such decision; or shall give written notice to the Secretary of the Navy of his intention to commence such an action: *Provided, however,* That so much of this paragraph as authorizes the contractor to commence an action at law shall not apply to disputes arising under the written order of the Secretary of the Navy to change the drawings, plans and specifications, as provided in paragraph numbered second of this contract and in the said act of Congress approved December 18, 1924."

(b) It was brought out in discussion that the shipbuilders have based this proposed amendment on what they understood to be the standard Government form of contract. It appeared that they had based their phaseology on the July 1, 1923, report mentioned above. However, the standard Government form of contract as approved by the President does not in a number of particulars follow very closely the form of contract contained in the 1923 report. In particular the exceptions of "the elements of time and financial consideration involved" that are mentioned above and are mentioned in the 1923 report do not appear as exceptions in the standard Government form of contract approved by the President. The exception as to "time and financial consideration involved" desired by the shipbuilders would if incorporated in the manner proposed by them be exceedingly broad. While the principle of appeal to the courts is fully recognized, it is believed that the requirements of the contract in respect to the elements mentioned herein which have satisfactorily withstood the test of so many years without working a hardship on the shipbuilders, so far as is known, should not be radically changed in the manner proposed. From discussion with the shipbuilders it is believed that their recommendation in this respect is based on what they consider abstract principles rather than any practical difficulties encountered with the Navy Department. No change is recommended.

* * * * * * *

(a) Add a new clause numbered twenty-sixth reading as follows:

"All general language or requirements contained in the specifications, and all other requirements inconsistent with this agreement, are superseded by this agreement."

(b) This is considered unnecessary as the express provisions of the contract take precedence over details of the plans and specifications and, moreover, the provision of the contract regarding inadvertent omissions cares for discrepancies of that character.

("Exhibit No. 1492" appears in text on p. 5024.)

("Exhibit No. 1493" appears in text on p. 5042.)

EXHIBIT No. 1494

COVERDALE & COLPITTS,
CONSULTING ENGINEERS,
120 Wall Street, New York, May 13, 1933.

Mr. C. L. BARDO,
President New York Shipbuilding Corporation,
Camden, N. J.

DEAR BOSS: I understand that you phoned me yesterday and I presume that you wished to inquire what I have been able to find out with reference to Wilder's plans. I find that no application has been filed for a loan. Wilder and some of his associates have had a conference with Harrington who is the chief of the engineering committee which passes upon self-liquidating projects and they left a printed prospectus of "Gulf Industries". I was able to secure some extracts from this prospectus which will indicate the scope of the plans. Copy of this I am enclosing for your confidential information. Since no application has yet been filed no one can be said to be handling the matter. It would, therefore, seem somewhat early to take any direct action.

The situation in the R. F. C. is changing very rapidly and there is some prospect that the individual that I mentioned to you will not be in the organization long. I, therefore, do not believe that anything would be gained by any one talking to him. I should suggest that the situation be closely watched, but that you do not appear directly in the matter until there is more evidence that aid will be given Wilder's project.

Yours very truly,

JOHN.

JES/HR

EXHIBIT No. 1495

MAY 17, 1933.

Mr. W. M. FLOOK.
Mr. C. L. BARDO.

Herewith for your information a memorandum having reference to Gulf Industries.

C. L. B.

EXHIBIT No. 1496

MAY 17, 1933.

Mr. HOMER L. FERGUSON,
President Newport News Shipbuilding & Dry Dock Co.,
Newport News, Virginia.

DEAR MR. FERGUSON: Herewith for your information a memorandum having reference to Gulf Industries.

Very truly yours,

C. L. BARDO.

EXHIBIT No. 1497

Personal

JUNE 28, 1933.

Honorable A. HARRY MOORE,
Governor, State of New Jersey,
Jersey City, New Jersey.

MY DEAR GOVERNOR: The Journal of Commerce yesterday carried an article in connection with Gulf Industries, Inc., which if carried out will have a very serious effect upon the shipbuilding industry's activities in the State of New Jersey. This plan has been conceived and the organization is being headed by Mr. Laurence R. Wilder, who organized the American Brown Boveri Electric Corporation and for a while was president of the New York Shipbuilding Corpoation.

The plan proposes to acquire two small shipyards or repair plants now located at Pensacola, Florida, and to borrow $35,000,000 from the Government under the Industrial Control Act for the purpose of building dry docks and a shipyard to build ships and steel dwelling houses.

The people of the South are considerably exercised about the possibilities of this development and no doubt it will have support in Washington. My information is that there is no financial background to the concern and that its success depends entirely upon the consummation of this governmental loan.

There is now in existence in the shipyards of the country about twice the capacity needed to take care of the shipbuilding requirements. The New York Shipbuilding Corporation has twice the capacity that it needs and this is equally true of the Federal Shipbuilding Company at Kearny, in addition to which there are a number of substantial repair yards in the Jersey City and Hoboken district that are equipped and in the market to build ships.

This new company has asked for and been furnished with the plans and specifications for the Navy building program now under consideration and it is possible that they may divert a very substantial part of this business from New Jersey industries.

It is important that this be prevented, if reasonably possible, and foreclosure against the loan at Washington would accomplish it. Anything you can do will be appreciated. Thank you.

Very truly yours,

C. L. Bardo.

Exhibit No. 1498

New York Shipbuilding Company,
Camden, N. J.

INTEROFFICE CORRESPONDENCE

To: Mr. C. L. Bardo. Date: June 29th, 1933.
From: Mr. N. R. Parker.
Subject: ______________________ File ______________________

I had a long talk with Harry Maloney in connection with the Wilder matter. Maloney understands this situation particularly well, and while he was very busy, having just been sworn in today as collector of internal revenue, he said he would get in touch with Mayor Hague immediately and do everything possible to scotch the plan. As soon as he has a talk with Mayor Hague he will determine whether it will be necessary for either you or myself to have a talk with the mayor but he doesn't think this will be necessary as he fully understands the situation originally from the Cramp matter and later from the Wilder plan to rejuvenate Cramps, of which he was to be a part.

Have arranged the resolutions for signatures and the new resolution for possible Navy work and forwarded these to Miss Howe for the next directors' meeting.

Everything having been fixed up as far as possible at this time, I am taking your orders and starting a holiday but will be available at any time if you should need me. Mr. Doré can get in touch with me, if necessary. As soon as Mr. Doré has completed the closing of the books for June 30th and is ready to prepare the income statement for the quarter ending June 30th, I will come in and get this out of the way, possibly about July 17th.

If you should need me in the meantime just whistle.

("Exhibit No. 1499" appears in text on p. 5044)

("Exhibit No. 1500" appears in text on p. 5045)

("Exhibit No. 1501" appears in text on p. 5045)

("Exhibit No. 1502" appears in text on p. 5046)

("Exhibit No. 1503" appears in text on p. 5046)

("Exhibit No. 1504" appears in text on p. 5047)

EXHIBIT No. 1505

Mary T. Norton, 13th Dist. New Jersey
Lily F. Darcy, Secretary

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., July 17, 1933.

HARRY L. MALONEY, Esq.,
538 Stevens St., Camden, N. J.

DEAR MR. MALONEY: Replying further to your letter of recent date, I have protested against the issuance of a financial loan, under the Public Works bill, to the promoters of the Florida shipbuilding concern.

I took the matter up direct with the Secretary of the Interior and I doubt if any action will be taken thereon.

Very sincerely yours,

(Mrs.) MARY T. NORTON.

("EXHIBIT No. 1506" appears in text on p. 5047)

("EXHIBIT No. 1507" appears in text on p. 5047)

EXHIBIT No. 1508

ROY R. STEWART, *Mayor.*
E. HOWARD BROOME, *Secretary to the Mayor.*

CITY OF CAMDEN,
OFFICE OF THE MAYOR,
July 21, 1933.

Mr. CLINTON L. BARDO,
President New York Shipbuilding Co.,
Camden, N. J.

DEAR MR. BARDO: I am enclosing herewith a copy of a resolution which was passed by the city commission today and the original forwarded to the Honorable Harold L. Ickes, Secretary of the Department of the Interior, Washington, D. C.

Very truly yours,

R. R. STEWART, *Mayor.*

RRS:CP

EXHIBIT No. 1509

Whereas an organization known as Gulf Industries, Inc., has been formed to develop a new shipyard at Pensacola and have applied to the Federal Government under the National Recovery Act for the funds with which to establish such proposed new shipyard; and

Whereas there are already sufficient private yards in existence with large amounts of capital invested therein, ready, able and willing to undertake all necessary new Navy shipyard contracts; and whereas it would be a gross injustice to these private shipyards in which large amounts of private capital are already invested and which shipyard companies are already paying large Federal, State, and local taxes, to have such a new project financed by the Government in competition with such private capital so invested; now, therefore, be it

Resolved by the Board of Commissioners of the City of Camden, N. J., That a protest be lodged by the mayor with the Federal officials having charge of the disposition of the funds under the National Recovery Act, protesting against the Government, under the National Recovery Act, assisting the organizers of the Gulf Industries, Inc., or any other similar corporation thus disturbing these shipbuilding industries already established; be it further

Resolved, That in said protest the attention of the Government officials be called to the fact that Federal moneys should not be used to destroy private capital already invested or in competition with private capital already invested in this industry and that the organizers of the Gulf Industries, Inc., should procure private capital the same as the presently existing shipyard plants have already done; and be it further

Resolved, That the attention of the Government officials be called to the fact that there is no necessity for any new shipyard installation in any part of the United States, because there are already existing well-equipped shipyard plants in a number of places in the United States who are well able to take care of all Government and private needs.

On motion of: ——— ———.

Dated ———, 1933.

EXHIBIT NO. 1510

Bell Phone Camden 3400 Keystone Phone 32381

CAMDEN COUNTY CHAMBER OF COMMERCE,
BROADWAY STEVENS BUILDING,
Camden, New Jersey, July 21st, 1933.

Mr. C. L. BARDO,
President New York Shipbuilding Company,
Camden, N. J.

DEAR MR. BARDO: The attached letter was sent to Secretary of the Interior Ickes; Governor A. Harry Moore; Senators W. Warren Barbour and Hamilton F. Kean; and to all the New Jersey Congressmen.

Sincerely yours,

L. D. ODHNER, *Executive Secretary.*

AHW

("EXHIBIT NO. 1511" appears in text on p. 5049.)

("EXHIBIT NO. 1512" appears in text on p. 5050.)

EXHIBIT NO. 1513

JULY 24, 1933.

Honorable R. R. STEWART,
Mayor City of Camden, City Hall, Camden, N. J.

DEAR MAYOR: Am greatly pleased to receive you letter of July 21st and the accompanying resolution passed by the City Commission and forwarded to the Honorable Harold L. Ickes, Secretary of the Department of the Interior, Washington, D. C., having reference to the financing with public funds of Gulf Industries, Inc.

As a matter of confidential information I have this morning a copy of a letter from the President wherein he definitely states that the Government does not propose to acquire shipyards.

Very truly yours,

C. L. BARDO.

EXHIBIT NO. 1514

JULY 24, 1933.

Mr. L. D. ODHNER,
Executive Secretary Camden County Chamber of Commerce,
Broadway Stevens Building, Camden, N. J.

DEAR MR. ODHNER: Yours of July 21st, having reference to the letter forwarded to the Secretary of the Interior and others.

Thank you very much for this action on your part.

Very truly yours,

C. L. BARDO.

("EXHIBIT NO. 1515" appears in text on p. 5050)

("EXHIBIT NO. 1516" appears in text on p. 5050)

("EXHIBIT NO. 1517" appears in text on p. 5051)

("EXHIBIT NO. 1518" appears in text on p. 5062)

("EXHIBIT NO. 1519" appears in text on p. 5066)

("EXHIBIT NO. 1520" appears in text on p. 5066)

EXHIBIT NO. 1521

[Telegram Received]

GRAY,
Rio de Janeiro, dated March 12, 1934,
Rec'd 8:30 p.m.)

(Paraphrased by LRB)
SECRETARY OF STATE,
Washington.

#37. Received call from Mr. Robert Aitken Workman, the N.Y. Shipbuilding Company's vice president. He asked that I wire immediately recommending a scout cruiser be sent to Rio for the "moral effect" while the Brazilian Gov't was considering bids for naval construction. His manner was rather truculent and he took me to task for not being here when he wanted to see me. He pointed out the fact that there were two British cruisers in the harbor and referred caustically to the fact that the British knew how to take care of their interests. The cruisers were there on a regular schedule—arranged some time ago—a fact which I pointed out to him. In spite of this he said that he would take the matter up with Navy through his own channels—to have a cruiser available for detached service sent to Rio.

I feel that no cruiser should be sent because of the effect its sudden appearance would have. I question the value of such a visit in view of the present unsettled political situation, without some valid reason.

GIBSON,
Department of State.

(File: F. W. 832.34/239)

[Telegram sent]

DEPARTMENT OF STATE,
March 13, 1934.

AMBASSY,
Rio de Janeiro (Brazil):

The Department is in accord with your expression of opinion voiced in your last sentence of your #37.

HULL.

Department of State. File: 832.34/239.

EXHIBIT NO. 1522

NAVY DEPARTMENT,
BUREAU OF ORDNANCE,
Washington, D. C., Jan. 26, 1934.

Refer to No. L11-4(5/264) (B9).
Subject: Estimates of cost-bids on Brazilian cruisers.

SIRS: In connection with conference of recent date between representatives of your company and representatives of the Bureau of Ordnance, the following information is furnished you for possible use as a basis in preparing estimates for the building of two Brazilian cruisers.

The figures following represent the approximate costs and approximate weights of the most nearly similar United States naval material to that which you propose to furnish to the Brazilian Government. An exact comparison is not available in certain cases; for example, the Brazilian proposal is for an 8″/50-caliber gun, whereas the latest information available in the United States Navy covers an 8''/55-caliber gun. Similarly, the 4''7/50-caliber Brazilian gun is most nearly represented by the 5''/51-caliber American gun. No 1'' antiaircraft machine gun has been built by this country, and the estimates furnished for this gun are based to a certain extent upon the 1''.1 machine gun now under construction, although an exactly comparable mounting has not been proposed for the United States naval service.

In many cases the figures as to costs furnished represent prices of some years ago, and it is probable that under present economic conditions a considerable increase would be desirable for purposes of estimate.

	Unit cost	Total
6 8''/55-cal. guns	$45,000	
3 8''/55-cal. twin mounts	$100,000	$570,000
(Includes spare parts and accessories—all rotating parts of mounts. No armor except shield.)		
Weight of 2 guns and twin mounts (all rotating parts including shield, but no armor), approximately ... pounds		420,582
Spare parts, tools, etc., per turret ... do		4,000
12 5''/51-cal. guns	12,000	
12 5''/51-cal. mounts	17,000	$350,000
Weight of one gun and mount, complete, approximately ... pounds		23,369
Battery accessories, approximately ... do		1,315
4 3''/50-cal. A. A. guns	$3,500	
4 3''/50-cal. A. A. mounts	7,500	$44,000
Weight of one gun and mount, complete, approximately ... pounds		7,000
8 1'' A. A. guns	10,000	$80,000
4 1'' A. A. twin mounts	15,000	$60,000
Weight of one gun and mount, complete, approximately ... pounds		4,000
2 3-pdr. saluting guns and mounts:		
Total cost		$3,700
Weight of 2 saluting guns ... pounds		3,018
Weight of spare parts, etc ... do		75
Catapult:		
Cost approximately		$22,000
Weight, approximately ... pounds		18,000
2 1-pdr. boat guns, complete:		
Total cost		$2,600
Weight of 2 1-pdr. boat guns, complete ... pounds		788
Weight of spare parts, etc ... do		100
4 .30-cal. machine guns and mounts:		
Total cost		$2,000
Weight of 4 machine guns and mounts, approximately ... pounds		400
2 45-cal. line-throwing guns:		
Total cost		$100
Weight of line-throwing guns ... pounds		21
1 75-mm landing gun complete:		
Cost		$15,000
Weight of 75-mm landing gun ... pounds		4,150
Tools and spare parts ... do		300
150 .30-cal. rifles		$7,500
60 .45-cal. pistols		2,500
Weight of all small arms outfit, approximately ... pounds		6,000
2 triple torpedo tubes, 21''	$138,000	$276,000
Weight of one triple torpedo tube, apprximately ... pounds		10,500
Torpedoes 21'' (U.S. Navy unit cost about $15,000):		
Weight per torpedo about ... pounds		3,600
Weight of torpedo spares, tools, etc., per ship ... do		2,000
8''/55 projectiles, unit cost about	$150	
8''/55 projectiles, unit weight about ... pounds		260
8'' powder charges, complete:		
Cost, about		$68
Weight, about ... pounds		67
5''/51 charges, complete:		
Cost, about ... per round		$35
Weight of 5'' shell, about ... pounds		50
Weight of 5'' powder, about ... do		47
3''/50 charges, complete:		
Cost, about ... per round		$15.75
Weight of box of 4 rounds, about ... pounds		125
3-pdr. saluting charges:		
Cost, about		$0.90
Weight per box of 16 charges, about ... pounds		52
3-pdr. line-throwing projectiles:		
Cost, about		$5.00
Weight, projectile and spindle, about ... pounds		25
Torpedo impulse charges cost about		$1.50
1-pdr. charges, cost about ... per round		$1.25
1-pdr. charges, weigh about ... pounds per box of 60		120
.30-cal. rifle ammunition, costs ... per M		$29.50
.30-cal. rifle ammunition, weighs about ... pounds per 1,200 rounds		100

	Unit cost	Total
.45-cal. pistol ammunition, costs ... per M		$17.50
.45-cal. pistol ammunition, weighs ... pounds per 2,200 rounds		110
(Allowances as stated seem reasonable; 5″ AA might be increased—U.S. Navy carries 450 rds. per gun; 3″ AA might be increased—U.S. Navy carries 500 rds. per gun. The allowances of .30-cal. rifle machine gun and .30-cal. blank are about 40% less than those carried by the U.S. Navy for the 7,500-ton cruisers.)		
The following additional figures may be of value:		
Total cost, main battery fire-control system, approximately		$300,000
Weight of main battery fire-control system, about ... pounds		30,000
Total cost, antiaircraft fire-control system, approximately		$200,000
Weight of antiaircraft fire-control system, about ... pounds		20,000

The Bureau of Ordnance would be glad to furnish you any additional information which you may desire, and is ready to confer with your representatives at at any time.

Very truly yours,

E. B. Larimer,
Rear Admiral, U.S. Navy,
Chief of Bureau of Ordnance.

VBJ
New York Shipbuilding Corp.,
Camden, N.J.

CC. Workman att. Langell, Bardo, Cornbrooks, Torbet, Rigg, Hoelzle.
FK Jan. 29, 1934. Hansen.

("Exhibit No. 1523" appears in text on p. 5070)

("Exhibit No. 1524" appears in text on p. 5072)

("Exhibit No. 1525" appears in text on p. 5072)

Exhibit No. 1526

U. S. S. "Tuscaloosa,"
North River, New York, October 1, 1934.

My Dear Mr. Bardo: We received your check for one thousand dollars as a contribution toward expenses incurred in decorating the wardroom. We certainly appreciate your kindness and assure you this check will be of material benefit to the officers who otherwise would have had to pay for the improvements made out of their own personal funds.

I know you will be interested to learn that while the *Tuscaloosa* was in Annapolis and in New York, we received many officers and civilian visitors. All these visitors were most complimentary about the appearance of the ship and the wardroom.

We sail from New York today and will arrive in Annapolis Wednesday. While there we will give a large reception to the Superintendent and the officers of the Naval Academy.

While in New York, as chance would have it, I met two friends of yours the other day, one, W. F. Kenny, of Tiger Room fame. He told me about having been a director for the New York Shipbuilding Company and of having had many pleasant contacts with you.

The other person was Mr. Ottinger who is President of some lumber concern and the Flexwood Company is a minor subsidiary of this concern. Mr. Ottinger and two members of the Flexwood Company came on board for lunch. They were highly pleased with the appearance of the wardroom and greatly encouraged over the results we have attained. This Flexwood Company is interested in using the wardroom of the *Tuscaloosa* in advertising. I believe their advertising manager is going to write up the *Tuscaloosa* in some magazine. Incidentally, Mr. Ottinger is writing to the naval architect at Newport News asking him to visit the *Tuscaloosa* during our stay in Hampton Roads.

Since our arrival in New York Mrs. McElduff and I have been very busy completing the arrangements for a thoroughly attractive wardroom. From M. J. Sloan we have ordered a grouping of furniture for the fireplace consisting of a small sofa for one side and two chairs and a table for the other side. We have also ordered some small low tables to be used in the four groupings for the corners of the room. From Lightolier Company we have ordered floor lamps for indirect lighting for the four corners of the room and three table lamps. We have also ordered one floor lamp for the center grouping around the fireplace. With these lamps I think the room will be beautifully lighted. We have also made arrangements for good looking table covers and other accessories.

We have done all this as moderately as possible and have been able to procure a discount of thirty percent from Sloan and a discount of fifty percent from Lightolier Company. However, even with the utmost economy in buying, the total cost for the wardroom will be approximately two thousand dollars. I am telling you all this because of the interest you have shown in our wardroom and because when I saw you in Philadelphia I informed you that the total cost would be only one thousand dollars.

Captain Ferguson and the wardroom officers join me in sending best wishes to you, Mr. Cornbrooks, Tommy Allen, and all of the other friends we have at New York Ship. We are all very proud of the *Tuscaloosa* and will do everything we can to make her the best cruiser in the fleet.

Sincerely yours,

D. A. McElduff,
Commander, U. S. Navy.

Mr. C. L. Bardo,
President New York Shipbuilding Co.,
Camden, New Jersey.

("Exhibit No. 1527" appears in text on p. 5075)

Exhibit No. 1528

Merger N. Y. Ship & Newport News, July 30, 1932

PROPOSAL

It is assumed that the comparison of earnings of the respective companies are accurate. It is likewise assumed that the earnings of Newport News Shipbuilding & Dry Dock Company are available for a period of years. However, limiting the consideration of the capacity of shipbuilding earnings to the past four years, as is necessarily the case with New York Shipbuilding Corporation, due to the fact that the company has by the barest margin escaped from bankruptcy and should at this time be considered as a new company, does not reasonably reflect the earning capacity of the New York Shipbuilding Corporation. It must be kept in mind that the New York Shipbuilding Corporation as such abandoned shipbuilding in 1925 and only was concerned in the completion of contracts then on hand. It changed its name to American Brown Boveri Electric Corporation and spent millions of dollars in the attempt to profitably enter the electrical manufacturing field. Certain additional shipbuilding work was taken in the period of 1925 to 1928 merely to occupy the facilities not otherwise useful. The passage of favorable legislation materially changed the outlook of the directors and officers and from 1928 to 1931 the American Brown Boveri Electric Corporation was in the process of liquidating its electrical business and at the same time carrying on a combined electrical and shipbuilding business in order to obtain the best possible return on its electrical property. This was concluded by the sale on July 16th, 1931, of the remaining electrical business to the Allis-Chalmers Manufacturing Company and subsequent removal of this business was completed approximately October 1st, 1931. Therefore, shipbuilding earnings as such must be ignored prior to 1925 and for the period 1925 to 1931, inclusive, must be considered as minimized by the necessary electrical activities, disposition, and general readjustment, making the New York Shipbuilding Corporation as now exists practically a new corporation, the earning prospects of which, based on those unfavorable conditions, indicate a normal earning capacity equal to, if not exceeding, Newport News Shipbuilding & Dry Dock Company. It would, therefore, appear that actual comparison of earnings is misleading, it being reasonably assumed that a shipbuilding company operating under the adverse conditions of a foreign name (Brown Boveri), operating in production of unrelated units, handicapped by excessive capital investment, abnormal depreciation and entering into the shipbuilding business anew and a period of intense competition, notwithstanding all of this, having been able to show an average earnings of approximately $1,200,000 per year, has demonstrated its earning ability under normal conditions as being equal to that of Newport News Shipbuilding & Dry Dock Company.

It is, of course, impossible to ascertain the general attitude of the Government toward the merger of two companies out of three available to afford reasonable competition on Government contracts. This is believed to be a controlling matter in the consideration of the method of the merger. The governmental attitude is indirectly connected with the possible distribution of new business. With but three shipbuilding yards available for competition and the announced desire on the part of the Government to maintain those yards as an independent but nevertheless part of the national defense system, governmental policy has generally distributed the work fairly equitable between the three active yards. A merger of two of these yards might very well divide the work into two parts rather than three, so that while now Newport News Shipbuilding & Dry Dock Company independently obtains one-third and New York Shipbuilding Corporation independently obtains one-third, or a total of two-thirds under independent operation, a merger might very well reduce the combined distribution to one-half for the combined yards. It is reasonably certain that if this was the result the loss in combination would far offset any possible benefits through merger.

N. R. Parker.

[File—Between "Special" and "A"—Folder—no caption]

Exhibit No. 1529

New York Shipbuilding Corporation

MAIN OFFICE AND WORKS CAMDEN, NEW JERSEY, U. S. A.

Cable Address "Fairview"

Camden, *February 5, 1935.*

Hon. Gerald P. Nye,
Chairman Special Committee Investigating the Munitions Industry,
Room 357, Senate Office Bldg., Washington, D. C.

Sir: Supplementing our letter of January 17th, 1935, in connection with paragraphs (8) and (13) of the committee's letter to the New York Shipbuilding Corporation, dated January 2nd, 1935, the following additional information is available:

I. V. Gillis, foreign representative in the Far East, 1910 to 1927: Gillis was engaged October 20th, 1910, as of September 1st, 1910, on a basis of salary and allowances, to be borne by ourselves and four other shipyards. Amounts advanced Gillis, in the period September 1st, 1910, to September 1st, 1914, amounted to, $34,702.87, $19,912.96 of which was borne by others and $14,789.91 was borne by the New York Shipbuilding Company.

A new arrangement was made September 1st, 1914, and there was disbursed to Gillis for the period September 1st, 1914, to March 31st, 1916, $11,323.85, which amount was distributed approximately equal between New York Shipbuilding Corporation, Fore River, Cramps, Newport News, Dupont, and Bethlehem Steel. This arrangement apparently terminated March 31st, 1916.

Thereafter, New York Shipbuilding Corporation made disbursements for itself alone, on the arrangement of $1,000 per year, payable quarterly which arrangement, from the records, apparently continued from March 31st, 1916, to December 31st, 1926.

H. M. Hitchcock, New York representative, 1920 to 1922: Prior to June 1st, 1922, Hitchcock was a regular employee of the New York Shipbuilding Corporation on engineering contact work. The need for his services in this capacity not being further required, arrangement was entered into with Hitchcock on a basis of salary of $200 per month, with use of office space and office services, to be sales representative in New York City. This arrangement terminated December 31st, 1922.

Charles Denby, special representative, China and the Orient, 1922 to 1923: An arrangement was entered into with Denby about September 15st, 1922, as a special representative in China and the Orient, with an allowance of $1,000 for traveling expenses and salary of $500 per month as expenses and remuneration, from about November 1st, 1922, with a limit of 5% commission on net profit on any business concluded by Denby. This arrangement terminated about July 1st, 1923. The actual amount paid to Denby was $5,048.72. No commissions were earned or paid.

Sterling J. Joyner, special agent, 1920 to 1923: Joyner was engaged about October 1st, 1920, as sales representative on the basis of $2,000 per month, to cover traveling and other expenses and compensation while acting as our sales representative. In addition, Joyner was to receive a maximum of 5% of the net profits resulting from any ship contracts secured by his efforts. This arrangement terminated and final settlement was made with Joyner July 6th, 1923. Joyner was paid during this period, salary, expenses, etc., $103,432.98. Joyner was also paid in addition $13,750.00 commission on Japanese tanker *Kamoi.*

P. Peixotto, general delegate, France and Europe, 1921 and 1922: Peixotto was engaged about May 1st, 1921, to represent New York Shipbuilding Corporation on a basis of $500 per month to cover salary and expenses, and commission of 2½% to 5% on the net profits made on business or contracts concluded by Peixotto. This arrangement terminated about May 31st, 1922. The amount actually paid Peixotto was $6,000 for salary and expenses. No commissions were earned or paid.

J. J. Pearson, consulting engineer, 1919 to 1920: Pearson was engaged about January 1st, 1919, to investigate methods and prospects of foreign shipbuilding, at a salary of $500 per month and transportation; also a per diem allowance of $15 covering hotels, sustenance, etc. This arrangement terminated July 31st, 1920. Disbursements under this agreement were $9,500 for salary and $7,991.77 for expenses.

Harry R. Humphreys, special representative 1921 to 1929: It has been found impossible to accurately compile information requested. Further effort and investigation of expense items is continuing.

Casa Mayrink Veiga, Brazilian representative, 1934: Veiga was designated Brazilian representative of New York Shipbuilding Corporation on a strict commission basis in connection with proposed Brazilian naval construction. No commission was earned or paid.

Frank A. Lord, special representative, 1929 to 1932; Addison G. Foster, special representative, 1932 to 1934: Lord and Foster were Washington representatives for the period stated. At special request of the committee, the expenses of Foster for the years 1933 and 1934 are the subject of a separate letter. Further information requested for Lord and Foster is being compiled.

In connection with our investigation of this subject, we find another representative not previously reported in our letter of January 17th, 1935:

S. G. Hopkins, special foreign respresentative, promoting interest of New York Shipbuilding Corporation in Washington, Latin America, etc.:

Hopkins was engaged about November 21st, 1921, at a salary of $500 per month. This arrangement was terminated January 1st, 1926. Salary and expenses for the period $31,248.

Yours very truly,

New York Shipbuilding Corporation,
By N. R. Parker, *Treasurer.*

Exhibit No. 1530

New York Shipbuilding Corporation
MAIN OFFICE AND WORKS CAMDEN, NEW JERSEY, U. S. A.
Cable Address "Fairview"

Camden, *January 18th, 1935.*

Reference: Letter to New York Shipbuilding Corporation, January 2nd, 1935.

Hon. Gerald P. Nye,
Chairman Special Committee Investigating the Munitions Industry,
Room 357, Senate Office Building, Washington, D. C.

Sir: The reference letter (paragraph 20) requests information as follows:

"(20) Dates of the original and supplemental contracts on naval ships ordered by the Government during the years 1917, 1918, and 1919, until the completion of those ships, including a statement of the financial effect of those changes with regard to the company and the amounts involved in those changes."

Contract no. 199, airplane carrier S *Saratoga:* The original contract for this vessel dated May 5th, 1917, is on cost-plus-10% basis, an extract from the contract reads as follows:

"1. The price to be paid for the vessel to be constructed and furnished in accordance with this contract, including authorized changes therein, shall be the actual cost plus 10 percent for profit." * * *

Letter of the Acting Secretary of the Navy, dated October 11th, 1920, changes the contract from cost plus 10%, to cost plus a fixed fee of $2,000,000.00.

Supplemental contract dated October 30th, 1922, provides for the conversion of battle cruiser *No. 3* into airplane carrier *No. 3*.

Supplemental contract dated May 18th, 1927, provides a definite price for the contract.

Contracts nos. 200/201, battleships *Colorado* and *Washington:* The original contracts dated January 17th, 1917, were on a flat price basis of $11,450,000.00 each.

Supplementary contract dated July 18th, 1917, changes contracts to a cost-plus-10% basis.

Letter of Acting Secretary of the Navy, dated October 11th, 1920, changes the contracts from cost-plus-10% basis to cost-plus fixed fee for profit of $1,350,000.00.

Supplemental contract dated August 17th, 1923, cancelled the contract for the battleship *Washington*.

Contracts nos. 210/215, torpedo-boat destroyers: The contracts for these vessels dated July 11th, 1917, were on cost-plus-10% basis, and they were completed under the original contracts.

Contracts nos. 216/19, torpedo-boat destroyers: The contract for these vessels dated September 28th, 1917, were on cost-plus-10% basis, and they were completed under the original contracts.

Contracts nos. 220/239, torpedo-boat destroyers: The original contracts dated December 29th, 1917, were on cost-plus-adjusted-fixed-fee basis.

Supplemental contract dated May 8th, 1919, was on a revised cost-plus-adjusted-fixed-fee basis.

The limited time available does not permit the preparation of a statement of the financial effect of the changes with regard to the company and the amounts involved.

Yours very truly,

New York Shipbuilding Corporation,
By N. R. Parker, *Treasurer.*

Exhibit No. 1531

There was a meeting of representatives from plants engaged in the construction of naval vessels and certain allied industries engaged in the construction of materials and equipment for naval vessels held on May 8, 1934, in room 661, 11 Broadway, New York, New York, at 10:30 a.m.

Mr. H. G. Smith presided.

There were present: Mr. J. W. Powell, United Dry Docks, Inc.; Mr. R. E. Gillmor, Sperry Gyroscope Co., Inc.; Mr. J. H. King, the Babcock & Wilcox Co.; Mr. A. E. Phin, the Babcock & Wilcox Co.; Mr. Joseph Sullivan, Worthington Pump & Machinery Corp.; Mr. I. W. Jackman, Worthington Pump & Machinery Corp.; Mr. Roscoe Seybold, Westinghouse Elec. & Mfg. Co.; Mr. C. L. Bardo, New York Shipbuilding Corp.; Mr. D. W. Niven, General Electric Co.; Mr. S. L. Whitestone, General Electric Co.; Mr. A. B. Homer, Bethlehem Shipbuilding Corp.; Mr. H. H. Schulze, Bethlehem Shipbuilding Corp.; Mr. L. Y. Spear, Electric Boat Co.

Mr. Smith. Gentlemen, I called this meeting thinking it advisable that we give consideration to the particular paragraph in the Vinson bill which relates to profit, and I invited all of those shipbuilders who are engaged on naval contracts at the present time plus representatives of the larger allied industries. Of course you are all very familiar with the particular provision of the act which is covered under section 3, pages 2 and 3, of the act. Would you like to have it read? I think it is written on your hearts pretty closely, but unless you wish to have it read I will not do so. I have a few spare copies of the bill—would anybody like one? I previously asked for comments, if anybody wished to submit them, in connection with this paragraph, and I have received only two in writing; one from the Newport News Shipbuilding and Dry Dock Company and one from the Bath Iron Works. Mr. Newell apparently will not be here today. I might read these—they are very brief.

(Here Mr. Smith read letters from Mr. Gatewood and Mr. Newell.)

(Here Mr. Whitestone entered and was introduced by Mr. Niven.)

Mr. Smith. I will tell you all I know about this subject from the Washington end and what has been done on it up to date. A committee of five or six—I will say six, I do not know three of the men.

Mr. Niven. I was told it is five.

Mr. Smith. They have had several meetings and they finally decided to make a report to this effect, that cost is labor, plus material, plus a proper portion of overhead. That, I am informed, is where they began and where they ended. I have talked at length with Weyerbacker, one of the Navy members of the committee, and he said the other day as it stands at present the Treasury Department's idea is to proceed along the same lines as "income tax returns", and he feels you are entitled to set up whatever accounting system you need. He thinks in view of this you are entitled to set up a system to take care of problems arising under these contracts. You do not have to go along with your present system if you think it is inequitable. Gatewood thinks it would be inequitable to have a uniform overhead for all classes of work.

Mr. Niven. I understand they won't allow you to change your present set-up. Did you get that?

Mr. Smith. No—just the opposite.

Mr. Gillmor. I did not get that idea either. I talked to several members in the Navy Department and the opinion I got from all those people was that they would use the income-tax procedure and you can account under your present method or otherwise. Beyond that they were not prepared to say. They thought it might lead to a lot of controversy. They thought it would result in Treasury decisions which would gradually build up a lot of rulings on this just as on the income tax. They interpreted the words in the act—"the method of ascertaining the amount of excess profit"—should be determined by the Secretary of the Treasury. They interpreted those words to mean the administrative methods of ascertaining these amounts should be determined by the Secretary of the Navy.

Mr. Niven. Mr. Smith said Newport News was estimated to have a 20-percent higher overhead on naval work than on merchant work. They would not be allowed to do it in this case.

Mr. Gillmor. Not arbitrarily.

Mr. Spear. We have a special rate for submarines.

Mr. Powell. Your overhead percentage can vary 300 percent—there is no top limit.

Mr. Spear. You might be justified in changing your differential right in the middle of your contract. There ought to be some elasticity.

Mr. Powell. If you charged overhead on the basis of productive labor that would automatically take care of it.

Mr. Spear. I am talking about the distribution between the different classes of work.

Mr. Powell. In other words, you do not pro rate?

Mr. Spear. After we have segregated the cost of submarines the balance of cost is pro rated over all remaining items of work.

Mr. Bardo. I think you have to do that now. You necessarily would not make the fine line between overhead.

Mr. Smith. Mr. Gillmor, I got this thought which checks up with what you said. This Government committee has no intention at the present time of laying down elaborate rules. As questions arise they will settle them.

Mr. Gillmor. They seem to be pretty open-minded. I wrote them a letter on this matter as it is very important to us. A 10-percent profit to us is ruinous. The ratio of turn-over is so broad. It averages about 50 percent. You have to consider contingencies for past years so that you come out with about a three-percent profit. It is a risky business.

My committee (S.A.M.) got together and we drafted a letter giving a preliminary expression of our views and took that down to the Treasury Department and got Mr. Moore to give us a hearing. He did not raise any great objection to it.

Mr. Smith. He didn't?

Mr. Gillmor. No; he felt any reasonable expense would be justified, but they will proceed just as they did with income tax.

Mr. POWELL. During the war the cost-accounting system tendency was to cut out more things. They cut out our legal expenses. I do not know how they expected us to do business without lawyers.

Mr. GILLMOR. That was the Navy.

Mr. POWELL. The Navy and the Merchant Fleet Corporation.

Mr. GILLMOR. They propose to administer this through the same bureau as income tax.

Mr. SMITH. Yes. That is where it is going to be unless there is a change in the law. The Navy Department does not want to deal with it.

Mr. GILLMOR. They do not want to get into it.

Mr. SMITH. The man who drafted this bill drafted it with the purpose of allowing some leeway.

Mr. KING. Are you going to be allowed your actual expense? Will they allow the actual overhead or a predetermined one?

Mr. SMITH. I think you can collect your actual overhead as long as it goes against all work.

Mr. GILLMOR. They point to this provision in the act that the contractor must make his statement under oath.

Mr. NIVEN. They go on to say that the books shall be open for inspection at all times.

Mr. GILLMOR. I believe their present idea is to make check inspections only.

Mr. POWELL. This thing will go along all right until somebody turns back some money.

Mr. GILLMOR. I think the only thing to do is act in unison.

Mr. SMITH. Supposing you do have ten percent profit and a few dollars left over. The industry may find itself in a situation where there are items of cost which could have properly gone in but were not included. It seems to me very desirable that so far as the outstanding items of overhead are concerned, there should be unanimity of opinion.

Mr. GILLMOR. Does the shipbuilding industry have uniform cost-accounting systems?

Mr. SMITH. No.

Mr. SULLIVAN. Our industry is using a system which has been adopted by about a hundred firms, and in the system we have definitely stated how we arrive at cost. If the shipbuilding people would adopt such a manual as that, it would be all right.

Mr. KING. So far as we are concerned our cost-accounting system does not follow that exactly. It is the principle that we have adopted.

Mr. SULLIVAN. We follow it with slight variations.

Mr. SMITH. I think the question is what they might throw out. We should be sure that everybody puts in all that is allowable cost.

Mr. POWELL. We advertise for commercial work and they might say that should not be charged.

Mr. SPEAR. That benefits the naval work. In this case it ought to be in overhead.

Mr. NIVEN. If they want this Navy work exclusive work, do they want direct charges on naval work? I imagine nothing would be gained by either side.

Mr. SMITH. Of course, advertising is a type of expense that, in my opinion, is properly proportioned against all contracts, naval as well as others, because advertising is for the purpose of getting business and to the extent that new business is obtained, it helps to carry the overhead on all contracts.

Mr. SULLIVAN. I might mention copies of that manual are available at $1.50 each.

Mr. NIVEN. That means most of the allied manufacturers are following about the same system of accounting. To facilitate the shipbuilders and the allied manufactuers, the shipbuilders, as far as practicable, should follow that so that there would be no conflict.

Mr. SMITH. You have two definite things. This NEMA system, which has been developed with a great deal of care, I understand, is probably as good as any out. I am not familiar with the Worthington system.

Mr. SULLIVAN. It was worked up from that.

Mr. GILLMOR. We have written this letter:

(Here Mr. Gillmor quoted from a letter contained in a memorandum for members of Scientific Apparatus Makers of America, dated May 14, copy of which memorandum is attached to these minutes.)

Mr. GILLMOR. In regard to the interest and royalties, none of these items can be allowed under the wording of the act. They were of the opinion that our letter would be much stronger if these two paragraphs were deleted.

Mr. Bardo. Is that net profit?

Mr. Sullivan. Net profit. The Attorney General has written a letter to the Secretary of the Navy in which it is stated that it has no application to making repairs to vessels. Under an unofficial interpretation the following would be exempted from the act. That would exclude modernization, any items from stock, any items purchased by shipbuilders for new ships contracted for by the Secretary of the Navy prior to the date of the act.

Mr. Sullivan. You might say "the Secretary of the Navy." New contracts made by the Secretary of the Navy after this date.

Mr. Smith. That relates to authorization by contract not placed until after that date.

Mr. Sullivan. Any contracts made before the passage of the act would not come under this act.

Mr. Smith. As I understand it, Mr. Gillmor, the letter from which you are reading was drawn up for your association—it has not been submitted to anyone in Washington?

Mr. Sullivan. We are holding an annual convention next week at which we will get everyone's opinion.

Mr. Whitestone. In our company we have a number of plants and each plant follows this main system referred to and we do not keep our accounts in accordance with the regulations of the Income Tax Bureau. They require a plant to show the amount of income returned for tax purposes—we only show that to the examiner. The peculiar feature is, I understand now, the Income Tax Bureau is going to do the checking on this. It is utterly impossible for us to break down the overhead percentages used. To segregate for example one complaint that the income-tax examiners have made that the rates used are excessive and that you must not claim the full amount of that. The rates we are using we do not consider excessive for commercial purposes, but we are quite willing to cut out a certain amount.

We have not changed our companies now under a contract or subcontract. We will be getting these costs from each of our factories for each article furnished, but it is not segregated. I think as a commercial proposition it is impossible in view of the fact that we have always kept our accounts under this manual. The question arises whether it now becomes necessary to change and make it conform to regulations of the Income Tax Bureau. I assume that most of you gentlemen here have only one or two plants, but if you do your cost records may be at the head office. We have no cost records, they are all located at the factory. They have there detailed items all supervised from Schenectady. I do not quite see how we are going to do this if income tax examiners are to be sent in. We do not know how much is included. It is all merged and we have been using what we call a normal percentage of overhead. You say you have to give an explanation of using normal or actual items, otherwise your bids will not conform. I am in the same position and from all I have heard so far this morning we should use the actual percentage. Why should we give the Navy Department the benefit of all the commercial work we have had before. I think the terms of this contract are so rigid that we can afford to be rigid in our terms.

Mr. Smith. When you say "actual" I suppose you mean your actual average.

Mr. Whitestone. No; I mean actual expenditures.

Mr. Smith. As applied to that particular contract?

Mr. Whitestone. In case of shipbuilding it will probably apply to a whole ship.

Mr. Smith. If you had one plant using actual and another normal——

Mr. Powell. Suppose three or four yards take contracts on a competitive basis. Then one fellow turns in actual and has a very low overhead and he turns back a lot of money—it simply throws out your whole idea of competitive bidding. It seems to me you have almost got to come to a basis of agreeing with the Treasury Department on some fixed overhead. If we could spread our overhead over ten years I would say it would be high enough. I think it would be high enough so that you would not have to worry about your ten percent profit. The average overhead would be plenty high enough to satisfy anybody.

Mr. Spear. It is all a question of a figure.

Mr. Whitestone. You have no uniform system.

Mr. Smith. The yards have the same items.

Mr. Powell. There is a decided difference in overhead.

Mr. Whitestone. That is the most important thing. If you could print the NEMA Manual and say we are following this you would not have any difficulty. You have no uniform accounting system.

Mr. SMITH. I can see difficulty when we reach a certain stage in these proceedings if we have any marked differences. Take the specific case of leading men—there has been a great variation of practice. I can see the possibility of a situation where you might have a variation in practice. You might get a different conclusion from the Treasury Department.

Mr. POWELL. It depends on which companies you go into.

Mr. SMITH. You are going to wind up with some percentage of overhead.

Mr. SCHULZE. We have a separate account so that we could always tell what that is. The distribution of cost is the same.

Mr. WHITESTONE. If he devotes 100 percent to that job.

Mr. SMITH. There was a time when all leading men were charged to overhead.

Mr. SPEAR. They are tending away from that.

Mr. POWELL. We charge everything to overhead and distribute to productive labor. It would take more of a cost force to distribute labor that way.

Mr. SPEAR. It just naturally falls into productive labor.

Mr. BARDO. We have to get our accounting departments together and see whether we should have a uniform system. It seems to me we are just talking out the window now. We know a lot of things have to be done. We should get the accounting officers together and see whether the systems can be adopted.

Mr. SMITH. There must be a committee set up to study it. We have to see that you get into cost everything that belongs there.

Mr. BARDO. We should get the accounting officers of the different plants together and then proceed under the guidance of a committee.

Mr. SMITH. What is your reaction to this: You have the shipyards and the allied groups but your uniformity should be attained first amongst the shipbuilders themselves and then there can be some approach to uniformity between the shipbuilders and the allied groups.

Mr. GILLMOR. If the shipbuilders, boiler manufacturers and electrical manufacturers act in accordance with uniform rules it will be so strong that I think the Income Tax Bureau would have a hard time resisting it.

Mr. BARDO. They could not break it down. You have two established, recognized systems of accounting in the two principal groups with which we do all our business. We should get our accounting officers together. I do not think we can decide anything.

Mr. SMITH. Roger, what is your reaction?

Mr. WILLIAMS. I think Mr. Bardo's suggestion a good one. We should have a meeting of our accounting officers immediately. I think you could make it in one meeting.

Mr. BARDO. I think we should get the shipbuilders together first on a uniform plan.

Mr. SMITH. Homer, what do you think about it?

Mr. HOMER. The method of determining the ten-percent profit is to be established by the Treasury Department and the obvious thing is that the industry will have to establish something for its protection.

Mr. JACKMAN. They can establish it but the Treasury Department will have to approve it.

Mr. BARDO. We should get something in the first instance that will meet the requirements of the Treasury Department. We do not want to wake up and find a difficult situation due to some interpretation.

Mr. SMITH. Spear, what is your reaction?

Mr. SPEAR. All we can do is follow Bardo's suggestion. First get the shipbuilders together and then follow up with the others.

Mr. POWELL. I believe thoroughly in a uniform cost accounting system for the industry. I think this will force us into the adoption of something like that. If we can get together on a uniform system, that is a standard practice, it is going to be helpful in getting by the Treasury Department.

Mr. SMITH. If that meets with your approval we will call first for the comptrollers of the shipbuilding group to get together with the understanding that we will make use of whatever information is available. Take this NEVA system, which may be a great help and good guide. Then we will get together with the allied group for the purpose of seeing how close we can work in uniformity with them. There is no question about it, if everybody works along the same line we have a good front.

Mr. KING. Would it be any help to have the allied industries sit in with that group?

Mr. SMITH. I am perfectly willing to call them all together.

Mr. WILLIAMS. If they would give us one man like Mr. Seybold.

Mr. SEYBOLD. I think Mr. Whitestone is more familiar with the NEVA system than I am.

Mr. SMITH. I know we would like to keep in contact with what you have done.

Mr. GILLMOR. We will be glad to help you.

Mr. POWELL. Don't you think you would get along faster with the shipbuilders first meeting by themselves?

Mr. SMITH. All right. We will call the comptrollers of the shipbuilders to get together. This office is at their service. As soon as we make some headway we can get together with the allied industries.

Mr. KING. That should be done immediately.

Mr. SMITH. Yes. How will Thursday or Friday of this week be? Suppose we call it Thursday.

Mr. HOMER. You had better give them more time.

Mr. WILLIAMS. They will need several days.

Mr. SMITH. Suppose we start on Monday. I will notify all of the naval builders of the meeting next Monday.

Mr. BARDO. I think they should have a copy of Mr. Gillmor's letter.

Mr. GILLMOR. I can give you a copy of it now.

Mr. SMITH. Fine. Is there any objection to our sending copies of this out?

Mr. GILLMOR. None at all.

Mr. SMITH. Can you spare four or five more?

Mr. GILLMOR. Yes.

Mr. SCHULZE. It may save time to forward it to each of the comptrollers.

Mr. WHITESTONE. I think you can get the NEVA manual for $10. Some of them already have it.

Mr. SMITH. We should have them available for next Monday, at least one copy.

Mr. WHITESTONE. I was hoping to learn something about this restriction of profit which makes no provision for a deficit. I do not know whether you are concerned with that but we are.

Mr. GILLMOR. We can point to the justice of that very easily.

Mr. WHITESTONE. Of course you can. There are so many things. Here your profits are restricted. I do not see how you can get back any losses.

Mr. SMITH. You are in a bad situation. If you are in an unfortunate contract and lose money there is no recovery, but if you are in a fortunate contract and make money your profit is limited and you sign a check to the Treasury Department for anything in excess of 10 percent.

Mr. WILLIAMS. Who do you send the check to?

Mr. WHITESTONE. That is all in the contract.

Mr. GILLMOR. We should point out the uneconomic phases of this and get the act repealed.

Mr. SMITH. I think the Navy Department is appreciative of the difficulty in operating under the profit limitation clause of the bill. It is bound to lead to more or less trouble in accounting for cost and it is hoped that in the course of time the section will either be repealed or materially modified.

Mr. WILLIAMS. Mr. Smith, are you going to bring up today the subject of submitting subcontractors' bids?

Mr. SMITH. The apparent purpose of Mr. Ickes' bulletin seems to be to protect subcontractors and to prevent chiseling of prices, and it is understood under Mr. Ickes' bulletin that subcontractors' bids are to be filed twenty-four hours ahead of contractors' bids. As written the bulletin applies to all Government departments, but I am informed by the Navy Department they consider it unworkable and are seeking either to have it modified, or canceled so far as naval contracts are concerned which are dependent on P.W.A. funds.

Mr. WILLIAMS. The trouble is we cannot make any subcontracts in advance.

Mr. JACKMAN. Have you talked to Admiral Peoples?

Mr. SMITH. No.

Mr. KING. You have a modified form of Mr. Ickes' bulletin in connection with Army Engineers contracts. We just made a contract with the Army Engineers for two dredges. The Marietta Manufacturing Company was the successful bidder. In their bid form they have to use engines of a certain type. I do not know the name of the engines and the boilers are B. & W. and the pumps Worthington and they list the names of the equipment they propose to furnish.

Mr. WILLIAMS. Until detailed drawings are made it is impossible to do that.

Mr. KING. That is one objection you have to Public Works funds. They get the cheapest sort of thing they can. That is the big objection and is what causes this trouble.

Mr. Powell. The Navy will take a low bid from anybody.

Mr. King. We are very much opposed to this.

Mr. Smith. I think the Navy will get it straightened out. I think the status of all other Government contracts under this act is that we are likely to have trouble with it. The Navy, I think, because of the size of their contracts will be able to do something.

Mr. Williams. That is a case where uniformity is important.

Mr. Smith. I think from what Admiral Land said yesterday they are so sure it is not workable they will find a way to have the order modified or cancelled.

Is there anything else anybody would like to bring up at this time?

Mr. Spear. Is there any news on the forty-hour week?

Mr. Smith. Yes; I spent all yesterday on it. I think if the employees will say they want forty hours they will get it overnight.

Mr. Powell. I would not give two cents for our chances after getting through there last Monday.

Mr. Bardo. Johnson called me on Saturday and told me that if our employees want forty hours they can have it.

Mr. Bardo. The Federal and State employment agencies stated the fact that there was a very great shortage of skilled help, and that is the type of help we use. Another argument was that the city was not able to carry on its work.

Mr. Smith. That is also true in New York City.

Mr. Powell. I think I will send them another telegram asking for welders. I do not believe there is a qualified welder in this town that has not got a job.

Mr. Homer. We have had trouble getting lathe hands. We show them the big lathes and they say they never saw one like that before.

(The meeting adjourned at 12:10 p. m.)

Exhibit No. 1532

There was a meeting of comptrollers and others from the various shipyards engaged on the construction of naval vessels for the purpose of determining whether it would be practicable for the shipyards to adopt a uniform cost accounting system held in room 661, 11 Broadway, New York, N. Y., at 10:30 a. m.

Mr. H. G. Smith, presided.

There were present: Mr. H. A. G. Taylor, Electric Boat Company, Mr. G. H. Bates, United Dry Docks, Inc., Mr. W. A. Bagley, Federal Shipbuilding & Dry Dock Co., Mr. F. A. Shick, Bethlehem Shipbuilding Corp., Ltd., Mr. H. J. Harper, Bethlehem Shipbuilding Corp., Ltd., Mr. F. O. Ritter, Bethlehem Shipbuilding Corp., Ltd., Mr. F. C. Belser, Price, Waterhouse & Co., Mr. W. E. Blewett, Jr., Newport News Shipbuilding & D. D. Co., Mr. N. R. Parker, New York Shipbuilding Company, Mr. C. J. Langell, New York Shipbuilding Co.

Mr. Smith. The meeting called last Monday of shipbuilders engaged on naval work and certain of the allied industries engaged in manufacturing equipment for naval vessels considered the paragraph of the Vinson bill that relates to a restriction of the earnings to ten percent of contract price. At that meeting representatives of the allied group from General Electric, Westinghouse, Babcock and Wilcox, Worthington Pumps, and Sperry were present.

The outcome of that meeting was the feeling that a unanimity of action on the part of all those engaged on construction under the Vinson bill was very desirable so as to put up a united front in connection with any problems that might arise as to what properly belongs in cost. You are all familiar with what is going on in Washington. A committee of five has been appointed, three from the Navy Department and two from the Treasury Department who have been sitting as a committee to study this problem and the Navy Department has taken the ground that it is up to the Treasury Department. They do not want anything to do with it and it is wholly up to the Treasury Department to handle it. They spent a lot of time on it and finally decided that cost is labor plus materials, plus a proper percentage of overhead. That is all they have decided upon up to date.

I talked with one of the Navy members on the committee and he said the present intention was to handle it very much along the same lines as income-tax returns, and from time to time as questions arise they would settle them. However, they do not intend to make any elaborate analyses of what properly belongs in cost and what does not. They realize that there will be questions from time to time and they advised us very strongly to do the very thing we have done. That is, go carefully over the situation. They think we are justified in setting up an accounting system on a basis to take care of the work. He could not commit himself but he felt sure if the work requires a particular overhead that would not apply to all work we were perfectly justified in setting up such, not an average overhead but what could be called a normal and quite properly if you have been losing money on naval work to take account of that and write it off in your cost accounting system.

He is strongly of the idea that the Treasury Department will never go into it more deeply than in oncome-tax returns. I do not subscribe to that. If you are around the ten percent line you are apt to be asked some pertinent questions and you may have to return some money.

At our meeting last week it was felt there could be a considerable uniformity of practice as between shipbuilders and material men, and the group last week defined material men as anybody who supplied material, a subcontractor or those who do work within a shipbuilders plant only. A subcontractor is one who takes a contract to do work on the ship itself. It applies to both material men and subcontractors. What difference there might be in application of cost I do not know.

The outcome of the meeting last week was that it is best for the shipbuilders to get together first and see how near they were in accord. If items go into cost in one plant they will go into it in all. The shipbuilders having once gotten together and studied the matter and satisfied themselves they are in reasonable accord the matter should again be taken up with the allied group. We did not have them here today because there would be too many.

They left with us two things: Mr. Gillmor, president of Sperry Gyroscope, had a memorandum which had been prepared by their association, of which I sent a copy to the yards. They had some pretty constructive suggestions. They are in a very serious situation because of the very high development charges with which they are faced. I sent that memorandum out and then we got also two copies of the Uniform Accounting Manual of the Electrical Manufacturers Association, the NEMA Manual, which has a standard cost accounting system which is in pretty good shape. The Worthington Pump people also have a standard system taken from this manual. I imagine whatever you get out of this manual will cover what you will find in any of the other machinery groups.

I called this meeting, therefore, of the comptrollers of the various plants with the idea that you would want to set yourselves up as a committee to deal with these matters until they are pretty well disposed of. You would want to consider the doubtful items. Somebody will raise the questions they raised during the war. Advertising might be brought up. It has a very important place; if you can secure more work you can reduce your overhead on other work. Then you have your depreciation rates. I presume that they would try to allow the same as is allowed in connection with income tax.

Mr. Bates. Yes.

Mr. Smith. Your A. S. & G. charges in general are outside of advertising. You may find a good many questions ought to be worked out in the industry itself before we get into these contracts as to what the effect of charging an item as overhead rather than direct labor that needs to be considered if it goes in. The practice, I imagine, is quite different in the various plants. Some used to charge leading men into overhead and some through direct labor.

How far you need me in carrying on the work of this committee, I don't know, but I am at your service. I think in taking hold of the accounting problems to act you ought to appoint a chairman of the committee to carry on the work, and when you finish your deliberations today you may want a subcommittee to carry on permanently until you are satisfied that we are sufficiently in accord so we won't lose any tricks.

Mr. Shick. Do you think it necessary to have a uniform accounting system?

Mr. Smith. No; I do not. It should be sufficiently understood that all charges should be made by all.

Mr. Blewett. We have recently gone through the cost of changes. We asked a higher overhead on the changes than our normal overhead. We asked for twenty points higher and they granted us ten. In other words they admitted naval work called for higher overhead than commercial work. If we could obtain twenty percent higher it would cover everything such as equipment, development charges and all items. So far as going into a uniform cost accounting system, that is a job of five or ten years rather than a month or so.

Mr. Smith. I think that is so, but I think you could have a sufficiently uniform system to be assured that you have in cost everything that is entitled to go there.

Mr. Shick. Do you think it would be possible to get the Internal Revenue Department and the Navy to agree as suggested in this memorandum on a fixed overhead.

Mr. Smith. Percentage?

Mr. Shick. Yes.

Mr. Smith. I am doubtful and I do not know whether the industry wants it.

Mr. Shick. Can the individual concern get it? Could there be a clause in the ruling that the Revenue Department could agree on a fixed overhead?

Mr. Smith. I think that is a question that the industry wants very carefully to determine whether it wants it.

Mr. Shick. These people advocate it.

Mr. Smith. Yes.

Mr. Shick. We should make up our minds whether we want to go along with them.

Mr. Smith. You are immediately confronted with the problem of what is in your overhead. When you ask for a percentage are you not prescribing a uniform system? You have to define your direct labor.

Mr. Blewett. If they will permit twenty points more——

Mr. Smith. I do not know what your practice is. Take the question of leaders, you may charge them into overhead or direct labor, I do not know; another plant might do the direct opposite.

Mr. Blewett. What I am looking into is getting into cost the cost of development work and items which won't show up unless you apply them as a job which income tax people won't allow.

Mr. Begley. You would not want to change your system.

Mr. Blewett. You would not change your system. We are building a new galvanizing plant that has to go into government work. A higher overhead would take care of it.

Mr. Bates. You mean a standard or normal overhead?

Mr. Blewett. Yes.

Mr. Smith. Let me ask you this, Blewett, you say you asked for so many points higher. Would you do that on the basis of each plant saying here is my average overhead, we want twenty points higher for naval work taking into account no two plants might have the same.

Mr. Blewett. Yes.

Mr. Shick. Only if you could get it high enough.

Mr. Smith. That is the point where I see difficulty with the Government.

Mr. Shick. Going back to past experience I would be very much surprised if they ever agreed for any concern to have a standard overhead for those particular jobs. So far as Bethlehem is concerned we would agree on it. If you could do that you could take care of a lot of these special things, depreciation, A. S. and G. and that would save us all a lot of trouble four or five years from now.

Mr. Smith. You go on the assumption each plant might have a different figure?

Mr. Shick. We might or might not.

Mr. Smith. That is a point I doubt whether can be determined at the present time.

Mr. Shick. Will you represent shipbuilding if it is the intention of this meeting that we might agree on some features of our cost system and go to Washington with the electrical manufacturers to ask for certain considerations?

Mr. Smith. Yes. I wrote a letter sometime back volunteering on behalf of the shipbuilding and allied industries to handle it on behalf of the council.

Mr. Shick. I met with Mr. Whitestone last Thursday and he is going to Washington in connection with the electrical industry. He hoped this meeting might appoint somebody to go with him. I said you would go, Mr. Smith.

Mr. Smith. The prime contracts are with the shipbuilders and so far as all work is done in private yards, the others are subcontractors with us. That was my object. If you agree on certain specific things you think ought to be done we can cooperate with the other groups with a view of keeping them in line.

Mr. Blewett. There was one point—that is subcontractors—any excess profit made by them, is that credited to the shipyard contracts or is that paid direct to the Treasury?

Mr. Smith. That is a new one. I do not know.

Mr. Shick. I think it would be a mistake for this group to have an argument with the Treasury Department. I feel that if you get into such a controversy at the present time they would simply rule against you. If you go back under cost-plus contracts the selling expenses were disallowed. Contributions and donations were disallowed, and office furniture and fixtures had to be capitalized. Now there is another item mentioned in this memorandum if it were possible to get approved it might be possible to agree on a fixed rate of overhead. I think we would be satisfied to have somebody argue that for us. If you could get such a thing I would be satisfied and I think we could agree on a high enough percentage that we would all be satisfied, but to argue on detailed items of cost that were disallowed during the war I think we would lose.

Mr. SMITH. I would not do that. This group ought to go away satisfied as to what items get into cost. Each and everyone of us should be assured that we are going to put into cost everything that properly belongs there.

Mr. SHICK. Special facilities cannot be taken care of through overhead. Any money spent on special facilities should be considered as part of the contract price and also as part of cost.

Mr. SMITH. That is exactly what you want to determine here. It would never be brought up in Washington, until somebody challenges it.

Mr. SHICK. We have taken that position in reference to our work at Bethlehem. We have an order for shells. Our people say they have to put in additional equipment and, as I understand it, the other manufacturers have to do the same thing. We should state that in the contract. I am afraid if we do not do it in advance they will interpret such expenditures as capital and allow only depreciation.

Mr. BLEWETT. They say as much when they tell you it will be governed by income tax.

Mr. SHICK. We have taken contracts for armor plate and shells and will have to put in special equipment, and it has been the practice to put that in the contract. It seems to me if you leave a thing like that until the end you might lose out.

Mr. SMITH. You can put it into cost with the probability that in the end if the question is raised that you might have to allow some credit on it.

Mr. BEGLEY. It would only be thrown out of your income tax if you tried to charge it to tax.

Mr. BATES. You could with this ten-percent basis.

Mr. BELSER. You might overplay your hand. You could not get it on a subsequent contract. You get the whole cost added on to selling price, and that is a different thing.

Mr. SHICK. Do you want it in the selling price?

Mr. SMITH. You could not very well throw it into your bids.

Mr. SHICK. No. You could not get a high rate of depreciation.

Mr. BLEWETT. Didn't we have such a thing as adjusted prices during the war? We took such things as cost of machinery and put it into an adjusted price.

Mr. SHICK. That was a cost-plus contract. You only got ten percent of it. I can give you an example of what happened on a gun contract. The Navy wanted a sixteen-inch gun. We had to buy the equipment to machine it. Daniels said, "All right; this is not the last order we are going to give you for sixteen-inch guns. We will let you add $35,000 per gun so you can amortize this equipment. We will let you amortize part of the cost through this job so you will get paid for your new equipment, but you have to take a little chance." They did that for the reason they did not want to say to us, "We will pay you for this." If they did, then they would own it, but they wanted it to stay in our possession. We were only amortizing $35,000 on that job.

Mr. BLEWETT. That was just the price feature of it.

Mr. SHICK. I do not think you want it that way.

Mr. BLEWETT. Add it to the contract price afterwards.

Mr. SHICK. We have to return the excess profit over ten percent. It ought to be put right in these contracts that we have to pay so much for additional machinery.

Mr. BATES. This is a different kind of contract.

Mr. BLEWETT. I am talking about something entirely different.

Mr. BATES. Suppose you take a very definite thing. That is welded boats. There is no reason in the world why that welding equipment should not be considered cost of the job.

Mr. BLEWETT. We have enough equipment. You cannot include that.

Mr. BATES. Ours is already bought.

Mr. BLEWETT. We bought lots of items under this category. That is special facilities for naval work. You have to have certified welders for naval work—you have to run a school. That all should be chargeable against Navy work.

Mr. BATES. As direct cost? While they are being educated it should be charged. For purposes of contracts like this we would be much better off if it were put into direct cost.

Mr. BLEWETT. We should use these to satisfy them a Government job should have a twenty-percent overhead.

Mr. SHICK. Would you take that up in advance or would you wait until the job is complete?

Mr. SMITH. That is the thing to decide. Let us concentrate on that for a moment. Let us first come back to this overhead. Do we want to go on the basis of going to the Treasury Department now and point out and tell them we have set up on our books a higher overhead? If we do that and if they accept that, do we want to assume that will take care of new capital charges necessary because of naval work? If they do not accept that do we want to go to them now and take up this question of capital charges so that a proper percentage of it goes into cost? It seems to me there are one or two points around which this hinges. Supposing we could get twenty points higher——

Mr. SHICK. Suppose we could get an average over a five-year period.

Mr. SMITH. At fixed overhead? Do you mean you charge that all off in five years?

Mr. SHICK. Take five years. You would determine the average by including all such items. We could then agree on that basis to a fixed overhead.

Mr. SMITH. Establishing your overhead on a five-year basis so that some percentage above that is added.

Mr. SHICK. Yes; on account of naval work.

Mr. SMITH. Twenty points is a good thing to shoot at.

Mr. BLEWETT. Would it prejudice our case if they refused to talk about this?

Mr. SMITH. No; I do not think so.

Mr. BELSER. Why not do it and argue afterwards?

Mr. SHICK. These other people are talking, and we would have to go along with them or pull them off. I understand the electrical people are going to do the same thing.

Mr. SMITH. Whitestone said he was going to talk.

Mr. SHICK. He is going to argue that they cannot compile their actual cost on these contracts based on their present method of accounting, as their present method of accounting is a normal overhead.

Mr. SMITH. They may nail us down to something we do not want.

Mr. SHICK. I am afraid so. During periods of depression they do not cover all their overhead, but they had built up a reserve. It is what they call a "fixed overhead."

Mr. SMITH. But it is a higher overhead than their actual.

Mr. SHICK. Take 60 percent, for example. That may not take care of it in a bad year but through their reserve they figure that normal overhead is taken care of.

Mr. SMITH. But they have already set up that system.

Mr. BLEWETT. These gentlemen have apparently gone into the Treasury Department because the offices of the Treasury have very little comment to make. They are already putting their cost before the Government.

Mr. SMITH. There is a little danger if the other groups are going there talking, and it is best not to appear. We should face the music if there is any question of a return, Powell said there is an easy way to handle this—just lose money on the contract. I think if Whitestone is going there, and I guess he has been directed by his group, I had better go with him.

Mr. PARKER. It seems what we are trying to do is rewrite this act. That would be mighty fine; but, after all, when you get to the end of the contract you have to certify your accounts to the Treasury Department. The actual wording is actual cost. I do not believe anybody can make an agreement which would prevent your being hamstrung.

Mr. SMITH. I think that is so, too.

Mr. PARKER. You have to have somebody certify finally when you get down to the last signature on that it has to be just like the act.

Mr. SHICK. I do not believe you can get any advance decision as to what is cost.

Mr. PARKER. There is not an item in cost that Admiral Capps does not have a precedent written out on his chair. After all, the customs that have been established have been accepted by the Treasury Department. I think we are generally alike in our method of accounting, and I think we use the special items.

Mr. SMITH. You mean when you come to your final argument that you had allowed a higher overhead for that purpose?

Mr. PARKER. Yes; it would not affect a contract, but it would affect the amount of depreciation to be charged on them. That will be determined finally upon completion of the contract. We adjust that up or down.

Mr. SMITH. Would you be satisfied on a basis of higher plant overhead right from the start?

Mr. PARKER. I would be satisfied if I thought that it would stay put. We might go along four years and that would be thrown out. I would like very much to have it that way.

Mr. SMITH. Suppose the industry arranges this table and makes up its minds they would set up their accounts on that basis and make the defense when it is challenged.

Mr. PARKER. You are going to be called upon.

Mr. SHICK. I do not believe that would go. We should have it agreed in advance, otherwise they will only allow your actual overhead.

Mr. SMITH. I do not think they will agree to it.

Mr. SHICK. You ought to go down there because these other people are going down there.

Mr. SMITH. Suppose I go down and make a case. Then we would do that in order to properly cover our cost and they make no decision. We get nowhere. We just put it into the minutes. It will, perhaps, give it some strength in the final argument.

Mr. SHICK. And you are no better off than before.

Mr. BELSER. You are in a good trading position at any time. If a bunch of shipbuilders came up there with an ax to grind you would know at once they were going to try to get something they were not entitled to. You would turn them down.

Mr. BLEWETT. I would tell them early we anticipate a higher cost for Government work.

Mr. PARKER. We had some experience with that during the war.

Mr. BELSER. Why should there be a definite overhead for all the plants? I would keep a special account for special things. I would say, "Special naval contract overhead."

Mr. SMITH. I gather, if I get your point correctly what you think is that it might be a little dangerous to set up a little higher overhead. Your feeling is that it would be better to go ahead and get everything in contracts, a certain amount for A. S. & G., new equipment in whole or in part.

Mr. BELSER. If you purchase new equipment you charge special overhead for naval work.

Mr. SMITH. Would you charge a special amount for that specific item?

Mr. BELSER. I would have a group of items in that account.

Mr. BLEWETT. We had to build this plant much larger than for merchant work. We could have gotten along with a plant 10 by 2 for merchant work whereas this navy work demands 32 by 9.

Mr. BELSER. If it has a short life you are allowed to charge ten percent depreciation on the whole thing. Any particular section is applicable to navy and merchant.

Mr. SMITH. The proper set-up is the difference in cost between the two charges over navy contracts over a reasonable period.

Mr. BLEWETT. When you consider all equipment it is difficult.

Mr. BELSER. There is no reason at all why you should not charge five percent to merchant and naval on the ordinary items. You have some special depreciation which you charge only to naval work.

Mr. BATES. Do not forget the conditions in these plants is very different.

Mr. SCHICK. They have not had experience on cost-plus contracts. Do not let them tie us down to something definite for the items you now put into cost. If the question is raised then the only thing for the shipbuilders to do when they make a contract and have to buy new equipment is to put the cost of the equipment into the bid. For this particular contract you should be permitted to add to the cost this special equipment. They may say that the machinery belongs to us. We can say take it. They will say we do not want this equipment, you buy it back from us. We will need it for the next job and when the next job comes along they will not pay for it again. I agree with Mr. Parker that if you ask the Bureau to approve a fixed overhead you will not get very far. Mr. Smith, you should go with them and not let them get something approved we do not want.

Mr. SMITH. Yes; I think that is right.

Mr. SHICK. We should decide what we are going to do. For our own protection it would be a good thing if we did have an understanding so that on the completion of these contracts the overhead rate will not be out of line. If Bethlehem has 60 percent, Newport News 50 percent and somebody else 40 percent they will ask what is wrong. Therefore, it is important for the shipbuilders to have a very clear definition as to what is direct labor if that is the basis of distributing overhead. I believe we can agree on a definition of direct labor.

Mr. SMITH. Was Whitestone in the meeting of the steel people?

Mr. SHICK. Yes; on Thursday. There is nobody else going down. He said he was going to wait for you (Mr. Smith). After you decide he wants to go down with you.

Mr. SMITH. I will be there Wednesday and Thursday, I think that is sound. I think that we should not discuss details with this group in Washington because they cannot commit themselves and if they did it would not hold.

Mr. SHICK. They will say right away that they cannot agree on anything because they may be giving us something that is not cost.

Mr. SMITH. I do not think so.

Mr. SHICK. If those other people are going down we want to be a party so that they will not get something that won't suit us.

Mr. SMITH. That is what I am afraid of.

Mr. SHICK. We are not going to return any money until the end of the guarantee period. I suppose that is understood.

Mr. SMITH. I think when we have established contracts we can just draw up a little understanding amongst ourselves as to some of the high sport in connection with the contract.

Mr. SHICK. You should take up income tax.

Mr. SMITH. Are they going to deduct that?

Mr. SHICK. That is worth while discussing in advance.

Mr. SMITH. The Treasury Department will probably rule it will be subject to tax. This old act of 1920 which allowed deductions for your income tax of money set aside. They took the ground they objected to having any deductions of that character and tax should be handled as a mater by itself, and a profit I suppose will be put in on the same basis.

Mr. PARKER. That agreement would come in with our contract. The people you may make an agreement with now may not be the people with whom you have to make a final decision.

Mr. SHICK. A Treasury decision would hold.

Mr. SMITH. If it is made over the Secretary's signature.

Mr. PARKER. This should be kept elastic so that you can get everything in.

Mr. BELSER. Be careful you do not overdo it.

Mr. SMITH. In talking with Mr. Whitestone he says he understands that the Treasury Department in their final wording of this memorandum which will be signed by the Secretary today is directing everybody to continue their cost system on the same basis as in the past. Whitestone says he doubts the necessity for going at the present time.

Mr. SHICK. What does that interpretation mean—continue your system on the same basis.

Mr. SMITH. That means system, not details.

Mr. SHICK. I do not think that that means you could not change it.

Mr. SMITH. I think perhaps we had better wait for that order to see what it is. I think there are some points it might be well to talk with them about like the question of income tax, burdens under the code and if the other group is going to talk on the basis of fixed overhead we had better be next to it.

Let us summarize for a moment the high spots we have been over this morning:

1. Await letter from Treasury Department.
2. Keep in touch with Whitestone and Gillmor as to any possible move on their part in discussing the situation in Washington.
3. Upon receipt of letter from Secretary of the Treasury consider advisability of going to Washington to discuss such problems as the following:

(a) Status of Federal income tax in relation to profit.
(b) Status of bonuses in relation to profit.
(c) Status of equipment in relation to cost.
(d) Status of fixed overhead if brought up by others. Keep off the ground ourselves for time being.
(e) Subcontractors profits.

4. After discussion in Washington, ship comptrollers go get together on the question of—

(a) Direct labor.

(b) Fire insurance and workmen's compensation—premiums versus carrying own insurance.

(c) Depreciation charges.

(d) Development charges.

(e) Patents.

(f) Drydocking charges.

(g) Pensions.

(h) Group insurance.

Mr. Shick. You do not need a uniform cost system. The only thing we need is a definition of direct labor and other direct charges.

Mr. Parker. Everything that should be charged direct should be charged.

Mr. Smith. What do you want to do at this time. Is there anything further?

Mr. Parker. We should wait for that letter.

Mr. Smith. I think so.

Mr. Shick. We should write down an interpretation on direct labor before we come to the next meeting.

Mr. Parker. Send it in to Mr. Smith?

Mr. Shick. We might write these thoughts down and exchange them.

Mr. Smith. If you want to send them all here we will make a composite sheet and send them back to you. I have copies here of the minutes of the other meeting. We have tried to cover only the high spots in these minutes.

(After some discussion it was decided that the next meeting would be held on Thursday, May 31st, and that the comptrollers would exchange their interpretations of direct labor and that each would send a copy to this office.)

Mr. Smith. If you gentlemen will get your remarks in just as soon as you can it will be helpful. What else is there to bring up.

Mr. Shick. We should define what is direct labor and all other charges we think should be charged to the contract so that we can all agree to what we are going to charge direct. We want to charge everything we can.

(The meeting then adjourned at 12:20 p.m.)

Exhibit No. 1533

(H. Gerrish Smith, president; Roger Williams, vice president; Henry C. Hunter, counsel-treasurer; Clifford C. Knerr, secretary)

National Council of American Shipbuilders,
11 Broadway,
New York, January 2, 1935.

Re Vinson Act.
To: Members of the committee.
(Membership attached.)

Gentlemen: I am pleased to enclose herewith the following correspondence that passed between the du Pont Company and Mr. Helvering, Commissioner of Internal Revenue, on allowable items of cost under the Vinson Act:

(1) September 28, 1934, H. W. Lynch to Guy T. Helvering.

(2) October 10, 1934, H. W. Lynch to Guy T. Helvering.

(3) October 16, 1934, H. W. Lynch to Guy T. Helvering.

Please be kind enough to read and be prepared to discuss the items at the next meeting of the committee.

Very truly yours,

C. C. Knerr, *Secretary.*

CCK:RR.

MEMBERSHIP OF COMMITTEE TO CONSIDER INTERPRETATIONS UNDER THE VINSON ACT AS OF JANUARY 1, 1934

Mr. C. F. Noyes, Comptroller, Baldwin Locomotive Works and its subsidiaries, Paschall P.O., Philadelphia, Pa.
M. S. L. Whitestone, Comptroller, General Electric Co., Schenectady, N.Y.
Mr. F. C. Belser, Price, Waterhouse & Co., 56 Pine St., New York City.
Mr. N. R. Parker, Vice Pres., New York Shipbuilding Corp., Camden, N.J.

Mr. S. P. Howe, President, Camden Forge Co., Camden, N.J.

Mr. L. S. Rice, Assist. Treasurer, DeLaval Steam Turbine Co., Trenton, N.J.

Mr. W. E. Blewett, Asst. to Pres., Newport News Shipbuilding and Dry Dock Co., Newport News, Va.

Mr. J. H. King, Mgr. Marine Dept., the Babcock & Wilcox Co., 85 Liberty Street, New York, N.Y.

Mr. Clarence Tolan, Jr., V.P., Dodge Steel Co., Philadelphia, Pa.

Mr. R. A. Cannon, V.P., Birdsboro Steel Foundry & Machine Co., Birdsboro, Pa.

Mr. H. J. Harper, Assist. to Comptroller, Bethlehem Interests, Bethlehem, Pa.

Mr. H. C. Hunter (Counsel), 24 State Street, New York City.

H. Gerrish Smith, Temporary Chairman, National Council of American Shipbuilders, 11 Broadway, New York City.

Mr. Sam Tour, Executive Secretary of the Nonferrous Foundry Industry Code Authority, c/o Lucius Pitkin, Inc., 47 Fulton St., N.Y. City.

H. Gerrish Smith, president; Roger Williams, vice president; Henry C. Hunter, counsel-treasurer; Clifford C. Knerr, secretary

NATIONAL COUNCIL OF AMERICAN SHIPBUILDERS,
11 BROADWAY,
New York, December 18, 1934.

To all Members:

GENTLEMEN: Under date of October 26, 1934, we sent you certain correspondence that had come to our attention as between the du Pont Company and the Commissioner of Internal Revenue as to allowable items of cost under the Vinson Act (Public No. 135, 73d Congress, H. R. 6604) approved March 27, 1934. In the correspondence attached thereto was a letter dated October 10, 1934, from the du Pont Company to Mr. Guy T. Helvering, Commissioner of Internal Revenue, in which the du Pont Company referred in the third paragraph of their letter to a previous letter dated September 28th.

We have now been successful in obtaining a copy of the du Pont Company's letter of September 28th, which is enclosed herewith for your information.

Very truly yours,

H. GERRISH SMITH, *President.*

HGS:RR

[Copy]

SEPTEMBER 28, 1934.

Mr. GUY T. HELVERING,
Commissioner of Internal Revenue,
Treasury Department, Washington, D.C.

DEAR SIR: This will acknowledge receipt of your letter of September 21st, advising of the proposed meeting on Wednesday, October 3d, 1934, between representatives of the Navy Department and the Bureau of Internal Revenue-Treasury Department, which meeting you have invited our company to attend, for the purpose of discussing problems of allowable costs and cost determination involved with respect to contracts which may be entered into between our company and the Navy Department pursuant to the Vinson Act. Representatives of our company will attend this meeting.

Pursuant to your request, we submit herewith a general explanation of the manner in which would expect to determine our costs in relation to products sold under such Government contracts as may be governed by the provisions of the Vinson Act.

As a broad principle, it is our intention to continue to follow our established accounting practice and, in addition, to introduce certain supplementary allocations of general expenses as herein broadly described.

It is our practice to allocate all items of expense directly against the product involved insofar as it is practicable to do so; there are, however, certain general expenses which necessarily must be allocated on the basis of certain arbitrary assumptions.

Because of the many and varied lines of business in which we are engaged, and the practical difficulty of allocation, expenses such as general administrative, State income and Federal taxes, general research and experimental, extra compensation, unemployment insurance, etc., are not ordinarily allocated against the product. Such items of expense not customarily identified with individual products in our calculation of income arising therefrom are, instead, treated as general items in the preparation of our consolidated profit and loss figure. However, these items are, in fact, elements of cost which we must recognize as such under any contracts governed by the Vinson Act.

There are attached two schedules, setting forth the items which we shall expect to claim as legitimate costs under the Vinson Act. Schedule A covers items directly allocable and so handled in our accounting procedure. Schedule B covers those expenses broadly described in the preceding paragraph, which we treat as general items in our accounting procedure, some portion of which we shall expect to identify as cost by means of appropriatte supplementary statistical alloction.

Very truly yours,

H. W. Lynch, *Assistant Comptroller.*

Schedule A

1. Materials: These represent raw materials used as an ingredient or a component part of the product for which the bid is submitted. This does not include containers, such as boxes, barrels, etc.

Note.—Prices used for raw materials consumed in manufacture, will be: (*a*) Actual purchase price; (*b*) when, because of forward buying, our inventory of raw materials and supplies is on hand at a price under current replacement cost, the current market price at the contract date will be used; (*c*) raw or semifinished materials manufactured by us, used inf fulfillment of a contract, will be priced at market.

2. Operating labor: Direct labor employed in producing the material involved.
3. Repairs labor: This represents all money expended for labor in making normal day-to-day repairs.
4. Repairs material: Represents money expended for materials used in day-to-day repairs.
5. Power: Represents total cost of power cost consumed in manufacture.
6. Replacement: Represents abnormal repair items.
7. Direct superindence.
8. Depreciation.
9. Property taxes.
10. Experimental: Represents all monies expended either at the works or research laboratory in connection with the chemical control of the manufacture and improvement of the product.
11. Property insurance: Represents the insurance applicable to the materials and supplies and permanent investment. Our company carries its own insurance reserve, using rates established by our insurance department which are commonly lower than the cost of such insurance if purchased from a stock company.
12. Liability insurance: Represents accrual to meet the compensation paid employees for injuries received in the performance of their duties. Our company maintains its own insurance reserve on this item likewise, using rates of accrual as determined by our insurance division, which again are generally lower than the cost of obtaining like insurance from a stock company.
13. Works overhead: Represents all items of general supervision and service in connection with the manufacture of the particular product. Definite rates per 100 lbs. of product as and when manufactured, are applied to the production of respective commodities in order to determine the amount of works overhead applicable to the particular product. These rates are determined by periodical surveys made by representatives of the manufacturing division. Schedule "A"-1 attached, lists in detail the items of expense included in works overhead.
14. Manufacturing division; expense: Represents the proportion of the main-office operating expense chargeable to the particular product. This does not include any general company administrative costs, but does include a proportion of the expenses of other departments performing services for the manufacturing division, such as the purchasing, traffic, etc. Definite rates per 100 lbs. of product as and when made are established by the manufacturing division representatives and these rates are applied to the product as produced, in order to determine the amount of manufacturing division expense applicable to each commodity, schedule "A"-2 attached, details the items included in manufacturing division expense.
15. Royalty: Under this classification is included any expenses incurred by the company for the use of certain patents or methods of manufacture, where it has been found necessary to make such purchases.

16. Amortization: Where necessary, to install special equipment required to produce commodities applicable to Government contracts, and which would not be used in connection with the production of commodities generally disposed of through commercial channels.

17. Packing & Shipping: Represents costs of barrels, boxes, lining paper, etc. used in packing the product; and the cost of packing, transportation to railroad siding or wharf, and loading on the cars, steamships or other transportation equipment for shipment to customer.

18. Freight & delivery: Represents transportation charges on materials from shipping point to destination where product is sold on a delivered basis.

19. General administrative: Represents that portion of general company administrative expense susceptible of direct allocation to the manufacturing department. The expense so allocated is then applied against product on basis of dollar sales, schedule "A"–3 attached, details the general items included therein

Schedule A–1

CLASS OF EXPENDITURES COLLECTED UNDER WORKS OVERHEAD, ITEM 13, EXHIBIT A

Automobiles.
Barges.
Boats.
Burning grounds.
Cleaning & grading.
Drafting & surveying.
Fire protection.
General superintendence.
General clerks.
General buildings & shops.
General transportation.
Hospital.
Laboratory.
Levee maintenance.
Mechanical transportation.
Mill office expense.
Motor trucks.
Railroads.
Roads.
Safety inspection.
Salvage.
Stable.
Subsistence expense.
Tenant houses.
Tools.
Traveling expense.
Water delivery.
Watchmen & gatekeeper.
Welfare.
Wharves.
Works farms.
Works sanitation.
Works telephones.
Plant general.

Schedule A–2

CLASS OF EXPENDITURES COLLECTED UNDER MANUFACTURING DIVISION EXPENSE, ITEM 14 EXHIBIT A

Manufacturing director's office expense.

Materials & order section (handling of raw materials and shipments of finished products).

Departmental accounting section (maintaining manufacturing cost and finished product ledgers).

Chemical division.

Mail and file room expenses.

Purchasing department expense.

Engineering department expense (power & industrial engineering studies).

Traffic department expense (furnishing cars, car tracing, routing, etc.).

Service department expense (industrial relations, fire protection and safety).

Group life insurance.

Health and accident insurance.

Pensions (accrual for pension reserve).

Safety bonds (premium for bonds on operating employees).

Schedule A–3

GENERAL ADMINISTRATIVE

Industrial department main office expense: Salaries, sundry office expense, telegraph & telephones, office rent, depreciation of furniture & fixtures, pensions (accrual for pension reserve), general expense, departmental accounting, departmental management, group insurance, participating stock dividends, miscellaneous items.

Accounts receivable division: Expense of handling invoices, customer's accounts and preparation of the necessary customer's statements.

Accounts payable division: Expense of handling invoices and payments for purchases of raw materials.

Accounting statistical, and tabulating: Expense of preparation of sales statistics, profit and loss statements and tax returns for the U.S. Government.

Auditing general: Expense of auditing customers' accounts, checking payments, performance bonds, etc.

Salary division: Expense of handling salary and wage roll, preparation and forwarding salary and wage checks and the recording and preparation of income and other tax returns applicable to employees.

Credit & collection department expense.

Development expense.

Legal expense general.

Patent division expense.

Bad debts.

General administrative: Portion of salaries and expenses of corporate officers, directors and other departmental expense not specifically enumerated heretofore, but customarily identified with our operative income accounts.

SCHEDULE B

1. General administrative: Consists of portion of salaries and expenses of officers and directors of the company; telephone, telegraph, and mail-room expense; treasurer's office expense, legal department expense, development deparmtent expense, etc.
2. State income tax: Where such taxes exist in States in which plant or plants manufacturing the product are located.
3. Federal income tax: As we interpret the 10% profit clause of the Vinson Act to mean *Net Profit*, this item should be an allowable cost.
4. General research and experimental: Represents that portion of salaries and expenses of central technical staff and research chemists employed on experimental and research work of a general nature.
5. Extra compensation: Extra compensation awarded under the terms of our bonus plan.
6. Unemployment insurance: Should be included to the extent that products being manufactured at a plant located in any State where such laws exist are affected; should also include any Federal unemployment or old-age pension payments in event that such legislation may be presently accomplished.

[H. Gerrish Smith, president; Roger Williams, vice president; Henry C. Hunter, counsel-treasurer; Clifford C. Knerr, Secretary]

NATIONAL COUNCIL OF AMERICAN SHIPBUILDERS,
11 Broadway, New York, October 26, 1934.

To all Members:

GENTLEMEN: There is forwarded herewith for your information certain correspondence that has come to our attention as between the du Pont Company and the Commissioner of Internal Revenue as to allowable items of cost under the Vinson Act (Public No. 135, 73rd Congress, H. R. 6604), approved March 27, 1934.

Very truly yours,

H. GERRISH SMITH, *President.*

HGS B

OCTOBER 10, 1934

GUY T. HELVERING,
Commissioner of Internal Revenue,
Treasury Department, Washington, D.C.
(Attention of D. C. Moore, Genl. Asst. to Asst. General Counsel for Bureau.)

DEAR SIR: Referring to the recent meeting held in Washington on Wednesday, October 3, 1934, between representatives of the Navy Department, the Bureau of Internal Revenue, and our company for the purpose of discussing problems of allowable costs and cost determination involved with respect to contracts which may be entered into between our company and the Navy Department pursuant to the Vinson Act:

This letter will confirm our understanding of the agreement reached at that time regarding the many points involved.

Our letter of September 28th, addressed to your Department, outlined the broad principles which we intended to follow and set forth under separate schedules our proposed treatment of the respective items which we claimed should be considered as allowable costs under the Vinson Act. Because this letter was used as the basis of our discussion, I shall identify the specific items as those appearing under schedule "A" or "B" in that letter.

1. Materials (schedule "A").

You have advised that:

(a) Purchased materials should be taken into cost at actual purchased price.

(b) Materials manufactured by our own company, used as an ingredient or component part of the product being manufactured under the bid, should be priced at cost.

2 to 10, inclusive (schedule "A"). Operating labor, repairs labor, repairs material, power, replacement, direct superintendence, depreciation, property taxes, and experimental.

We understand you agree that these are allowable cost items and that generally you approve of our proposed method of allocation as described at this meeting.

11 & 12 (schedule "A"). Property & liability insurance.

You have asked us to file a brief in support of our contention with respect thereto. This brief is in course of preparation and will be forwarded to you shortly.

13 to 19, inclusive (schedule "A"). Works overhead, manufacturing division expense, royalty, amortization, packing & shipping, freight & delivery, and general administrative.

These items are considered by you as allowable cost items, and again speaking generally, you are in agreement with our proposed method of allocating such items.

With respect to schedule "A" 3, which covers detail of times making up general administrative, as set forth under item 19, schedule "A", you are in accord with us, with the exception of item covering bad debts which you have stated cannot be considered an allowable cost under the Vinson Act.

With respect to schedule "B", you have approved as allowable cost item 1, general administrative; item 4, general research and experimental; item 5, extra compensation; and item 6, unemployment insurance.

2 & 3 (schedule "B"). State and Federal taxes.

You have asked us to file briefs in support of our position with respect to these items before passing final opinion. These briefs, likewise, are in course of preparation and will reach you shortly.

* * * * * * *

Copies of this letter are being forwarded to all who attended the conference, so that if there is anything contained therein which is not in accordance with the agreement reached, our attention may be directed to it and correction made.

We thank you for the opportunity to present our views with respect to this whole subject, and appreciate the consideration given us.

Very truly yours,

HWL:J H. W. Lynch, *Assistant Comptroller.*

October 16, 1934.

Guy T. Helvering,
Commissioner of Internal Revenue,
Treasury Department, Washington, D. C.
(Att.: D. C. Moore, Genl. Asst. to Asst. Genl. Counsel for Bureau.)

Dear Sir: Pursuant to your request as made at the meeting held in Washington on October 3, 1934 (for the purpose of discussing problems of allowable costs and cost determination involved with respect to contracts which may be entered into between our company and the Navy Department for the supplying of material governed by the provisions of the Vinson Act), we submit herewith our position with respect to the several items regarding which no decision was reached.

PROPERTY INSURANCE

Our company carried its own insurance on materials, supplies, and investment in manufacturing facilities. An insurance reserve has been established, and currently we charge our manufacturing operations with an amount (in lieu of "premium" which we would pay if insured in a stock company) calculated as being necessary to maintain the reserve at an adequate figure to provide for any loss. Varying rates are used at our several points, these rates being based on our actual loss experience at the particular location. Rates are reviewed annually and revised where necessary, it being our intent that the rate as applied will produce an accrual to the reserve approximately equal to the actual charges against the reserve during the current year.

This accrual is assessed against the various manufacturing operations on the basis of investment and further broken down over the various commodities produced within the operating area on a production basis.

The effect of this treatment is that production costs are being charged with insurance at cost and while distributed over commodities on an arbitrary basis, this is for reasons of practical accounting expediency.

In computing the cost of a commodity which we might manufacture under the provisions of the Vinson Act, we contend that provision for such insurance (arrived at as described in the foregoing) should be allowed, there being further no element of profit involved in the insurance calculation. (The rates as used within our company are commonly considerably lower than those quoted by stock companies for similar coverage.)

LIABILITY INSURANCE

Our company likewise carries its own insurance to meet compensation paid to employees for injuries received in the performance of their duties. An insurance reserve has been established, and currently we charge our manufacturing operations with an amount (in lieu of "premium" which we would pay if insured in a stock company) calculated as being necessary to maintain the reserve at an adequate figure to provide for any loss. The rates as used at any given point are based on our actual loss experience and are reviewed annually and revised where necessary, it being our aim to have the rate as applied produce an accrual to the reserve approximately equal to the actual charges against the reserve during the current year. The rate as applied is based on the pay roll, and distribution of the insurance charge follows the direct labor to the commodity being produced.

The effect of this treatment is that production costs are being charged with liability insurance at cost.

We submit that in computing the cost of a commodity which we might manufacture under the provisions of the Vinson Act, provision for such insurance (arrived at as described in the foregoing) should be allowed, there further being no element of profit involved and the cost being considerably lower than would be the case if similar coverage were purchased from a stock company.

STATE INCOME TAXES

Where such taxes exist in States in which a plant or plants manufacturing a commodity being produced pursuant to the provisions of the Vinson Act, suitable provision should be made in production cost for such expense. In States where such income taxes exist, the property tax is usually lower than in those States where no such tax is in effect, consequently, it may be argued that this is another form of property tax altho based on income. Based on the foregoing and inasmuch as this is a direct "out of pocket" expenditure resultant from the manufacturing operation, we submit that it should be an item of allowable cost under the provisions of the Vinson Act.

FEDERAL INCOME TAX

This is an item of "out of pocket" expense resultant directly from the sale of the product involved and is normal business expense. Under the provisions of the Vinson Act, the contractor is permitted a "profit" of not to exceed 10 percent of the sales price, and we submit that the profit resultant from the transaction is the difference between the sales price and the total expense of producing the article or commodity. It is our contention that proper provision for Federal income tax should be allowed as an item of cost when producing an article or commodity pursuant to the provisions of the Vinson Act.

GENERAL

In dealing with the foregoing items, i. e., property insurance, liability insurance, State income taxes, and Federal income tax, all of which we intend to consider as cost on either an "out of pocket" or equivalent basis, we submit that each of them should be allowable items of cost pursuant to the provisions of the Vinson Act as they are legitimate and generally accepted items of business expense.

H. W. LYNCH,
Assistant Comptroller.

HWL:M

H. Gerrish Smith, president; Roger Williams, vice president; Henry C. Hunter, counsel-treasurer; Clifford C. Knerr, secretary

NATIONAL COUNCIL OF AMERICAN SHIPBUILDERS,
New York, December 18, 1934.

To all Members.

GENTLEMEN: Under date of October 26, 1934, we sent you certain correspondence that had come to our attention as between the du Pont Company and the Commissioner of Internal Revenue as to allowable items of cost under the Vinson Act (Public, No. 135, 73rd Congress, H. R. 6604) approved March 27, 1934. In the correspondence attached thereto was a letter dated October 10, 1934, from the du Pont Company to Mr. Guy T. Helvering, Commissioner of Internal Revenue, in which the du Pont Company referred in the third paragraph of their letter to a previous letter dated September 28th.

We have now been successful in obtaining a copy of the du Pont Company's letter of September 28th, which is enclosed herewith for your information.

Very truly yours,

H. GERRISH SMITH, *President.*

HGS:B

[Copy]

SEPTEMBER 28, 1934.

Mr. GUY T. HELVERING,
Commissioner of Internal Revenue,
Treasury Department, Washington, D. C.

DEAR SIR: This will acknowledge receipt of your letter of September 21st, advising of the proposed meeting on Wednesday, October 3d, 1934, between representatives of the Navy Department and the Bureau of Internal Revenue, Treasury Department, which meeting you have invited our company to attend, for the purpose of discussing problems of allowable costs and cost determination involved with respect to contracts which may be entered into between our company and the Navy Department pursuant to the Vinson Act. Representatives of our company will attend this meeting.

Pursuant to your request, we submit herewith a general explanation of the manner in which would expect to determine our costs in relation to products sold under such Government contracts as may be governed by the provisions of the Vinson Act.

As a broad principle, it is our intention to continue to follow our established accounting practice and, in addition, to introduce certain supplementary allocations of general expenses as herein broadly described.

It is our practice to allocate all items of expense directly against the product involved insofar as it is practicable to do so; there are, however, certain general expenses which necessarily must be allocated on the basis of certain arbitrary assumptions.

Because of the many and varied lines of business in which we are engaged, and the practical difficulty of allocation, expenses such as general administrative, State income and Federal taxes, general research and experimental, extra compensation, unemployment insurance, etc., are not ordinarily allocated against the product. Such items of expense not customarily identified with individual products in our calculation of income arising therefrom are, instead, treated as general items in the preparation of our consolidated profit and loss figure. However, these items are in fact elements of cost which we must recognize as such under any contracts governed by the Vinson Act.

There are attached two schedules, setting forth the items which we shall expect to claim as legitimate costs under the Vinson Act. Schedule "A" covers items directly allocable and so handled in our accounting procedure. Schedule "B" covers those expenses broadly described in the preceding paragraph, which we treat as general items in our accounting procedure, some portion of which we shall expect to identify as cost by means of appropriate supplementary statistical allocation.

Very truly yours,

H. W. Lynch,
Assistant Comptroller.

Exhibit No. 1534

Memorandum Re, Proposed Clause to be Inserted in Subcontracts under the Vinson Act

About Oct. 1, 1934.

1. The following committee was appointed by Mr. H. G. Smith to draft a clause to be inserted in all subcontracts made by shipbuilders, which would provide for such subcontracts to be on a cost-plus basis up to a fixed minimum price.

The committee:

N. R. Parker (chairman), New York Shipbuilding Corp.
W. A. Thorpe, General Electric Co.
W. E. Blewett, Newport News S/B & D/D Co.
J. H. King, Babcock & Wilcox Co.
H. O. Hunter (counsel), Natl. Council of Amer. Shipbldrs.
H. J. Harper, Bethlehem Shipbuilding Corp. Ltd.

2. After considerable discussion the following clause was drafted, to be put into proper language by Mr. Hunter:

Clause: Contract price to be your cost and 11.111% not to exceed (a) x dollars per unit (for lump sum or fixed prices per unit); (b) the following prices per pound or per unit (schedule of prices to be shown); it being agreed that cost to the subconstrctor shall be determined by it in accordance with its own established accounting methods; it being further agreed that this subcontract is not subject to audit or adjustment of cost by the contractor, but is subject to the provisions of Act of March 27, 1934, Public, No. 135 (73d Congress) and Treasury Department Regulation 4434.

3. The discussion brought out the following points for or against such a clause:

A. Contractor—advantages:

(1) If the subcontractor should exceed the full 10% profit allowed by the Vinson Act, the shipbuilder would benefit by, and the subcontractor would lose, a part of such profit.

Example (before Federal income tax)

	Vinson Act		Proposed clause
Total contract	$100,000	Maximum	$100,000
Cost	80,000	Cost	80,000
Profit to subcontractor	10,000	11.111%	8,888
Return to Treasury	10,000		
Total	100,000	Revised contract	88,888

(2) The transfer of part of the profit from the subcontractor to the shipbuilder provides a cushion for the latter by reducing the final cost to him.

(3) May tend to prevent payment of excess profit to the Treasury Department except on the main contract. (This is problematical, since cost for the purposes of determining the final price on the subcontract, and cost as may later be defined by the Treasury Department are likely to differ.)

(4) A clause of this type may be used in efforts to obtain an equitable revision of the act which will provide a guaranty of some profit on all contracts.

B. Contractor—disadvantages: (1) May possibly lead to a revision of the contract price to the shipbuilder on the theory that the shipbuilder has obtained advantages not intended by the act. (This is not considered probable.)

C. Subcontractor—advantages: (1) May possibly avoid an audit, or limit the extent of an audit, with the subsequent publicity and embarrassment from increased demands from labor, etc., if an excessive profit is shown.

D. Subcontractor—disadvantages:

(1) Loss of a part of the maximum profit allowed by the Vinson Act, if it should be earned (see A-1).

(2) Will require adoption by code authorities of resolutions permitting violation of any code provisions now in effect which would prevent members from bidding on this basis.

(3) Will disclose costs to shipbuilders currently, and perhaps create a precedent which may be difficult to overcome in the future. A similar disclosure may be made under the Vinson Act, but probably at a much later date, and with no certainty that excess profits under individual contracts will be made public.

E. Possible general advantages: (1) Mr. Parker fears that the Vinson Act may lead to a new and permanent form of taxation by the Federal Government on all profits over a certain maximum, without regard for losses which may be incurred. The general adoption of this proposed plan of letting subcontracts may, in his opinion, either avoid this possibility entirely, or at least limit it to Government work and then only on the main contract without extension to subcontracts.

[Memorandum]

Subject: Vinson Act. A profit limitation but not a revenue act.
Proposal: All subcontracts on a cost-plus basis, not to exceed 10% of subcontract, with fixed limit price.
Purpose:
  To establish a proper procedure.
  To prevent payment of excess profit except on main contract.
  To prevent establishment of new form of taxes.
  To protect subcontractors from embarrassment.
  To lead to equitable revision of the act.
Navy Department (informal):
  Without authority to approve or disapprove.
  Find no basis for objection.
  Consistent with main contract.
  Action left to Treasury Department.
  Attitude favorable.
Treasury Department (informal):
  Contractor may subcontract on any basis.
  Required to determine and collect excess profit.
  All suppliers likely to be subcontractors.
  Subcontract price, amount paid subcontractor.
  Form of certificate similar to income-tax certificate.
  Subsidiary companies likely limited to profit.
  Will not define cost at this time.
Subcontractors:
  Additional tax; code prices.
  Investigation of profit in excess of normal.
  Labor embarrassment.
  Provides retention of maximum profit.
  Provides opportunity to combine results.
  May avoid extensive audits.
Shipbuilder:
  Provides contingency reserve.
  Reduces final cost.
  Removes in part inequity of profit limitation.
  Agrees with intent of act.

Exhibit No. 1535

October 18, 1934.

To the Board of Directors of New York Shipbuilding Corporation.

Sirs: I herewith tender my resignation as president and director of the New York Shipbuilding Corporation to take effect November 1st, 1934.

There is attached hereto a memorandum summarizing briefly the results of the past several years, together with my comments and observations relating thereto, with the request that it be filed with the board records.

Very truly yours,

C. L. Bardo.

OCTOBER 18, 1934.

To the Board of Directors of New York Shipbuilding Corporation:

SIRS: Having today submitted my resignation as president of this corporation, it seems only fitting that I should leave as a matter of record a brief account of my stewardship.

When I first became connected with this corporation in the latter part of 1925, the shipbuilding activities were only a part of a wide prospective field, including construction of transformers, circuit breakers, electric locomotives, public utility equipment, etc. These extended activities, together with the change of management which had taken place, resulted in the serious demoralization of the morale of the shipbuilding organization, and further resulted in such a falling off in the quality and character of the work that the corporation and its officers were subjected to very severe criticism and condemnation by the Navy Department for the work which was then in progress.

In the ensuing months, while efforts were being made to reorganize the shipbuilding personnel, the financial affairs of the corporation grew rapidly worse and reached a crisis during the year of 1927.

Following this crisis, progress was steadily made from the standpoint of the corporate organization, financial condition and organization of personnel. It is not necessary to review in detail what has been accomplished in each of these fields. I content myself in pointing out certain pertinent factors of the present situation as compared with that at the end of 1926, as follows:

1. Net current assets increased from $1,300,000 to $5,000,000. (Note: At the end of 1926 there was a tax claim of $3,800,000 which later was settled for $2,350,000.)

2. Funded debt of the corporation reduced $1,500,000.

3. Preferred stock reduced from $4,000,000 (including $1,000,000 of preferred stock of a subsidiary afterward sold) to $2,000,000.

4. Participating and founders stock, 695,256 shares, reduced to 500,000 shares of $1 par value. In doing this we were able to establish the equity relationship between the founders and participating stock, so that except for voting rights the stocks are equal in very respect.

5 (a) Balance sheet intangible assets—contract and patent rights, patents, goodwill, etc., $4,432,845.21, written down to $1.00.

5 (b) Corporate reorganization and electrical division development expenses, $532,653.89, written off.

6. Surplus increased from $1,654,000 to $6,804,000.

7. Net profit during this period was $6,075,607.70. The average income during this period far exceeds that of any similar period in the corporation's existence, with the exception of the period durlng and immediately following the war when all work was on a cost-plus basis.

8 (a) Cumulative dividends defaulted on preferred stock in 1927 and 1928 were paid and preferred stock dividends have been earned and maintained since 1929.

(b) Common stockholders have received 40 cents per share per year since March 1933.

9. The value of uncompleted contracts on hand at the present time exceeds those at the end of 1926 by more than $40,000,000.

In other words, during this period the management which came into full control early in 1927 and the reorganized personnel have been able to eliminate the highly dangerous actual and contingent liabilities on the one side and the intangible and highly questionable assets on the other side, and to provide a balance sheet for all the stockholders of which, in my judgment, any company may well be proud.

During the same period the reorganization of the supervisory personnel took place. It is significant, however, that except for two positions this was accomplished by promotions within the plant; the two exceptions being experienced executives from other shipbuilding organizations.

Following this reorganization the spirit and morale of the officers and employees progressively improved, and it is due to that fact, as well as to the efforts of the officers and department heads, that great progress was made in improving the quality of the work and in radically reducing the expenses of the accomplishment. As to the quality of the work, I refer to the contrast as between the severe criticism made by high officers of the Navy in 1926 and the letter in December 1933 from the Assistant Secretary of the Navy which, as you will recall, commends in the highest terms the technical skill and efficiency of the organization and expresses appreciation for the fine cooperation given by the organization to the Navy Department. I also refer you to the letters and telegrams from Mr. P. A. S. Franklin, president of the International Mercantile Marine Co., expressing his appreciation and admiration for the results of the organization's efforts in building the *Manhattan* and *Washington*. The highly satisfactory performance of the ships in service more effectively emphasizes the skill of our technical and operating forces.

The satisfaction of our customers, the Navy Department, the Export Steamship Corporation, and the United States Lines, is an asset of immeasurable value to the corporation. This has not been obtained at the expense of the stockholders, as evidenced by the substantial income earned during this period. Such net earnings have been increased through the efforts of the staff in reducing costs below the estimates. For example, the actual cost of labor and material upon the three cruisers constructed during this period was $3,620,000 below the estimate or a saving of 15 percent. On the balance of the work a similar comparison shows favorable results. In the case of each Navy contract we have earned substantial bonuses and have incurred no penalties.

Improvement has not been confined to the production field but has been extended also into important items of overhead, such as local taxes, fire and compensation insurace. We are advised by the State rating bureaus that we enjoy the lowest rate for any comparable industry in the State of New Jersey for fire and compensation insurance. Notwithstanding an increase in the tax rate of 25 percent, the actual taxes paid on the shipbuilding plant have increased less than 10 percent.

These results have been brought about not only by the experience, skill, and efficiency of the supervisory personnel and the excellent morale of the rank and file, but also by the harmonious cooperation of all department heads and their subordinates. Shipbuilding is a highly complex industry which by its very nature requires a diversified personnel. The avoidance of discordant elements within our organization has been one of the most important factors in improving the financial standing of the corporation, in placing it in such high standing with its customers, and in producing the favorable earnings results in the past years. I am confident that a continuation of this policy will assure the success of the corporation in future years.

Respectfully yours,

C. L. Bardo.

Exhibit No. 1536

New York Shipbuilding Corporation

MAIN OFFICE AND WORKS, CAMDEN, NEW JERSEY, U. S. A.

Cable address "Fairview"

Camden, *January 15th, 1935.*

Reference: Letter to New York Shipbuilding Corporation, January 2nd, 1935.

Hon. Gerald P. Nye,
Chairman Special Committee Investigating the Munitions Industry,
Room 357, Senate Office Bldg., Washington, D. C.

Sir: The reference letter (paragraph 10), requests information as follows:

"(10) Ownership of bonds of the company held by individuals in blocks of % or over as of the same dates."

All of the bonds of the corporation, while subject to registration as to principal, re in bearer form. Attached hereto is our inquiry dated January 11th, 1935, o the registrar and the reply of the registrar dated January 14th, 1935, in which ve are advised that none of the bonds are registered at the present time.

Therefore, the only record available, which would indicate possible ownership, s the ownership certificates returned with cashed coupons. From such ownership ertificates there has been compiled a list of apparent owners, as far as they can e ascertained (excluding certain coupons which have not yet been cashed for he last interest period), which is the only available record in connection with ond ownership.

Yours very truly,

New York Shipbuilding Corporation,
By N. R. Parker, *Treasurer.*

New York Shipbuilding Corporation

INTEROFFICE CORRESPONDENCE, CAMDEN, N. J.

To: J. S. Ritchie. Date: Janaury 11th, 1935.
From: N. R. Parker.

In connection with the Special Committee Investigating the Munitions Industry, U. S. Senate, letter of whom dated January 2nd, 1933, requests compilation of certain information for presentation to the committee on January 21st.

It is requested that you prepare summary covering paragraph 10 thereof, as follows:

(10) Ownership of bonds of the company held by individuals in blocks of 5% or over as of the same dates.

Please obtain from the Bankers Trust Company, registrar of these bonds, a registration list covering the registered holders.

Please prepare a complete list as disclosed from ownership certificates returned with bond coupons, as of the last interest date.

N. R. Parker.

January 11th, 1935.

Bankers Trust Company,
16 Wall Street, New York, N. Y.
(Attention C. W. Campbell, Asst. Secy.)

Gentlemen: As registrar of the first mortgage 30-year 5W bonds of this corporation, will you kindly furnish us with a list of the registered holders of these bonds?

Yours very truly,

New York Shipbuilding Corporation,
By N. R. Parker, *Treasurer.*

[Cable address: New York, Banktrust. Cable address: London, Bantruscon]

Bankers Trust Company,
16 Wall Street,
New York, January 14, 1935.

Mr. R. N. Parker,
Treasurer New York Shipbuilding Corporation,
Camden, N. J.

Dear Sir: Referring to your letter of January 11th requesting a list of registered holders of your company's first mortgage 30-year 5% bonds, we wish to advise that none of the bonds of the above issue are registered at the present time.

Very truly yours,

Chas. Meland, *Assistant Secretary.*

WVH:EMFK
#6

Holders of New York Shipbuilding Corporation 5% bonds, as of December 1, 1934

Ella Scot Brown, Sewickley, Pa	$37,000
Martha F. Pendleton, Helen M. Tilford, 614 Commonwealth Annex, Pittsburgh, Pa	48,000
Sabin P. Sanger, 423 Walnut St., Brookline, Mass	9,000
Janet C. Shearman, 1717 20th St., NW., Washington, D.C	2,000
Mary W. Garlick, 516 Stambaugh Bldg., Youngstown, O	1,000
Corrine L. Melchers, National City Bank, New York	2,000
Est. of Jos. W. Jenkins, Jr., 13 So. St., Baltimore, Md	48,500
Thomas C. Jenkins, 13 So. St., Baltimore, Md	29,000
Est. of Israel M. Parr, 13 So. St., Baltimore, Md	29,400
Est. of Thos. C. Jenkins, 13 So. St., Baltimore, Md	29,000
Emily L. Pierce, 82 Court, Portsmouth, N.H	2,000
Est. of Arthur Brock, 1421 Chestnut St., Phila., Pa	10,000
Penna. Co., Trus. for D. S. B. Chew, Phila., Pa	1,000
George R. Hann, Oliver Bldg., Pittsburgh, Pa	79,600
Kate K. Grafly, 2008 W. Girard Ave., Phila., Pa	9,000

Holders of New York Shipbuilding Corporation 5% bonds, as of December 1, 1934—Continued

Ada M. Rodgers, 607 Magee Bldg., Pittsburgh, Pa	$15, 800
Ella B. Rinicker, Mechanicsville, Pa	1, 000
Merton Rinicker, Mechanicsville, Pa	1, 000
Gertrude H. Gulick, Doylestown, Pa	1, 000
Charles M. Stephenson, 1309 Shady Ave., Pittsburgh, Pa	18, 000
Harriet W. Patterson, 2009 Clark Bldg., Pittsburgh, Pa	15, 100
Youngstown Foundation, Youngstown, O	7, 200
Oakhill Cemetery End. Fund, Youngstown, O	1, 000
Children's Welfare, Youngstown, O	6, 100
George A. Schofield, 315 Bellefontaine St., Pasadena, Cal	2, 000
Penna. Co., Trus., Jane C. Lilley, Phila., Pa	1, 000
Augusta W. Hanschel, 2301 Delaware Rd., Cleveland, O	5, 000
H. C. Frick Educational Commission, Pittsburgh, Pa	44, 000
Mercy Hospital, Pittsburgh, Pa	46, 000
Helen C. Frick, Box 109, Pittsburgh, Pa	61, 400
John M. Jacobs, 417 No. Broad St., Lansdale, Pa	10, 000
Bruno Volkmann, 10240 85th Ave., Richmond Hills, N.Y	1, 000
Est. of Emma J. Hess, decd., 107 W. Wyoming Ave., Phila	2, 000
Charles C. Lowell, 318 Highland St., Worcester, Mass	2, 000
Kingsley Association, Pittsburgh, Pa	5, 000
Westmoreland Hospital, Greensburg, Pa	5, 000
Homestead Hospital, Homestead, Pa	4, 000
Elizabeth Donner Roosevelt, Dora B. Donner, The Louisville Tr. Co., Loui., Ky	12, 000
Wilmington Trust Co., Agt., Elizabeth Donner Roosevelt, Wilmington, Del	2, 000
Children's Hospital of Pittsburgh, Pittsburgh, Pa	5, 000
John K. Knorr, 12 So. Marion Ave., Ventnor, N.J	5, 000
Robert S. Gerstell, Mrs. A. F. Gerstell, Lafayette & Meixsell St., Easton, Pa	3, 000
Sarah Eleanor Flower, 1104 Diamond Bk. Bldg., Pittsburgh	46, 000
Isadore L. Smith, Argella Rd., Ipswich, Mass	1, 000
Adam P. Leighton, 192 State St., Portland, Me	1, 300
Home for Aged Protestants, Pittsburgh, Pa	10, 000
Henry Heise, 101 Linden Ave., Woodlynne, N.J	4, 000
Hedwig Bachman, 1843 Roselyn St., Phila., Pa	3, 000
John S. Ritchie, 625 Market St., Gloucester City, N.J	2, 000
S. M. Evans, 300 Tenth Ave., Haddon Heights, N.J	4, 000
E. S. Thompson, 2025 N. 15th St., Phila., Pa	1, 000
Harrison P. Dilworth, 6551 Dalzell Pl., Pittsburgh, Pa	10, 000
Annie S. Dilworth, 907 So. Negley Ave., Pittsburgh, Pa	10, 000
Anne L. Stephenson, 1314 Denniston Ave., Pittsburgh, Pa	4, 000
Clara M. Breed, 737 Land Title Bldg., Phila., Pa	4, 000
Elizabeth M. Emack, Monte Clare, Pa	2, 000
John Tod, 513 Stambaugh Bldg., Youngstown, O	9, 000
Alice Tod, 513 Stambaugh Bldg., Youngstown, O	10, 000
John J. Walsh, Catonsville, Md	5, 000
Sarah W. Walters "Will", 13 South St., Baltimore, Md	83, 000
Children of Jennie W. Delano, 13 South St., Baltimore, Md	83, 000
Walters Art Gallery End. Fund, 13 South St., Baltimore, Md	81, 600
George B. Elliott, 13 South St., Baltimore, Md	4, 000
Est. of George May, 13 South St., Baltimore, Md	100
Estelle Oliver, 1905 Park Ave., Baltimore, Md	1, 000
Cushing M. Gardiner, 5504 Normandie Pl., Baltimore, Md	2, 000
Est. of H. P. Bolles, Wilmington, N.C	3, 000
Edna G. Reisenstein, Devonshire Pl., Washington, D.C	2, 000
Grace B. Hollis, ℅ Irving Trust Co., New York, N.Y	1, 000
Robert Leet Patterson, 2009 Clark Bldg., Pittsburgh, Pa	7, 000
Cooper Wood, Grosse Pointe Farms, Mich	5, 300
Margaretta Wood Oliver, 5522 5th Ave., Pittsburgh, Pa	5, 100
William Pitt Shearman, 144 Ryder Road, Manhasset, N.Y	4, 000
Reginald Boardman, Manchester, Mass	1, 000
Roma H. Ware, Del Monte, Cal	4, 000
Asher Corp., Pittsburgh, Pa	2, 000

Holders of New York Shipbuilding Corporation 5% bonds, as of December 1, 1934—Continued

Mary Louise Bigler, Easton, Pa	$200
John S. Ladew, 1158 Julia St., W. Englewood, N.J	100
Isabelle C. Ladew, 1158 Julia St., W. Englewood, N.J	100
Mrs. Ruth Millenson, Greene St., Cumberland, Md	100
Edith McClintock, St. Albans, New York	500
Chas. B. Headley, Collingdale, Pa	100
Jeanette B. Weil, 21 E. 52nd St., New York	100
Bessie P. Stephenson, 504 Neville St., Pittsburgh, Pa	20, 000
Effie B. Shearman, Elise Miesley, % Grace National Bank, New York	16, 000
Est. of Geo. W. Best, 8146 St. Lawrence St., Chicago	5, 000
Jos. Wood, Jr., Hatboro, Pa	6, 100
Harry W. Robbins, 121 Brite Ave., Scarsdale, N.Y	8, 000
J. I. Lane, 285 Main St., Poughkeepsie, N.Y	6, 000
Dorothy S. Cooper, Point Pleasant, Pa	1, 000
Doylestown N.B. & Tr. Co., Trus., Sarah S. Jacobs	1, 000
Doylestown N.B. & Tr. Co., Trus., Irvin Jacobs	1, 000
Doylestown N.B. & Tr. Co., Trus., Kate M. Jacobs	1, 000
Furman Conely, Audubon, N.J	1, 000
Sarah Kolb Danner, Palo Alto, Cal	1, 000
Louise Kolb Foote, Mt. Airy, Phila., Pa	1, 000
Maude Lamb Wood, 3980 No. Charles St., Baltimore, Md	500
Martin E. Dunn, Woodbury Heights, N.J	1, 000
Mrs. A. Sandstrom, 2986 Salmon St., Phila., Pa	5, 000
	1, 109, 300
Property of domestic corporations	2, 500, 700
	3, 610, 000

Exhibit No. 1537

New York Shipbuilding Corporation

MAIN OFFICE AND WORKS, CAMDEN, NEW JERSEY, U. S. A.

Cable Address "Fairview"

Camden, *January 18th, 1935.*

Reference: Letter to New York Shipbuilding Corporation, January 2nd, 1935.

Hon. Gerald P. Nye,
Chairman Special Committee Investigating the Munitions Industry,
Room 357, Senate Office Building, Washington, D. C.

Sir: The reference letter (paragraph 18) requests information as follows:

"(18) The fees or commissions paid on United States governmental business for the years 1920 to 1934, inclusive, listed by individuals, and by names of ships."

There appears to be no record of the New York Shipbuilding Corporation having paid fees or commission on United States governmental business.

Yours very truly,

New York Shipbuilding Corporation,
By N. R. Parker, *Treasurer.*

New York Shipbuilding Corporation

MAIN OFFICE AND WORKS, CAMDEN, NEW JERSEY, U. S. A.

Cable Address "Fairview"

Camden, *January 18th, 1935.*

Reference: Letter to New York Shipbuilding Corporation, January 2nd, 1935.

Hon. Gerald P. Nye,
Chairman Special Committee Investigating the Munitions Industry,
Room 357, Senate Office Building, Washington, D. C.

Sir: The reference letter (paragraph 19) requests information, as follows:

"(19) All fees for legal services, including retainers and other expenses, 1920 to 1934, inclusive, itemized by individuals of companies."

Attached hereto is statement showing the legal expenses of the New York Shipbuilding Corporation for the years 1926 to 1932, inclusive, and also similar statement for the years 1929 to 1932, inclusive of the New York Shipbuilding Corporation.

The legal retainers as of January 1, 1935, are as follows:

Pruitt & Grealis	$15, 000. 00
Goldwater & Flynn	15, 000. 00
Foulkrod, Sheppard, Porter & Alexander	2, 500. 00

The limited time available does not permit the preparation of this data for the years 1933 and 1934 or the years prior to 1926.

Yours very truly,

New York Shipbuilding Corporation,
By N. R. Parker, *Treasurer.*

Schedule 2 (C-2). *Legal expense New York Shipbuilding Company (subsidiary company) by years from October 1, 1928 to December 31, 1932*

	Total	Year ended December 31			
		1932	1931	1930	1929
White and Case	$8, 423. 62			$5, 923. 62	$2, 500. 00
R. M. Ketchum	670. 62				670. 62
U. S. Corp. Co	100. 00				100. 00
Kenyon and Kenyon	1, 031. 75		$1, 031. 75		
S. R. Leap	2, 000. 00		2, 000. 00		
Orlando and Kisselman	10. 00	$10. 00			
	12, 235. 99	10. 00	3, 031. 75	5, 923. 62	3, 270. 62

SCHEDULE 2 (C–1).—*Legal expense, New York Shipbuilding Corporation (parent company), by years, from January 1, 1926, to December 31, 1932*

	Total	Year ended December 31—		
		1932	1931	1930
White and Case	$141, 250. 83	$4, 601. 28	$18, 156. 01	$20, 249. 83
Root, Clark and Buckner	9, 375. 00	9, 375. 00		
Harold W. Bennett	2, 129. 69	2, 129. 69		
Harper and Matthews	1, 000. 00	1, 000. 00		
United States Corporation	656. 52		656. 52	
Brooks and Brooks	10, 308. 94			1, 554. 29
Cromwell, Geist and Warden	61, 273. 12			1, 199. 22
Sedgwick Rushing Leap	3, 000. 00			
C. A. Kraus	1, 000. 00			
Donald S. Edmonds	2, 500. 00			
S. P. Orlando	1, 478. 40			
Reed, Smith, Shaw and McClay	2, 500. 00			
E. M. Bentley	802. 00			
Norman H. Walker	2, 100. 00			
Larkin, Rathbone and Perry	51, 913. 92			
Shirley, Faust and Wilson	30, 874. 58			
Edwards, Sager and Bowers	3, 949. 03			
	326, 112. 03	17, 105. 97	18, 812. 53	23, 003. 34

	Year ended December 31—			
	1929	1928	1927	1926
White and Case	$14, 917. 51	$39, 278. 16	$44, 048. 04	
Brooks and Brooks	1, 250. 00	2, 504. 65	1, 250. 00	$3, 750. 00
Cromwell, Geist and Warden		14, 636. 15	10, 727. 99	34, 709. 76
Sedgwick Rushing Leap	3, 000. 00			
C. A. Kraus		1, 000. 00		
Donald S. Edmonds				2, 500. 00
S. P. Orlando	778. 40	200. 00		500. 00
Reed, Smith, Shaw and McClay	2, 500. 00			
E. M. Bentley		802. 00		
Norman H. Walker	2, 100. 00			
Larkin, Rathbone and Perry	103. 50	51, 810. 42		
Shirley, Faust and Wilson		25, 664. 03	5, 210. 55	
Edwards, Sager and Bowers		2, 549. 03	1, 400. 00	
	24, 649. 41	138, 444. 44	62, 636. 58	41, 459. 76

EXHIBIT No. 1538

NEW YORK SHIPBUILDING CORPORATION
MAIN OFFICE AND WORKS, CAMDEN, NEW JERSEY, U.S.A.
Cable address, Fairview

CAMDEN, *January 17th, 1935.*

Reference: Letter to New York Shipbuilding Corporation, January 2nd, 1935.

HON. GERALD P. NYE,
Chairman Special Committee Investigating the Munitions Industry,
Room 357, Senate Office Bldg., Washington, D.C.

SIR: The reference letter (paragraphs 16 and 17), requests information, as follows:

"(16) All company contributions, dues, entrance fees, loans, etc., to all national or State associations or individuals."

"(17) A summary of all publicity and/or propaganda expenses disbursed by the company and/or its officials for magazines, press, radio, or for publicity consultation and assistance, 1920 to 1934, inclusive."

Company contributions, dues, entrance fees, etc., for year 1934, are as follows:

Middle West foreign trade (year 1933), $200 per mo	$2, 400. 00
National Council of American Shipbuilders (year 1933)	12, 000. 00
Manufacturers Council, State of New Jersey (dues to Feb. 1, 1934)	25. 00
National Association of Manufacturers, year ending February 1935	100. 00
American Institute of Weights and Measures, year 1934	125. 00
National Industrial Conference Board, year 1934	100. 00
National Safety Council (Chicago), year 1934	125. 00
American Welding Society, year 1934	10. 00
Crab Point Gun Club and Old Mill Fishing Club, year 1934	1, 000. 00
Manufacturers Association of New Jersey, year 1934	25. 00
International Chamber of Commerce, year 1934	200. 00
Assessment, Shipbuilding and Ship Repairing Industry Committee, 7/33 to 7/34	3, 834. 00
Patrolmen's Benevolent Association	50. 00
Woman's Auxiliary, Cooper Hospital	30. 00
Citizens Family Welfare (New York City)	200. 00
Camden Police & Firemen's Assn	150. 00
West Jersey Homeopathic Hospital	1, 000. 00
Camden County Chamber of Commerce	500. 00
Philadelphia & Reading Railway Athletic Assn	50. 00
Army and Navy football program (advertising space)	200. 00
Camden Democratic Club	1, 000. 00
New Jersey State Chamber of Commerce	100. 00
Camden Y.W.C.A	500. 00
Will R. Wood Memorial Assn	1, 600. 00
Salvation Army	100. 00
Camden Y.M.C.A	2, 000. 00
Dinner reservations (Chamber of Commerce of U.S.)	50. 00
Christmas presents R.R. men $90.00, Christmas basket fund $250.00	340. 00
Special subscription to underwriting fund, National Assn. of Manufacturers	2, 500. 00
New Jersey Taxpayers Assn	1, 000. 00
Donations to Rev. Sloan and Rev. Pemberton	500. 00

In connection with paragraph (17), the only apparent record of publicity and/or propaganda expenses disbursed by the company and/or its officials, except local advertising and ordinary magazine and program space (which items are assumed to be outside the request of paragraph 17), is in connection with publicity suporting the enactment of merchant marine legislation in 1927–1928, disbursements in connection with William B. Shearer at Geneva, and out-of-pocket expenditures for proposed high-speed project of Trans-Oceanic Corporation, the summaries of which, as previously presented to the Senate committee for investigation of William B. Shearer at Geneva, and also to the committee investigating foreign and domestic ocean- and air-mail contracts, have already been given to investigators for the committee investigating the munitions industry.

Yours very truly,

New York Shipbuilding Corporation,
By N. R. Parker, *Treasurer*.

EXHIBIT NO. 1539

NEW YORK SHIPBUILDING CORPORATION
MAIN OFFICE AND WORKS, CAMDEN, NEW JERSEY, U.S.A.
Cable address, "Fairview"

CAMDEN, *January 17th, 1935.*

Reference: Letter to New York Shipbuilding Corporation, January 2nd, 1935.

Hon. GERALD P. NYE,
Chairman Special Committee Investigating the Munitions Industry,
Room 357, Senate Office Bldg., Washington, D.C.

SIR: The reference letter (paragraphs 8 and 13), requests information, as follows:

"(8) The names of all representatives or agents of the company in the United States or abroad, together with their salaries, the expense itemized by individuals for the years 1920 to 1934, inclusive."

"(13) A list of foreign sales agents by name, including the rate of commission, salaries, and expenses and commissions actually paid them for the years 1920 to 1934, inclusive."

The information requested in the subject paragraphs is assumed to exclude sales agents or representatives having to do with the electrical business conducted under the corporate name American Brown Boveri Electric Corporation. It is further assumed that the information requested applies to representatives, agents, or foreign sales agents having to do with the shipbuilding activities of the corporation.

The limited time does not permit a complete examination of the records or does it permit the compilation of salaries, commissions, and expenses actually paid.

The following is a list assumed to be requested under the subject paragraphs, based on incomplete records, recollection, or memorandum agreements:

I. V. Gillis, foreign representative in the Far East, 1910 to 1927.
H. M. Hitchcock, New York representative, 1920 to 1922.
Charles Denby, special representative, China and the Orient, 1922 to 1923.
Sterling J. Joyner, special agent, 1920 to 1923.
P. Peixotto, general delegate, France and Europe, 1921 to 1922.
James J. Pearson, European consulting engineer, 1919 to 1920.
Harry R. Humphreys, special representative, 1921 to 1929.
Frank A. Lord, special representative, 1929 to 1932.
Addison G. Foster, special representative, 1932 to 1934.
Casa Mayrink Beiga S/A, Brazilian representatives, 1934.

Yours very truly,

NEW YORK SHIPBUILDING CORPORATION,
By N. R. PARKER, *Treasurer.*

EXHIBIT NO. 1540

NEW YORK SHIPBUILDING CORPORATION
MAIN OFFICE AND WORKS, CAMDEN, NEW JERSEY, U. S. A.
Cable Address, "Fairview"

CAMDEN, *January 16th, 1935.*

Reference: Letter to New York Shipbuilding Corporation, January 2nd, 1935.

Hon. GERALD P. NYE,
Chairman Special Commitee Investigatiog the Munitions Industry,
Room 357, Senate Office Bldg., Washington, D.C.

SIR: The reference letter (paragraphs 3 and 4) requests information as follows:

"(3) The committee requests also a summary of information on naval ships for which you secured awards * * *" ·

"(4) The same summary for merchant marine ships for the years 1928 to 1934, inclusive * * *"

Herewith are statements prepared in accordance with paragraphs 3 and 4. Information and original file of estimates for naval contracts are furnished under paragraph 2.

Yours very truly,

NEW YORK SHIPBUILDING CORPORATION,
By N. R. PARKER, *Treasurer.*

Statement, paragraph (3) of Letter of Special Committee Investigating the Munitions Industry, dated January 2nd, 1935.—New York Shipbuilding Corporation

Name of ship (a)	Estimates made by company for material and labor (b)	Actual cost of material and labor (c)	Estimated overhead[1] (d)	Actual overhead as charged (e)	Sales price and final settlement for the contract (f)
1934 C. L.—Phoenix[2]	$8,657,000.00		(1)		
1933 C. L. {Savannah[2] Nashville[2]} 2 ships	16,892,060.00				
1933 D. D. {Porter[2] Selfridge[2] McDougal[2] Winslow[2]} 4 ships	11,407,477.00				
Tuscaloosa[3]	7,249,280.00	[4] $7,116,259.25		[4] $3,603,008.88	$10,832,785.50
Indianapolis	7,173,000.00	7,012,545.89		1,960,481.13	11,980,076.90
Chester	7,950,180 00	5,734,461.84		2,239,194.99	10,920,361.59
Mchy. Pensacola Salt Lake City	9,598,754.00	7,884,971.91		2,903,541.71	11,350,610.93
Total for completed ships	31,971,214.00	27,748,238.89		10,706,226.71	45,083,834.92

[1] No estimates of overhead available.

[2] Contracts in process.

[3] Final acceptance, final cost, final settlement not complete.

[4] Estimate.

Profit on completed ships (f)−(c+e)=14.5% of (f).

Statement, paragraph (4) of Letter of Special Committee Investigating the Munitions Industry, dated January 2nd, 1935.—New York Shipbuilding Corporation

Name of ship (a)	Estimates made by company for material and labor (b)	Actual cost of material and labor (c)	Estimated overhead[1] (d)	Actual overhead as charged (e)	Sales price and final settlement for the contract (f)
Santa Clara	$2,680,685.00	$2,785,095.47	(1)	$871,493.18	$3,345,139.17
Excalibur Exachorda Exeter Excambion} 4 ships	7,250,420.00	7,213,820.47		2,546,623.72	8,924,032.19
Moore & McCormick	820,890.00	1,095,524.44		255,174.02	983,122.55
Manhattan Washington} 2 ships	14,139,930.00	15,553,219.05		3,772,654.21	19,664,797.08
	24,891,925.00	26,647,659.43		7,445,945.13	32,917,090.99

[1] No estimates of overhead available.

("EXHIBIT NO. 1541" appears in text on p. 5122.)

("EXHIBIT NO. 1542" appears in text on p. 5124.)

EXHIBIT NO. 1543

MAY 16, 1934.

Reverend JOHN PEMBERTON, JR.,
409 Penn Street, Camden, New Jersey.

MY DEAR REVEREND PEMBERTON: I beg to apologize for not having communicated with you earlier expressing both on behalf of the company and myself our very great appreciation for the helpful and constructive aid which you rendered in the final settlement of our labor situation.

The men returned to work in full force on Monday and apparently are happy and exceedingly well pleased with the outcome.

As a more substantial token of our appreciation I beg to enclose herewith check for $250.00 which I hope you will accept in the spirit in which it is sent. This is intended for your personal use.

Thanking you, and with high personal regards, I am,

Very sincerely yours,

C. L. Bardo.

Exhibit No. 1544

Centenary-Tabernacle Methodist Episcopal Church,

John Pemberton, Jr., Pastor,
Camden, New Jersey, May 17, 1934.

Mr. C. L. Bardo,
President New York Shipbuilding Corp.,
Camden, New Jersey.

My Dear Mr. Bardo: Your very gracious letter with its generous enclosure came all unexpectedly this morning. I was as surprised to receive it as Moses must have been to receive the manna when he was leading the children of Israel out of the wilderness.

I interested myself in the New York Shipbuilding strike solely because of my concern for the welfare of my fellowmen and the community. It never occurred to me that either side would express such genuine appreciation as you have shown. I wish to thank you for the splendid way in which you received us and allowed us to counsel with you and for accepting such suggestions as you felt were wise.

I shall always be happy for the privilege of coming to know you and for being used in helping to solve this social problem. My experience as a worker in the yard stood me in good stead both in appreciating the needs of the workmen and also the cost of production on the part of the Company.

At any time in the future that I can be of assistance to you or the men, I shall be pleased to be called upon.

I accept your gift in the same spirit in which you sent it.

Sincerely yours,

John Pemberton, Jr.

P. S.—I am still looking forward to another bowl of bananas and cream, with you.

J. P.

Exhibit No. 1545

E. L. Cord,
Chicago, January 22, 1935.

Mr. L. B. Manning,
105 W. Adams Street, Chicago, Illinois.

Dear Mr. Manning: In connection with the letter from the United States Senate Special Committee Investigating the Munitions Industry to Mr. E. L. Cord, dated January 4, 1935, Mr. Cord's records and files disclose:

(1) No reports, records, diaries, notes, or other data relating to bidding on naval vessels by the New York Shipbuilding Corporation in 1933 and 1934.

(2) No evidence of ownership of stock of the Corporation with the exception of his own individual holdings aggregating 4,200 Founders Shares, and no information concerning outstanding loans, notes or other obligations outstanding against stock.

(3) No record of any options taken or given on New York Shipbuilding Corporation stock for the years 1928 to 1934, inclusive.

(4) No copies of analyses, surveys, or other data concerning New York Shipbuilding Corporation received prior to August, 1933.

(5) No contributions or loans to political parties or individuals prominently connected with political parties, made either directly or through agents, since he became interested, either as a stockholder or director, in New York Shipbuilding Corporation.

Yours very truly,

H. C. Reyelt, *Secretary to E. L. Cord.*

EXHIBIT NO. 1546

NYSB

	No par value, 1932		Par value $1, 1933		Par value $1, 1934	
	Low	High	Low	High	Low	High
January	4	4¾	1¾	2¾	11⅝	22¾
February	4¼	6¼	2½	5⅛	16⅞	22⅞
March	3½	5½	3¼	6¼	17	20½
April	2⅛	3½	5⅜	8⅛	17⅞	20⅛
May	2	2⅝	6½	8	13¾	18⅜
June	1¾	2⅜	6⅝	18¾	15¼	17¾
July	2¼	2½	12	21⅜	9½	16
August	2⅜	4⅞	16½	22½	10⅝	15⅛
September	2½	4¼	12¾	19¼	10⅝	14
October	2¼	3⅛	9⅛	14⅞	11¼	13¼
November	2	2½	9½	11¾	11½	15¾
December	1⅝	2⅜	9½	12⅜	12¾	15⅞

Source: The Commercial Financial Chronicle, vol. 136, p. 107, Jan. 7, 1933.
Ibid., vol. 138, p. 102, Jan. 6, 1934.
Ibid., vol. 140, p. 90, Jan. 5, 1935.

EXHIBIT NO. 1547

New York Shipbuilding Corporation stockholders having 1% or more, as of December 22, 1934, of the total stock outstanding

	Shares
Participating:	
Walter L. Johnson, 14 Wall Street, New York, N.Y	4,000
Sidney Rheinstein, 14 Wall Street, New York, N.Y	10,000
Preferred:	
Clinton L. Bardo, ℅ N.Y.S. Corp., Camden, N.J	805
Mrs. Ruth Benson Blinn, ℅ Central Hanover Bank & Trust Co., Plaza Off., 786 5th Ave., New York, N.Y	230
Maurice F. Lautman, 902 Medical Arts Bldg., Hot Springs, Ark	300
Edith F. Sturtevant, R.F.D. #2, Montague, Michigan	250
Founders:	
A. MacDonald Flook, ℅ William M. Flook, 420 Lexington Ave., New York, N.Y	2,300
H. Stuart Flook, ℅ William M. Flook, 420 Lexington Ave., New York, N.Y	2,100
Sabin P. Sanger, 423 Walnut Street, Brookline, Mass	2,722
Matilde Schoen, 470 4th Ave., Rm. 1004, New York, N.Y	3,800
Frank B. Sloan, 117 Essex Ave., Saugus, Mass	2,000
Floyd B. Dean, ℅ Cord Corp., 105 W. Adams St., Chicago, Ill	17,600
J. C. Friese, ℅ Cord Corp., 105 W. Adams St., Chicago, Ill	5,000
Leslie K. Grant, ℅ Cord Corp., 105 W. Adams St., Chicago, Ill	5,000
Herman C. Reyelt, ℅ Cord Corp., 105 W. Adams St., Chicago, Ill	5,000

Floyd B. Dean, J. C. Friese, Leslie K. Grant, and Herman C. Reyelt, whose names appear above as stockholders of record owning founders stock, do not personally own the same, but are nominees of the Cord Corporation, and the shares of founders stock registered in their names belong to the Cord Corporation.

New York Shipbuilding Corporation stockholders having 1% or more, as of December 19, 1931, of the total stock outstanding

	Shares
Participating:	
Sidney Rheinstein, 50 Broadway, New York, N.Y	9,275
J. E. Slater, ℅ Coverdale & Copitts, 120 Wall St., New York, N.Y	8,000
Preferred:	
Clinton L. Bardo, ℅ N.Y. Shipbldg. Corp., Camden, N.J	805
Mrs. Ruth Benson Blinn, Harriman National Bank, 44th St. & 5th Ave, New York City	230
Martin J. Insull, 20 North Wacker Drive, Chicago, Illinois	1,300
Maurice F. Lautman, Dugan-Stuart Bldg., Hot Springs, Arkansas	300
Mrs. Isabel S. Lewis, Corner Woods & Forest Lanes, Scarsdale, N.Y	220
Archie D. W. Smith, 1732 Commercial Trust Bldg., Philadelphia, Pa	600

New York Shipbuilding Corporation stockholders having 1% or more, as of December 22, 1931, of the total stock outstanding—Continued

Founders:	*Shares*
Edward M. Barlow, P.O. Box 567, Greenwich, Conn	3, 000
George E. Burns, ℅ Bancamerica, Blair Corp., 44 Wall St., New York, N.Y	9, 100
A. MacDonald Flook, ℅ Mr. William M. Flook, 420 Lexington Ave., New York, N.Y	2, 300
H. Stuart Flook, ℅ Mr. William Flook, 420 Lexington Ave., New York, N.Y	2, 153
William M. Flook, 420 Lexington Ave., room 2805, New York, N.Y.	1, 700
Frederick K. Gentes, ℅ Bancamerica Blair Corp., 44 Wall St., New York, N.Y	8, 900
Edward Motley, ℅ Webster & Atlas Nat'l. Bank of Boston, Boston, Mass	1, 823
Ronald S. Rowe, ℅ Bancamerica, Blair Corp., 44 Wall St., New York, N.Y	9, 700
Sabin P. Sanger, P.O Box 347, Boston, Mass	2, 822
Matilde Schoen & Mason H. Bigelow as executors of the estate of Carl Schoen, dec'd, ℅ Gould & Wilkie, 2 Wall St., New York, N.Y	6, 600
J. E. Slater, Rm. 2805, 420 Lexington Ave., New York, N.Y	20, 000
Frank B. Sloan, 117 Essex St., Saugus, Mass	2, 000
William E. Trotter, ℅ Bancamerica, Blair Corp., 44 Wall St., New York, N.Y	10. 000

New York Shipbuilding Corporation stockholders having 1% or more, as of December 20, 1932, of the total stock outstanding

Preferred:	*Shares*
Clinton L. Bardo, c/o N. Y. Shipbldg. Corp., Camden, N.J	905
Mrs. Ruth Benson Blinn, c/o Harriman National Bank, 44th & 5th Ave., New York, N.Y	230
Maurice F. Lautman, Dugan-Stuart Bldg., Hot Springs, Arkansas	300
Mrs. Isabel S. Lewis, 267 Madison Road, Scarsdale, New York	220
Archie D. W. Smith, c/o C. B. Metzger, 32nd floor, Lewis Tower Bldg., Philadelphia, Penna	600
Edith Sturtevant, 1448 Lake Drive, Chicago, Illinois	300

New York Shipbuilding Corporation stockholders having 1% or more, as of March 20, 1933, of the total stock outstanding

Participating:	*Shares*
Walter L. Johnson, 71 Broadway, New York, N.Y	4, 000
Sidney Rheinstein, 50 Broadway, New York, N.Y	9, 275
Founders:	
Bank of California, N. A. trustee under deed of trust of Alfred E. Clegg and Lucille F. Stackpole dated 7/15/32, 400 California St., San Francisco, Calif	1, 900
George E. Burns, c/o Bancamerica-Blair Corp., 44 Wall St., New York, N.Y	9, 000
A. MacDonald Flook, c/o Mr. William M. Flook, 420 Lexington Ave., New York, N.Y	2, 300
H. Stuart Flook, c/o Mr. William N. Flook, 420 Lexington Ave., New York, N.Y	2, 153
William M. Flook, c/o Mr. William M. Flook, 420 Lexington Ave., New York, N.Y	1, 900
Frederick K. Gentes, c/o Bancamerica-Blair Corp., 44 Wall St., New York, N.Y	8, 900
Thomas Motley, 82 Devonshire St., Boston, Mass	2, 005
Ronald S. Rowe, c/o Bancamerica-Blair Corp., 44 Wall St., New York, N.Y	9, 700
Sabin P. Sanger, 423 Walnut St., Brookline, Mass	2, 822
Matilde Schoen, 470 Fourth Ave., rm. 1004, New York, N.Y	5, 600
William E. Trotter, c/o Bancamerica-Blair Corp., 44 Wall St., New York, N.Y	10, 000
Frank B. Sloan, 117 Essex St., Saugus, Mass	2, 000

New York Shipbuilding Corporation stockholders having 1% or more, as of December 19, 1933, of the total stock outstanding

	Shares
Participating:	
Walter L. Johnson, 14 Wall St., New York, N.Y	4,000
Sidney Rheinstein, 50 Broadway, New York, N.Y	10,000
Preferred:	
Clinton L. Bardo, c/o N. Y. Ship. Corp., Camden, N.J	845
Mrs. Ruth Benson Blinn, c/o Central Hanover Bk. & Tr. Co., Plaza Office, 785 5th Ave., New York, N.Y	230
Maurice F. Lautman, 902 Medical Arts Bldg., Hot Springs, Ark	300
Mrs. Isabel S. Lewis, 4600 Spruce St., Philadelphia, Pa	220
Archie D. W. Smith, 3200 Lewis Tower, 15th & Locust Sts., Philadelphis, Penna	600
Edith T. Sturtevant, 1448 Lake Drive, Chicago, Ill	250
Founders:	
A. MacDonald Flook, c/o Mr. William M. Flook, 420 Lexington Ave., New York, N.Y	2,300
H. Stuart Flook, c/o Mr. William M. Flook, 420 Lexington Ave., New York, N.Y	2,153
William M. Flook, 420 Lexington Ave., rm. 2805, New York, New York	2,000
Sabin P. Sanger, 423 Walnut St., Brookline, Mass	2,822
Matilde Schoen, 470 4th Ave., rm. 1004, New York, New York	3,800
Frank B. Sloan, 117 Essex St., Saugus, Mass	2,000
Floyd B. Dean, c/o Cord Corp., 105 W. Adams St., Chicago, Ill	17,600
J. C. Friese, c/o Cord Corp., 105 W. Adams St., Chicago, Ill	5,000
Leslie K. Grant, c/o Cord Corp., 105 W. Adams St., Chicago, Ill	5,000
Herman C. Reyelt, c/o Cord Corp., 105 W. Adams St., Chicago, Ill	5,000

Floyd B. Dean, J. C. Friese, Leslie K. Grant, and Herman C. Reyelt, whose names appear above as stockholders of record owning founders stock, do not personally own the same, but are nominees of the Cord Corporation, and the shares of founders stock registered in their names belong to the Cord Corporation.

EXHIBIT NO. 1548

NOVEMBER 13, 1933.

Mr. L. B. MANNING,
105 West Adams Street, Chicago, Illinois.

MY DEAR MR. MANNING: One could hardly have gone through the experiences I have with this company without having some pretty strong views regarding its policies. Now that is is definitely settled that I am not going along with the company's development, I think I should outline these policies to you.

During a very large part of the company's history it was controlled by Mr. Mellon and I think it may be taken for granted that there was strong and aggressive management. We have its records for the last twenty-nine years, during which the average annual earnings applicable to the present common stock are in round figures $550,000, or $1.10 per share. Eliminating the so-called "war years" (that is, the years in which profits were abnormally large because of orders placed during the war) this average is $420,000, or 84¢ per share. The earnings for 1933 will be approximately zero. On the basis of the figures used in making up the bids for the recent naval order of some $38,000,000, the earnings on the business now on the books will be $560,000, or $1.12 per share, for 1934; $735,000, or $1.47 per share for 1933, and $560,000, or $1.12 per share for 1936. In these estimates, considerable sums were inserted for contingencies of various kinds; but if the present labor outlook continues, it is doubtful if the estimates can be realized.

The New York Shipbuilding organization has a considerable technical superiority over the other yards in naval work, and I think it is fair to say that it can make more profit at a given price on a cruiser than any of the other yards. It has, however, never been possible to get any unduly high prices for naval work, because the technical naval officers are fully aware of costs and because of the competition of the navy yards.

In merchant-marine work New York Ship is at a disadvantage because the Bethlehem and Federal yards are much more interested in finding an outlet for steel than in making money for their shipyards, and because Newport News has a distinct advantage in the lower prices of its labor, in its climate, and in its favorable location for repair work. In addition to the repair work, it has a considerably diversified and prosperous business.

Another fact is that there never has been, and in the absence of actual war conditions there never can be, enough naval work to keep the large yards really busy. This is where the merchant-marine business is of such vital importance; because, while it is not so remunerative as the naval business, it helps out enormously on the heavy overhead. It is therefore absolutely vital that everything possible should be done to foster a merchant-marine policy. Fortunately, the best thought of the country is now solidifying on the proposition that, whether war times or peace times be considered, nothing is of such vital importance to the country's safety and prosperity as the maintenance of a powerful merchant marine.

From the foregoing it must be apparent, however, that at best there is little in the shipbuilding business as such which could possibly interest men thinking in terms of big profits.

It is for the above reasons, of course, that I have been trying so hard to find lines of activity which we could properly go ahead with. I am satisfied that the Livermore transmission will be perfected into a very valuable thing, that the Bassoff transmission will be a much more valuable thing, and that Kinetor will produce fabulous profits, if these things are handled sympathetically and intelligently.

Another matter on which a good deal of work has been done, but which is not yet in option form, is the Brenner valve. This is very promising but perhaps not so important as the above three. I think continued and persistent search for other devices is indicated.

I gave the small-boat proposition considerable attention a long time ago and dismissed it as being uninteresting from our standpoint. I have heard, however, in an indirect way of your ideas for metal cruisers, using your motors and your marketing organization, and with the scant information I have I am frank to say it seems to me most interesting.

If I have made myself at all clear, there is involved here not merely executive management in the ordinary sense of the term but literally the creation of a profitable enterprise upon the solid groundwork already established.

As you know, we some time ago sold 15,000 shares of Allis-Chalmers and purchased, practically out of the proceeds, 30,000 shares of our own stock. The relative price of the two stocks is now again almost in that ratio, and I think advantage should be taken of the situation to still further reduce our outstanding stock.

Also, such preferred stock as can be picked up at anything like the present market price ought to be bought.

There are two small matters of organization which I was just on the point of correcting when the change of control occurred, and which I therefore venture to suggest to you.

The sales manager, Mr. Workman (an excellent man), should be fully responsible for the sales representative in New York and, therefore, this New York representative should be appointed by and be answerable to him.

Our representative in Washington, Mr. Foster, was put there on trial, having had no experience in exactly this work. He has in every respect made good and, therefore, should now be given a salary commensurate with his abilities, and to enable him to live in such a way as to be most effective in the important work he is handling.

I am sure you will believe that in writing this letter I have no motive other than that of turning over, along with the company's other assets, the high spots of my convictions for what they are worth.

With every good wish for the company's prosperity.

Very sincerely yours,

———— ————

WMF/JEA

[File—Miscellaneous "M", Mr. W. M. Flook's Cabinet.]

("Exhibit No. 1549" appears in text on p. 5171.)

Exhibit No. 1550

SUMMARY

Authorizing expenditures schedule 1		102, 347. 00
Contributing expenditures schedule 2		41, 184. 73
Special to Wm. M. Flook		17, 000. 00
Special to H. C. Hunter	10, 908. 33	
Advance to W. B. Shearer	250. 00	
		11, 156. 33
		171, 690. 06

Exhibit No. 1551

[Copy]

August 5th, 1929.

To: Mr. C. L. Bardo.
From: Mr. N. R. Parker.

Paid to H. C. Hunter, March 17th, 1927	$2, 500. 00
Paid to H. C. Hunter, June 24th, 1927	2, 500. 00
Paid to H. C. Hunter, Dec. 7th, 1927	3, 333. 33
	8, 333. 33

The above represents New York Ship's proportion of the $25,000 paid to W. B. Shearer.

In addition to the above, there was paid to William M. Flook, November 13th, 1928, $5,000, which was the amount received from the Sun Shipbuilding Company. There was also advanced on your instruction from the New York office petty cash fund, January 9th, 1929, $250.00.

Total received by W. B. Shearer from this company, directly and indirectly, is as above, $13,583.33.

N. R. P.

("Exhibit No. 1552" appears in text on p. 5178.)

Exhibit No. 1553

[Confidential]

January 23, 1929.

Mr. C. L. Bardo,
President New York Shipbuilding Company,
Brown Boveri Corporation, Camden, New Jersey.

My Dear C. L.: Miss Howe telephoned me in reference to the memorandum left by Mr. Flook and suggested that I would telephone you.

The position is this: It was understood, as I recall it, that you stated to Mr. Flook you were willing to do anything to help the situation. Just prior to my going to Washington, Mr. Flook instructed Miss Howe to give me a check and stated to me that when I needed anything more, call for it.

As you know, the situation which is vital in the interest of national defense that first we must pass the cruiser bill as it now stands and maintain the time-limit clause. When that is done the Dalanger amendment must be taken care of. Other than preparing articles for patriotic societies, bulletins, the press, and the papers that I subscribe to, I have a very big mailing list which covers the entire United States. All this is operating and functioning in the interest of sea power.

Realizing just what the United States is up against, I find it necessary to release bit by bit, a British secret document that has come into my possession. The first reference to this document I herewith enclose; and before I am finished I will, without question, prove a case against England which was so ably referred to in Senator James A. Reed's speech before the Senate. There is much that I could tell you which I don't care to write on the evidence in my possession. However, I will submit it at a later date. In the meantime, it was distinctly understood that, to carry on my work, Mr. Flook was to contribute towards the expenses, and as I have assumed the position as well as the obligation, I am forced to look to you in Mr. Flook's absence.

I believe you realize that this fight means more than a naval program of 16 ships. It means that the United States will declare itself by the building of these cruisers of a real naval policy.

As the originator of the cruiser bill in 1924, you will see that I must keep up my part of the fight until the fight is won. If it is not convenient for you to give me an appointment in New York, please instruct Miss Howe as to your intentions.

Sincerely,

W. B. SHEARER.

WBS/RW.

("EXHIBIT NO. 1554" appears in text on p. ——.)

The following information was introduced during hearings of March 12, 1935. See text, page 5128, for request.

EXHIBIT NO. 1671

PRUITT AND GREALIS,
(Law Offices)
105 West Adams Street, Chicago, February 12, 1935.

Hon. ARTHUR H. VANDENBERG,
Vice Chairman Special Committee to Investigate the Munitions Industry,
357 Senate Office Building, Washington, D. C.

MY DEAR SENATOR: At the time of Mr. L. B. Manning's appearance before your committee last Thursday it was requested that additional information be furnished the committee regarding campaign contributions made by Mr. E. L. Cord, Mr. Manning, and myself prior to August 2, 1933, the date of our election as directors of the New York Shipbuilding Corporation. Information as to contributions made subsequent to said date has already been furnished your committee in response to the original questionnaire, and while we do not think that any contributions made prior to our connection with the New York Shipbuilding Corporation are material to this inquiry, I am glad to give you the same information at this time as was given to Senator Black's committee last year when an investigation was made of the air-mail contracts.

Prior to 1932 Mr. Cord made the following contributions to the local Republican State committee of Indiana:

Jan. 7, 1929	$100.00
Jan. 24, 1930	100.00
Oct. 23, 1930	250.00

In addition to the foregoing he gave a check for $300.00 to one Felix McWhirter on October 19, 1928. Mr. Cord's books do not show that this was a political contribution or not, but I believe same was a political donation as Mr. McWhirter had something to do with Indiana State politics at that time.

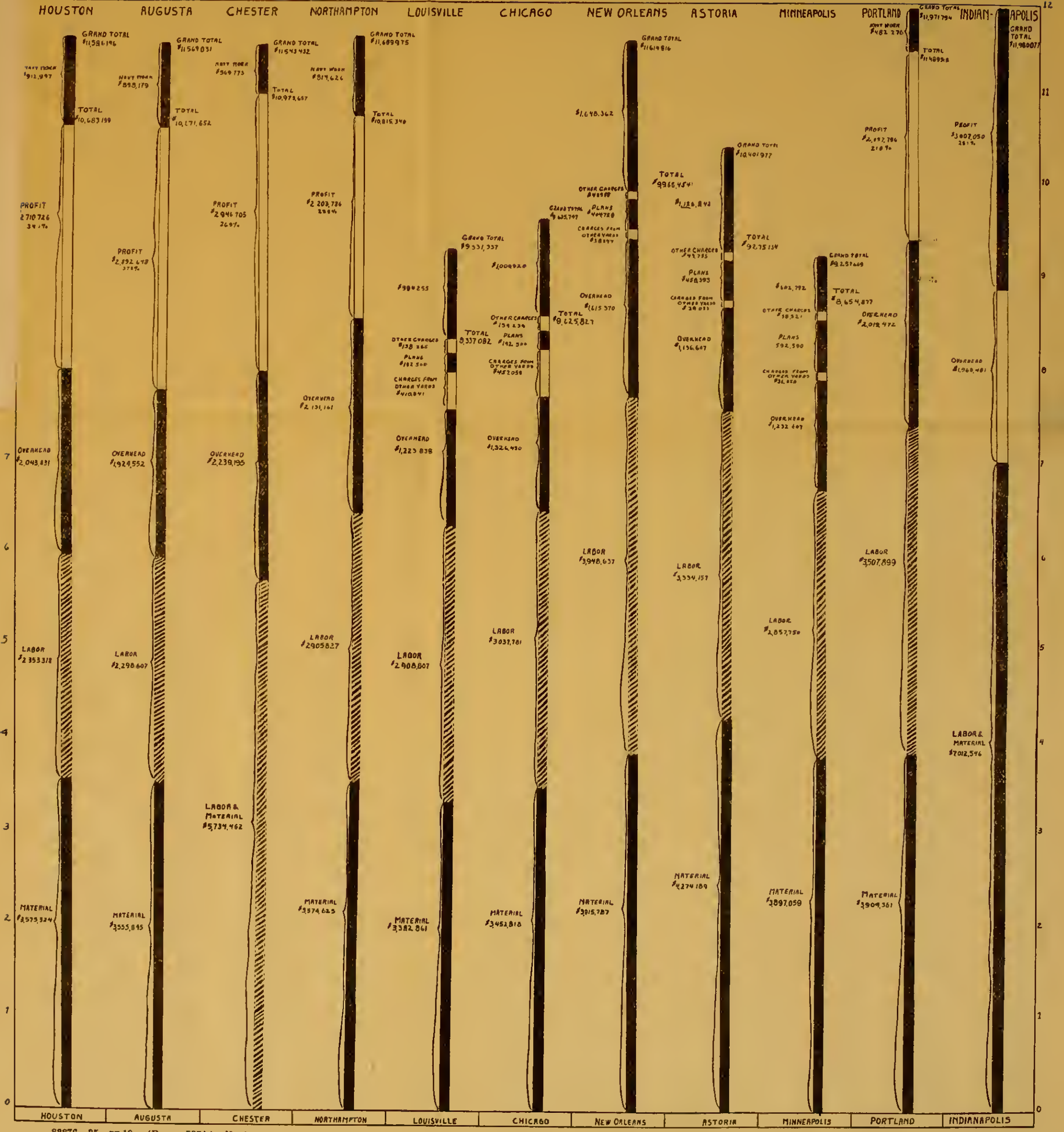
I have no record of any donations made by Mr. Manning or myself prior to 1931.

On March 18, 1932, Mr. Cord contributed $5,000.00 to the Garner preconvention campaign. This contribution was made through Milton K. Young, a Democrat residing in Los Angeles, California.

In addition to this $5,000.00 contribution made by Mr. Cord personally, Mr. Cord, Mr. Manning, and myself during the year 1932 made the following contributions:

E. L. Cord	$19,385.00
L. B. Manning	7,825.00
R. S. Pruitt	1,590.00

COSTS OF NAVAL CONSTRUCTION — 1927 AND 1929



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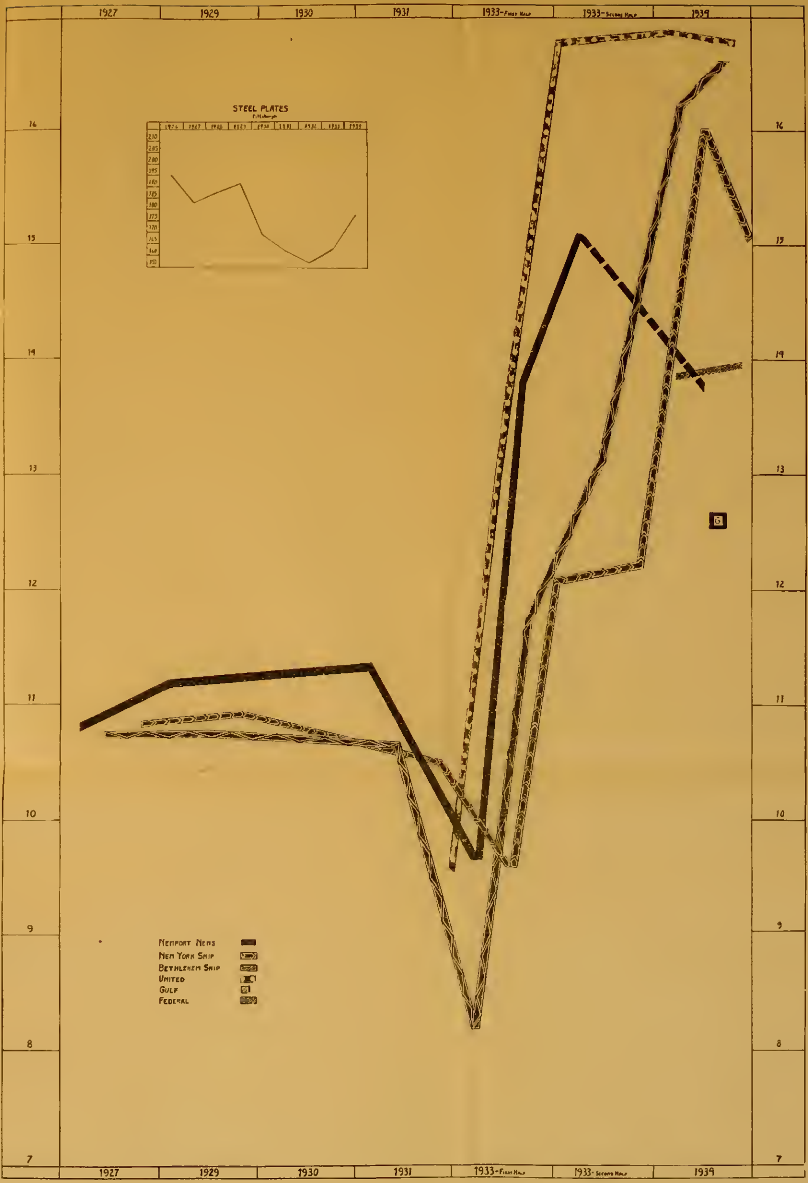
CRUISER BIDS AND ESTIMATES

1927-1939



The payments made by Mr. Cord were as follows:

October 18, 1932, check to R. S. Pruitt	$2, 000. 00
October 31, 1932, check to R. S. Pruitt	1, 685. 00
October 18, 1932, check to Republican National Committee	3, 500. 00
October 18, 1932, check to L. B. Manning	8, 250. 00
October 18, 1932, check to W. H. Beal	2, 200. 00
October 18, 1932, check to F. M. Bender	1, 750. 00
Total	19, 385. 00

Mr. Manning's contributions were as follows:

October 17, 1932, cash to R. S. Pruitt	1, 075. 00
October 18, 1932, check to Republican National Committee	2, 250. 00
October 24, 1932, check to Republican National Committee	1, 750. 00
No record date, cash to Melvin Traylor	11, 000. 00
Total	16, 075. 00

Of said total Mr. Manning received $8,250.00 from Mr. Cord, leaving his net contributions $7,825.00.

It is my understanding, as well as Mr. Manning's, that Mr. Traylor contributed $10,000.00 of the $11,000.00 cash so received by him from Mr. Manning to the Democratic National Committee and the remaining $1,000.00 to the local Democratic campaign fund.

My own contributions were as follows:

October 17, 1932, check to A. J. Cermak, treasurer, Cook County Democratic Committee	$1, 000. 00
October 18, 1932, Republican National Committee	2, 000. 00
October 19, 1932, Senator Otis F. Glenn	250. 00
October 20, 1932, check to Will Wood, Congressman, Indiana	500. 00
October 21, 1932, Republican National Committee	1, 550. 00
October 21, 1932, to John E. Northrup, Republican candidate for Attorney General	50. 00
November 1, 1932, to Senator James E. Watson	1, 000. 00
Total	6, 350. 00

Of said amount I received $1,075.00 from Mr. Manning and $3,685.00 from Mr. Cord, leaving my net contrbutions $1,590.00 as above set forth.

Mr. W. H. Beal, who received $2,200.00 from Mr. Cord, and F. M. Bender, who received $1,750.00 from Mr. Cord, as above mentioned, contributed these amounts to the Republican National Committee in the latter part of October 1932.

The foregoing are all of the political contributions made by Mr. Cord, Mr. Manning, and myself at any time that I have any information about with the exception of those previously reported to you which I personally made subsequent to my election as a director of the New York Shipbuilding Corporation.

Yours very truly,

R. S. Pruitt.

RSP: EB.

Vo. no. 34 2202

NEW YORK SHIPBUILDING CORPORATION,
CAMDEN, NEW JERSEY, U. S. A., *May 17, 1934.*

Pay to the order of Harold Paul Sloan $250.00. (Exactly $250 & 00 cts.)

NEW YORK SHIPBUILDING CORPORATION,
J. S. RITCHIE, *Asst. Treasurer.*

Approved.

C. H. DAIL, *Comptroller.*

To the Pennsylvania Co. of Philadelphia, Pa.

[Endorsements]

Notice: When presented without modification of any kind, and properly endorsed, this check becomes valid in payment as shown on within statement. The endorsement of this voucher is sufficient acknowledgment of the payment of account as stated within. No other receipt required.

[Endorse here]

HAROLD PAUL SLOAN.

Pay to the order of any bank, banker, or trust company. Prior endorsements guaranteed. 55-85, May 19, 1934, 55-85, First Camden Nat'l Bank & Trust Co. of Camden, N. J., S. C. Kimble, cashier.

Vo. no. 34 2203

NEW YORK SHIPBUILDING CORPORATION,
CAMDEN, NEW JERSEY, U. S. A., *May 17, 1934.*

Pay to the order of John Pemberton, Jr. $250.00. (Exactly $250 & 00 cts.)

NEW YORK SHIPBUILDING CORPORATION,
J. S. RITCHIE, *Asst. Treasurer.*

Approved.

C. H. DAIL, *Comptroller.*

To the Pennsylvania Co. of Philadelphia, Pa.

[Endorsements]

Notice: When presented without modification of any kind, and properly endorsed, this check becomes valid in payment as shown on within statement. The endorsement of this voucher is sufficient acknowledgment of the payment of account as stated within. No other receipt required.

[Endorse here]

Deposit to the account of John Pemberton, Jr.

See text p. 5179 for reference.

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, March 2, 1935.

Hon. GERALD P. NYE,
United States Senate.

MY DEAR SENATOR NYE: In view of the inaccurate newspaper statements, (presumably emanating from the hearings before your committee), in regard to the visit of the U. S. S. *Ranger* and U. S. S. *Tuscaloosa* to South American seaports, and in order that the action of the Navy Department in this matter may be in evidence before your committee to correct these inaccuracies, I am writing this letter which I ask that you read into your records.

In the early winter of 1933–34 the Department laid the following plans for the shakedown cruises of the new ships under construction:

Name	Class of ship	Area for cruise
San Francisco	Heavy cruiser	South America (west coast).
New Orleans	do	Europe (Antwerp).
Minneapolis	do	Mediterranean.
Astoria	do	South Pacific.
Tuscaloosa	do	South America (east coast).
Ranger	Aircraft carrier	Gulf of Mexico.
Farragut	Destroyer	Europe.
Dewey	do	Gulf of Mexico.
Cachalot	Submarine	Caribbean.
Cuttlefish	do	Do.

You will appreciate that the purpose of these shakedown cruises is two-fold: First to train the crew and at the same time to test fully the machinery-plants within 6 months of delivery to the Government while the contractors' guaranty is still in effect; and, secondly, in conformity with the approved naval policy, to make foreign cruises, to cultivate friendly international relations, and to support American interests, especially the development of American foreign commerce and the merchant marine.

The aircraft carrier *Ranger* was originally not scheduled to visit any foreign port, but on the representation of her commanding officer that proper safeguarding of her special features would be effected, in which the Chief of the Bureau of Aeronautics concurred, the Department agreed to send the *Ranger* to Rio de Janeiro, Brazil, in order that a longer free-route cruise might be had and the crew have the experience of seeing a large foreign port south of the Equator. Accordingly, the Navy Department, on July 14, 1934, requested the State Department to make the usual diplomatic notifications of the proposed visit of the *Ranger* to Rio de Janeiro, from August 30 to September 9, 1934. On August 6 this Department was informed by the State Department that the visit met with full approval of the Brazilian authorities and no objections were offered by the American Ambassador to Brazil, and the *Ranger* was ordered to depart from Hampton Roads for Rio de Janeiro on August 17, 1934; public announcement of the visit being made by the Acting Secretary of the Navy on August 8, 1934. Following the public announcement the American Ambassador to the Argentine Republic wired the State Department to the effect that he hoped the visit of the *Ranger* to the Brazilian port of Rio de Janeiro and failure to visit the Argentine port of Buenos Aires would not cause adverse criticism in the latter country. The American naval attaché at Buenos Aires also urged the cruise be extended to include Buenos Aires. The Department was not favorably inclined to this extension of the cruise of the *Ranger*, because the additional time and distance involved would restrict her later operations prior to her final acceptance trials, and also in view of the fact the new cruiser *Tuscaloosa* was due to visit Buenos Aires in November, as will be noted later on. However since these reasons were not vital and as the Department desired to cooperate with the State Department in furthering friendly relations in South America, the decision was taken, on August 14, 1934, to extend the *Ranger's* cruise to the Argentine and Uruguayan Republics. It may be stated that the ship was visited by Presidents of all three of the Republics of Brazil, Argentine, and Uruguay, and that most favorable impressions were created in all three national capitals.

The new cruiser *Tuscaloosa* was originally slated to visit the east coast of South America, the initial itinerary proposed by the Department on April 7, 1934, providing for calls at Pernambuco or Bahia, in Brazil, and at Buenos Aires and Montevideo. Rio de Janeiro was omitted in view of the visit of the *Ranger* having been scheduled for that port, on March 22, 1934, and because the Department, in general, tries to avoid sending ships to the same foreign port more often than once in 12 months. However, the commanding officer of the *Tuscaloosa* requested to be allowed to visit the Mediterranean Sea instead, and on April 28, 1934, this request was granted. On July 6, 1934, the *Tuscaloosa* submitted an itinerary for a cruise to southern European ports, but, before the final approval was given, serious political disturbances, leading up to and following the death of Dr. Dolfuss, the Austrian Chancellor, broke out in Central Europe. The Department therefore decided a European cruise was unwise and on August 6, 1934, directed the commanding officer to submit an itinerary for a voyage to Buenos Aires and Montevideo, stopping en route at Martinique and Bahia, Brazil. On August 20, 1934, the cruise itinerary was approved but Rio de Janeiro was substituted for Bahia, because of its better harbor and better facilities for handling the liberty parties. The cruise was conducted between October 15, and December 20, 1934, and was also very successful.

From the above, it will be seen that these visits of the *Ranger* and *Tuscaloosa* were initiated by purely naval reasons and were entirely agreeable not only to the American diplomatic representatives in the countries visited but also to our own State Department, as well as to the officials and citizens of the foreign nations visited. The records of the Navy Department are available to substantiate the particulars set forth above, if further documentary support is deemed desirable.

If I may be permitted the observation, it is my opinion that these visits of the *Ranger* and *Tuscaloosa* in the autumn of 1934 have become confused with a suggested visit in the spring of 1934 to Rio de Janeiro—which visit did not meet with approval and which was not made.

Sincerely yours,

CLAUDE S. SWANSON.

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